

**ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY**

**MEASURE M2 LOCAL FAIR SHARE
CITY OF ORANGE FY24**

AGREED-UPON PROCEDURES REPORT

Year Ended June 30, 2024

**ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY**

**MEASURE M2 LOCAL FAIR SHARE
CITY OF ORANGE FY24**

AGREED-UPON PROCEDURES REPORT

Year Ended June 30, 2024

The city of Orange was selected at the direction of the Orange County Local Transportation Authority Board of Directors to perform agreed-upon procedures for the fiscal year ended June 30, 2024.

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES
CITY OF ORANGE

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA) (the specified party), related to the City of Orange's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2024. The City's management is responsible for compliance with the Ordinance and for its cash, revenue, and expenditure records.

The Taxpayers Oversight Committee of the OCLTA has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating the City's compliance with certain provisions of the Ordinance as of and for the fiscal year ended June 30, 2024. We make no representation regarding the appropriateness of the procedures either for the purpose for which this report has been requested or for any other purpose. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes. An agreed-upon procedures engagement involves performing specific procedures that the engaging party has agreed to and acknowledged to be appropriate for the intended purpose of the engagement and reporting on findings based on the procedures performed.

The procedures and associated findings were as follows:

1. Obtain the Settlement Agreement between OCTA and the City and identify the required minimum amount to be spent on MOE expenditures for FY24.

Findings: We obtained the Settlement Agreement between the City of Orange and Orange County Transportation Authority (OCTA) dated July 10, 2024. Per the Settlement Agreement, the City was required to spend a minimum of \$4,624,214 in MOE expenditures, which was calculated by the sum of the fiscal year 2023-2024 required MOE of \$3,507,565 and the short fall identified in the Settlement Agreement of \$1,116,649. We obtained documentation of minimum MOE expenditures from the City to OCTA and found no exceptions.

2. Describe which funds the City used to track all street and road expenditures and inquire how the City identifies MOE expenditures in the general ledger.

Findings: The MOE expenditures were tracked in the City's general ledger by fund, departments and object codes. The City recorded its MOE expenditures in its General Fund (100), followed by various department codes and object codes. No exceptions were found as a result of this procedure.

(Continued)

3. Obtain the details of MOE expenditures for the Fiscal Year ended June 30, 2024, and agree the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18). Explain any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2024, were \$5,538,276 (see Schedule A), which exceeded the MOE benchmark requirement of \$4,624,214. We agreed the total expenditures of \$5,538,276 to the amount reported on the City's Expenditure Report (Schedule 3, line 18). No exceptions were found as a result of this procedure.

4. Select a sample of MOE expenditures from the City's general ledger expenditure detail, ensuring adequate coverage. Describe the number and percentage of total expenditures selected for testing. For each item selected, perform the following:
 - a. Agree the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation; and
 - b. Determine whether the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: We selected 27 direct MOE expenditures totaling \$2,231,399, which represented approximately 48% of direct MOE expenditures of \$4,626,214 for the fiscal year ended June 30, 2024. We agreed the dollar amount listed on the general ledger to supporting documentation provided by the City. We determined that the expenditures were properly classified as local street and road expenditures and are allowable per the Ordinance. We identified \$376,650 of direct charges that should have been reported as indirect costs. These represented allocation charges for labor related to street and road projects. No other exceptions were found as a result of this procedure.

5. Identify whether or not indirect costs were charged as MOE expenditures. If applicable, compare indirect costs identified to the amount reported on the City's Expenditure Report (Schedule 3, Line 1). Explain any differences. If applicable, obtain details of the indirect costs charged and select a sample of charges for inspection, ensuring adequate coverage. Inspect supporting documentation for reasonableness and appropriate methodology.

Findings: During testing of direct costs at Procedure #4, we identified an additional \$376,650 in indirect costs that were reported as direct costs. These expenditures included allocations of payroll and benefits. We determined that these indirect MOE costs were based upon a reasonable and appropriate methodology. Based upon inspection of the general ledger detail, the Expenditure Report (Schedule 3, line 1), and discussion with the City's accounting personnel, indirect costs were identified as MOE expenditures for the fiscal year ended June 30, 2024. We agreed \$912,031 of indirect costs (excluding the additional \$376,650 noted in the previous paragraph) per the Expenditure Report (Schedule 3, line 1) to the general ledger detail. We selected 25 charges for inspection with a total amount of \$235,589 representing 26% of the total reported MOE indirect costs. Upon inspection, we found these charges were for labor charges, membership dues for public works associations and charges for public works conferences that were directly identifiable as street and road project costs and did not meet the definition of Indirect Costs (Overhead) based on the Guidelines Relating to Gas Tax Expenditures. As such, these costs should have been reported as direct costs. No other exceptions were found as a result of this procedure.

6. Aggregate any expenditures that were not properly classified per procedures (4) and (5) above and report the remaining total MOE expenditures after the removal of such items by comparing to the dollar amount required to be spent per procedure (1) above.

(Continued)

Findings: Total reported expenditures on the M2 report totaled \$5,161,626, which exceeded the total dollar amount required to be spent per procedure (1) of \$4,624,214. The \$376,650 of MOE direct charges should have been reported as indirect costs and the \$235,589 of MOE indirect charges should have been reported as direct costs, but they were both for local street and road projects and were allowable per the Ordinance. No exceptions were found as a result of this procedure.

We were engaged by OCLTA to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records, any indirect cost allocation plans and compliance with the provisions of the Measure M2 Local Transportation Ordinance. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City's management and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purpose of additional information and were not subjected to the procedures described above. Accordingly, we did not perform any procedures on the City's responses and express no assurance or opinion on them.

This report is intended solely for the information and use of and is not intended to be, and should not be, used by anyone other than the specified party.



Crowe LLP

Costa Mesa, California
April 7, 2025

CITY OF ORANGE, CALIFORNIA
SCHEDULE OF MEASURE M2 LOCAL FAIR SHARE EXPENDITURES
Year ended June 30, 2024
(Unaudited)

SCHEDULE A	
Maintenance of Effort (MOE) Expenditures:	
Indirect and/ or Overhead - Schedule 3, line 1	\$ 912,031
Construction & Right-of-Way	
Street Reconstruction	\$ 320,153
Signals, Safety Devices, & Street Lights	195,753
Storm Drains	56,498
Total Construction	<u>\$ 572,404</u>
Maintenance	
Overlay & Sealing	\$ 1,290,131
Street Lights & Traffic Signals	1,862,108
Other Street Purpose Maintenance	901,602
Total Maintenance	<u>\$ 4,053,841</u>
Total MOE Expenditures	<u>\$ 5,538,276</u>
Measure M2 Local Fair Share Expenditures (Schedule 4):	
13115 - Pavement Management Program Survey	\$ 63,147
13120 - Pavement Management Program	3,465,005
14040 - 292 N. Main Street	3,261
16302 - Minor Traffic Control Devices - Various	21,872
16304 - Biennial Traffic Signal Coordination	6,000
20329 - Chapman Batavia Left Turn Mod	159,004
20374 - Streetlight Pole Replacement Program	19,503
20443 - Orange Community Shuttle Feasibility Study	6,489
30167 - Katella Ave Street Rehabilitation	63,950
30168 - Walnut Ave Infrastructure Improvement	162.97
00000 - Other Street Purpose Maintenance	601,620
Total Measure M2 Local Fair Share Expenditures	<u>\$ 4,410,013</u>
Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 9,948,289</u>

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



City of Orange

Finance Department
300 E. Chapman Ave.
Orange, CA 92866

April 7, 2025

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

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Fair Share program for the City of Orange as of and for the fiscal year ended June 30, 2024.

Procedure #4

Select a sample of MOE expenditures from the Eligible Jurisdiction's general ledger expenditure detail. Describe the percentage of total expenditures selected for inspection. For each item selected, perform the following:

- a. Agree the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation; and
- b. Determine whether the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: We selected 27 direct MOE expenditures totaling \$2,231,399, which represented approximately 48% of direct MOE expenditures of \$4,626,214 for the fiscal year ended June 30, 2024. We agreed the dollar amount listed on the general ledger to supporting documentation provided by the City. We determined that the expenditures were properly classified as local street and road expenditures and are allowable per the Ordinance. We identified \$376,650 of direct charges that should have been reported as indirect costs. These represented allocation charges for labor related to street and road projects. No other exceptions were found as a result of this procedure.

City's Response: The City acknowledges the finding that costs were incorrectly categorized as indirect costs and should have been reported as direct costs. Staff will implement procedures to ensure proper reporting of direct and indirect costs.

Procedure #5

Identify whether or not indirect costs were charged as MOE expenditures. If applicable, compare indirect costs identified to the amount reported on the City's Expenditure Report (Schedule 3, Line 1). Explain any differences. If applicable, obtain details of the indirect costs charged and select a sample of charges for inspection, ensuring adequate coverage. Inspect supporting documentation for reasonableness and appropriate methodology.



(714) 744-2230



www.cityoforange.org



City of Orange

Finance Department
300 E. Chapman Ave.
Orange, CA 92866

Findings: During testing of direct costs at Procedure #4, we identified an additional \$376,650 in indirect costs that were reported as direct costs. These expenditures included allocations of payroll and benefits. We determined that these indirect MOE costs were based upon a reasonable and appropriate methodology.

Based upon inspection of the general ledger detail, the Expenditure Report (Schedule 3, line 1), and discussion with the City's accounting personnel, indirect costs were identified as MOE expenditures for the fiscal year ended June 30, 2024. We agreed \$912,031 of indirect costs (excluding the additional \$376,650 noted in the previous paragraph) per the Expenditure Report (Schedule 3, line 1) to the general ledger detail. We selected 25 charges for inspection with a total amount of \$235,589 representing 26% of the total reported MOE indirect costs. Upon inspection, we found these charges were for labor charges, membership dues for public works associations and charges for public works conferences that were directly identifiable as street and road project costs and did not meet the definition of Indirect Costs (Overhead) based on the Guidelines Relating to Gas Tax Expenditures. As such, these costs should have been reported as direct costs. No other exceptions were found as a result of this procedure.

City's Response: The City acknowledges the finding that costs were incorrectly categorized as indirect costs and should have been reported as direct costs. Staff will implement procedures to ensure proper reporting of direct and indirect costs.

Tom Kisela, City Manager

Trang Nguyen, Finance Director

Christopher Cash, Public Works Director



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