



March 11, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Orange County Local Transportation Authority Measure M2 Maintenance of Effort, Agreed-Upon Procedures Report, City of Stanton, Year Ended June 30, 2019

Overview

Eide Bailly LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Maintenance of Effort expenditures by the City of Stanton for the fiscal year ended June 30, 2019. Based on the audit, the City of Stanton spent sufficient funds to meet the required minimum expenditures as outlined in a settlement agreement between the City of Stanton and the Orange County Transportation Authority.

Recommendation

Direct staff to develop recommendation(s) for Board of Directors' action related to the status of the City of Stanton's Measure M2 eligibility.

Background

On May 13, 2019, the Orange County Transportation Authority (OCTA) Board of Directors (Board) found the City of Stanton (City) ineligible to receive Measure M2 revenues after an audit found that the City had not met the minimum Maintenance of Effort (MOE) requirement of the Measure M2 Ordinance (Ordinance). In addition, the Board directed staff to conduct an audit of the City for the fiscal year (FY) ending June 30, 2019, to assess compliance with MOE requirements and to increase the MOE requirement for FY 2018-19 by the shortfall amount identified in the FY 2017-18 audit.

A written settlement agreement, dated July 22, 2019, was executed between OCTA and the City which outlined requirements for the City to re-establish eligibility. Among other items, the settlement agreement required the City to

undergo, and pay for, an audit of FY 2018-19 to determine compliance with MOE requirements.

Discussion

Eide Bailly LLP (auditors), tested a sample of MOE expenditures for FY 2018-19, and found the City met the minimum required expenditures per the settlement agreement with OCTA.

Per the settlement agreement, the City was required to spend \$252,775 in MOE. The City reported total MOE expenditures of \$303,195, and the auditors tested \$163,627, or 54 percent, for compliance with the Ordinance. After removing \$12,413 in ineligible expenditures, the City still met the minimum requirement.

The detailed audit report can be found at Attachment A.

Summary

The auditors have completed agreed-upon procedures related to Measure M2 MOE expenditures for the City for FY ended June 30, 2019.

Attachment

- A. Measure M2 Maintenance of Effort Agreed-Upon Procedures Report Year Ended June 30, 2019 Orange County Local Transportation Authority – City of Stanton

Prepared by:



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



Measure M2 Maintenance of Effort
Agreed-Upon Procedures Report
Year Ended June 30, 2019

Orange County
Local Transportation Authority –
City of Stanton



**Independent Accountant’s Report on Applying
Agreed-Upon Procedures — City of Stanton, California**

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

We have performed the procedures enumerated below, which were agreed to by the Board of Directors of the Orange County Local Transportation Authority (OCLTA) (the specified party), on the City of Stanton’s (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2019. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the Settlement Agreement between OCTA and the City and identified the required minimum amount to be spent on MOU expenditures.

Findings: The City was required to spend \$252,775 in MOE expenditures during the fiscal year ended June 30, 2019, which included \$245,213 for FY 2018-19 MOE expenditures and \$7,562 of MOE shortfall from fiscal year 2017-18. No exceptions were found as a result of this procedure.

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

Findings: All MOE expenditures were tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (101) under the Street Maintenance Department (3500). No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2019 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City’s Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City’s MOE expenditures for the fiscal year ended June 30, 2019 were \$303,195 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$303,195 to the amount reported on the City’s Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.

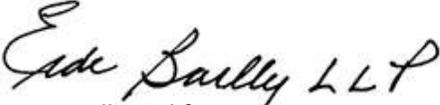
4. We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation. For indirect charges, we reviewed supporting documentation for reasonableness and appropriate methodology.
 - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$163,627, representing approximately 54% of total MOE expenditures for the fiscal year ended June 30, 2019. We identified eleven expenditures, totaling \$12,413 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. However, after removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

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

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

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


Laguna Hills, California
March 4, 2020

Orange County Local Transportation Authority
 Schedule of Measure M2 Maintenance of Effort Expenditures (Unaudited)
 City of Stanton, California
 Year Ended June 30, 2019

Schedule A

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Other Street Purpose Maintenance - Schedule 3, line 15	\$ 122,846
Indirect and/or Overhead - Schedule 3, line 1	180,349
Total MOE expenditures	303,195

MOE Benchmark 2018-19	\$ 245,213
MOE Shortfall 2017-18	7,562
Total required MOE expenditures	252,775

Direct MOE expenditures tested	\$ 106,124
Indirect MOE expenditures tested	57,503
Total MOE expenditures tested	163,627

% tested of total MOE expenditures 54%

Ineligible costs identified	12,413
Total Allowable MOE expenditures Tested	\$ 151,214

% allowable tested of required MOE expenditure total 60%

Note:

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



David J. Shawver
Mayor

Carol Warren
Mayor Pro Tem

Gary Taylor
Council Member

Hong Alyce Van
Council Member

Rigoberto A. Ramirez
Council Member

Jarad L. Hildenbrand
City Manager

March 4, 2020

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

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City Stanton as of and for the fiscal year ended June 30, 2019.

Procedure #4

We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

- a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation. For indirect charges, we reviewed supporting documentation for reasonableness and appropriate methodology.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$163,627, representing approximately 54% of total MOE expenditures for the fiscal year ended June 30, 2019. We identified twelve expenditures, totaling \$12,413 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. However, after removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

City's Response:

Management has reviewed the types of expenditures that were disallowed by the auditors with the Public Works Department's staff who are responsible for coding vendor invoices to inform them of the appropriate division these expenditures should be coded to in the future. For fiscal year 2019-20, Finance Department staff is working with Public Works Department staff to scan the expenditure detail to reclassify similar costs that may have been incorrectly coded to the street maintenance division before the completion of the Measure M2 audit.

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



Jarad Hildenbrand, City Manager



Michelle Bannigan, Director of Finance



Allan Rigg, Director of Public Works