

**MEASURE M
COC/TOC AUDIT SUBCOMMITTEE MEETING
AGENDA**

Tuesday, January 26, 2010
5:00 p.m. – 6:00 p.m.

Orange County Transportation Authority
600 S. Main Street, Orange, CA
Conference Room 506

Conference room is directly in front of the elevator on the 5th floor.

1. Review and approve minutes from December 8, 2009
2. External Auditor Communications/Annual Financial Audits
3. Combined Transportation Funding Program Audits
4. Other Matters
5. Public Comments*

*Marc Davis, Partner
Mayer Hoffman McCann PC*

Kathleen O'Connell

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
COC/TOC AUDIT SUBCOMMITTEE MEETING
Minutes**

Orange County Transportation Authority
550 S. Main Street, 600 Building
Orange, CA
Conference Room 506
Tuesday, December 8, 2009
5:00 p.m. – 6:00 p.m.

- COC/TOC members present: Hamid Bahadori, Howard Mirowitz, Jim Kelly, Gregory Pate, Vivian Kirkpatrick-Pilger, David Sundstrom
- OCTA staff present: Ken Phipps, Kathleen O'Connell, Andrew Oftelie, Janet Sutter, Alice Rogan, Roger Lopez

Meeting was called to order at: 5:05pm.

Review and approve minutes from October 13, 2009: Minutes from the October meeting were approved unanimously as written.

Quarterly Measure M Revenue and Expenditure Report: Ken Phipps, Executive Director of Finance and Administration, reported on the quarterly Measure M1 Revenue and Expenditure Report for September, indicating there were few expenditures and a continued decline of sales tax figures. During the quarter ending September 2009, \$44 million in sales tax revenue was received, as compared to \$60.5 million during the quarter ending June 2009, and \$54.4 million during the quarter ending September 2008.

The most significant item in the report was on Schedule 3, within the Freeway mode. This report includes a revision to the estimate at completion on the SR-57 project. \$22 million which had been programmed with M1 funds has been reversed. The project will once again be funded with M2 funds. With this change, there is currently a positive unprogrammed balance within the Freeway mode of \$13 million, where the June 2009 report reflected a negative balance. An amendment to the M1 Expenditure Plan to reflect this change is currently in process.

There was \$1 million in close-out activity for the Garden Grove freeway, and very light expenditures on all other freeway projects for the last quarter. The largest expenditures for last quarter were \$5 million for light rail, and \$11 million spent in support of the Metrolink expansion program. Ken summarized that the biggest concern is the continuing decline in sales tax revenues.

Sales Tax Update: Ken next discussed the Sales Tax Update, indicating again that sales tax revenue continues to decline. The November advance is 30 percent less this

fiscal year than what it was in November 2008. The most recent projection from the State Board of Equalization indicates a decrease in the rate of decline, a leveling out in the first quarter of the calendar year, then a slight increase in the second quarter. However, actuals through November do not support this projection. Ken distributed a presentation that Muni Services would be giving to the Finance and Administration Committee regarding sales tax trends as a whole. The presentation compares city by city within the county, different market segments, the percentage of the overall tax they make up, and the trend in that segment. Ken pointed out the second line-graph of the presentation which showed the plight of the auto industry. The auto industry is a large generator of sales taxes, and has experienced a significant decline in sales. The last two pages of the presentation show how on a quarterly basis sales tax per capita rapidly declined. Most alarming is the final page that looks back historically at two prior recessions and what sales tax behavior was after the recession ended. In those cases, we were in an era of positive sales tax growth during the recession, and then after the end of the recession, sales tax growth turned negative quarter to quarter with continuing declines for about a year. In this current period, we have been in an era of negative sales tax performance during the recession. If consideration is taken that the recession is supposedly over, and we're in a period of recovery, then history indicates a period of lingering sales tax declines after a recession. The projected rapid recovery is somewhat suspect. November actuals indicate a continued increase in the rate of revenue decline. Ken believes the unprogrammed balance in the freeway mode will be revisited going forward, and further adjustments will have to be made. Each of the universities is forecasting a recovery, but Ken thinks the actual experience as it has been every month for the past couple years show actuals are coming in significantly lower than the university forecasts.

Combined Transportation Funding Programs (CTFP) Project Close-out: Roger Lopez, Section Manager of Strategic Planning, provided the Committee with an update of the current status of Measure M1 CTFP projects that are pending or are planned for the next 14 months. Roger was made aware of the Committee's concerns regarding the amount of pending allocations, which are projects that the cities have completed but have not submitted reports for. Current guidelines require that final documentation be filed within a 180 day period. Roger said this situation has been of concern during the last year and the Board of Directors has been addressed regarding this matter. On August 18, 2009, Will Kempton sent letters to each city that had a pending project, advising them of projects that they had advised us were completed, but for which a final report had not yet been submitted. The letters have had the desired effect, and many cities have been prompted to action as a result. Roger's staff has been following up individually with each city regarding projects. Roger said a semi-annual review is underway, however final figures won't be tallied until completion of the last semi-annual review. Cities are now doing what is required to get projects completed. One thing that has been discussed internally is that under current guidelines, final documentation is required to be submitted within 180 days, however there are no consequences or process by which OCTA can take punitive action when cities do not comply with the guidelines.

Guidelines have been changed going forward, pending approval by the Board of Directors, to set out specific steps the cities must follow. Cities will have to notify OCTA when they are ready to submit a notice of completion on their project. OCTA's system will then track and send up a flag after 120 days and send the city a reminder. A second

reminder will be sent to the city at 180 days reminding them that time has lapsed and they must submit documentation. If there is no response 30 days after that, an invoice will be sent to the city billing the total allocation. If the city needs additional time in excess of 180 days because of unforeseen events, the city will be required to address the Technical Advisory Committee (TAC) for approval. The city will have to justify why they cannot meet the 180 day timeline. Hamid Bahadori asked about the March deadline, to which Roger responded that a semi-annual review is done in March and September. The Board of Directors approved elimination of delay requests. Come March, cities will be required to deliver the project or cancel it.

Recommended Revisions to Draft M2 Eligibility Guidelines: Alice Rogan advised the committee that Item 5 on the TOC Audit Subcommittee meeting agenda had been delayed on the Board of Directors calendar. Andrew Oftelie, Manager of Financial Planning and Analysis, gave a brief update of three issues that have been raised through audits in the last few months that either the TOC or the Finance and Administration Committee requested clarification on. One was use of interest as in the case of the City of Fullerton; two, what information had to be included in capital improvement plans; and three, whether or not you could borrow against turnback revenues.

Language in the draft M2 eligibility guidelines gives clarification to these issues. Andrew will provide to the Committee the language that will be included in the M2 eligibility guidelines to address these issues. Generally speaking, guidelines for Local Fair Share revenues follow Article 19 rules, which allow up to 25 percent of project costs to go towards debt. This will be in the M2 eligibility guidelines as well. Guidelines will also state that interest earnings have to be expended in the same time period as Local Fair Share funds. Cities will have to have separate accounts, and the accumulated balance in the accounts cannot equal more than the sum of three years of turnback funds allocations.

Measure M Local Jurisdiction Questionnaire for the Fiscal Year Ended June 30, 2009: Janet Sutter, Section Manager of Internal Audit, indicated that questionnaires had been sent to all local jurisdictions, as well as a request for single audit reports and management letters. The questionnaire process is only done every two years. Janet pointed out on the last page of the questionnaire there is a question asking cities to outline turnback revenues received in the last three years, revenues expended and interest earned, and the balance in the fund. Andrew added that as part of the new Ordinance, all cities will be required to give us an annual expenditure report. Janet continued that they also asked cities to identify projects that were not listed in the CIP plan for which they had expenditures, and to indicate why. Discussion then ensued regarding the M2 Triennial Review

Draft Audit Charter of the TOC Audit Subcommittee: Kathleen O'Connell, Director of Internal Audit, discussed the draft audit charter which she would be presenting to the full TOC following the Audit Subcommittee meeting. Kathleen incorporated some of the Committee's comments into the document, but essentially the draft is the same as was presented to the Committee at the last meeting. Chairman David Sundstrom asked for a motion to approve the charter. A motion was made, seconded, and the charter was

approved unanimously. Howard inquired about Item's 3 and 5 under the Internal Audit and Internal Controls section, and asked what committee members actually do to implement these items. Kathleen replied that Item 1 will allow for Committee members to have an indication of the effectiveness of the internal control system. Any concerns Committee members may have will be communicated to the full Board of Directors. Committee members implement Item 5 by weighing in if the reporting lines should happen to change

External Financial Audit Status: Janet relayed that the annual financial audit draft reports were currently under review. The LTF and STAF reports have been issued, and Janet expects all reports to be issued by the end of December. At this time, the Finance and Administration Committee meeting dates are not definite, but Janet believes the earliest date the reports will be presented to the Finance and Administration Committee will be January 27th, and to the Board of Directors in February. The reports will then be presented to the Audit Subcommittee at the meeting after the Board of Directors meeting. Jim Kelly requested that reports be provided to the TOC Audit Subcommittee members before they go to the Finance and Administration Committee in order to have sufficient time to review the reports before reporting back to the full TOC. The Audit Subcommittee agreed to reschedule the next meeting until January 26th, and Janet agreed to forward the reports ahead of that meeting to allow sufficient time for review.

Other Matters: None

Public Comments: None

Meeting Adjourned at: 6:02 p.m.

Next meeting scheduled for January 26, 2010, at 5:00 p.m. in CR 506.

Orange County Local Transportation Authority
(A Component Unit of the Orange
County Transportation Authority)

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

Year Ended June 30, 2010

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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Board of Directors
Orange County Local Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2010, which collectively comprise the OCLTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of OCLTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the OCLTA as of June 30, 2010, and the respective changes in financial position of the OCLTA for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the OCLTA's basic financial statements. The budgetary comparison schedule for the Local Transportation OCLTA Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Board of Directors
Orange County Local Transportation Authority
Orange, California

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2010 on our consideration of the OCLTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
October 27, 2010

JUNE 30, 2010

(in thousands)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As management of the Orange County Local Transportation Authority (OCLTA), we offer readers of the OCLTA's financial statements this narrative overview and analysis of the OCLTA's Measure M financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information on financial performance presented in conjunction with the financial statements that begin on page 9. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Total net assets of the OCLTA were \$464,280 and consisted of net assets invested in capital assets, net of related debt, of \$169,853 and restricted net assets of \$294,427.
- Beginning net assets were restated \$27,058 due to sales tax revenue not accrued for in the prior fiscal year and revenues recorded in the prior fiscal year that were not available to finance current year expenditures (see note 10). Net assets decreased \$49,954 during fiscal year 2009-10. This decrease was primarily due to program costs in excess of sales tax revenue and unrestricted investment earnings.
- Total capital assets, net of accumulated depreciation, were \$169,853 at June 30, 2010.
- The OCLTA's governmental funds were restated \$25,195 due to sales tax revenue not accrued for in the prior fiscal year and revenues recorded in the prior fiscal year that were either not available to finance current year expenditures or were not available for reimbursement (see note 10). OCLTA's governmental funds reported combined ending fund balances of \$368,913, a decrease of \$132,741 from the prior year. This decrease is primarily due to the I-5 gateway project, the continued effort to complete the Combined Transportation Funding Program (CTFP) with cities due to the upcoming conclusion of the Measure M1 program and the Metrolink Service Expansion Program (MSEP).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the OCLTA's basic financial statements, which are comprised of three components including government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements. Because the OCLTA is a governmental activity of the Orange County Transportation Authority, governmental funds are used to account for its Measure M program activities. The basic financial statements include only the activities of the OCLTA.

JUNE 30, 2010

(in thousands)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the OCLTA's finances using the accrual basis of accounting, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the OCLTA's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the OCLTA is improving or deteriorating.

The statement of activities presents information showing how the OCLTA's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements can be found on pages 9-10 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with Measure M finance-related legal requirements. The OCLTA uses governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the OCLTA's near-term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the OCLTA's near-term financing decisions. Both the governmental funds balance sheet and related statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The OCLTA maintains two individual governmental funds which are considered to be major funds. Information is presented separately in the governmental funds balance sheet and in the related statement of revenues, expenditures and changes in fund balances for the OCLTA's major governmental funds.

The governmental funds financial statements can be found on pages 11-14 of this report.

JUNE 30, 2010

(in thousands)

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-31 of this report.

The OCLTA adopts an annual budget for its two funds. A budgetary comparison schedule has been provided for the LTA special revenue fund as required supplementary information on page 32 and the LTA debt service fund as other supplementary information on page 34 to demonstrate compliance with the annual appropriated budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net assets may serve over time as a useful indicator of the OCLTA’s financial position. At June 30, 2010, the OCLTA’s assets exceeded liabilities by \$464,280, a \$49,954 decrease from June 30, 2009. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the OCLTA’s governmental activities.

Approximately 37% of OCLTA’s net assets reflect its investment in capital assets, the majority of which is land purchased for right-of-way. The increase of \$3,010 in net assets invested in capital assets, net of related debt was primarily due to the purchase of land for the MSEP.

Restricted net assets, which are resources subjected to external restrictions on how they may be used, decreased \$52,964 from June 30, 2009. This decrease is primarily due to program costs in excess of sales tax revenue received offset by the restatement previously mentioned (see note 10).

Table 1
Orange County Local Transportation Authority
Net Assets

	Governmental Activities	
	2010	2009
Current and other assets, as restated	\$ 505,702	\$ 556,480
Restricted assets	73,069	72,602
Capital assets, net	169,853	166,843
TOTAL ASSETS, AS RESTATED	748,624	795,925
Current liabilities	201,534	120,462
Long-term liabilities	82,810	161,229
TOTAL LIABILITIES	284,344	281,691

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

JUNE 30, 2010

(in thousands)

	2010	2009
Net assets:		
Invested in capital assets, net of related debt	169,853	166,843
Restricted, as restated	294,427	347,391
TOTAL NET ASSETS, AS RESTATED	\$464,280	\$514,234

Governmental activities decreased the OCLTA's net assets by \$49,954. Sales taxes, which ultimately financed a significant portion of the OCLTA's net costs, decreased by \$43,299, or 16%, from the prior year as a result of a significant downturn in the economy. This decrease includes the prior period adjustment of \$27,757 (see note 10). Operating grants and contributions increased \$33,811, or 135%, from the prior year primarily due to reimbursements related to the contribution to SCRRA for the MSEP and grade crossing projects.

OCLTA expenses of \$305,024 shown on the statement of activities consist of:

Supplies and services	\$ 51,388
Contributions to other local agencies	193,355
Infrastructure	50,220
Depreciation expense	66
Interest expense	7,771
Transfer to Caltrans	50
Transfer to other OCTA funds	2,174
TOTAL EXPENSES	\$305,024

Total expenses increased \$80,987, or 36% from the prior year primarily due the I-5 gateway project, the continued effort to complete CTFP projects and the MSEP.

Table 2
Orange County Local Transportation Authority
Changes in Net Assets

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 434	\$ 353
Operating grants and contributions, as restated	34,060	249
Capital grants and contributions	-	19,757
General revenues:		
Taxes, as restated	221,855	265,154
Unrestricted investment earnings	13,002	23,474
Total revenues, as restated	269,351	308,987

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

JUNE 30, 2010

(in thousands)

	2010	2009
Expenses:		
Measure M program	305,024	224,037
Indirect Expense Allocation	14,281	10,388
Increase/(decrease) in net assets, as restated	(49,954)	74,562
Net assets - beginning	514,234	439,672
NET ASSETS—END OF YEAR, AS RESTATED	\$464,280	\$514,234

FINANCIAL ANALYSIS OF THE OCLTA'S FUNDS

As of June 30, 2010, the OCLTA's governmental funds reported combined ending fund balances of \$368,913, a decrease of \$132,741 compared to 2009. This decrease includes the restatement of the ending fund balance (see note 10). The total amount constitutes reserved fund balance to indicate that it is not available for new spending because of the following commitments:

- \$1,682 deposited with the State for condemnation deposits;
- \$1,174 other noncurrent assets;
- \$68,481 to liquidate contracts and purchase orders of the current and prior periods;
- \$109,655 to pay debt service on Measure M sales tax revenue bonds issued in prior years to accelerate funding for Measure M projects; and
- \$187,921 for transportation programs related to Measure M projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2010, the OCLTA had \$169,853, net of accumulated depreciation, invested in a broad range of capital assets including land, buildings, and machinery and equipment. A summary of the OCLTA's Measure M capital assets, net of depreciation, follows:

Land	\$169,014
Improvements	1,086
Machinery	26
TOTAL CAPITAL ASSETS	170,126
Less accumulated depreciation	(273)
TOTAL CAPITAL ASSETS, NET	\$169,853

Total capital assets increased \$3,010 or 2%, from the prior year primarily due to the purchase of land for the MSEP. More detailed information about the OCLTA's capital assets is presented in Note 6 to the financial statements.

OCTA has outstanding construction contracts, the most significant of which is \$96,949 for Metrolink railroad grade crossing enhancement and safety improvements.

JUNE 30, 2010

(in thousands)

DEBT ADMINISTRATION

As of June 30, 2010, the OCLTA had \$182,795 in sales tax revenue bonds and commercial paper notes outstanding. All sales tax revenue bonds mature by 2011 when the OCLTA authority to collect the local sales tax expires. In fiscal year 2009-10, OCTA issued \$50,000 in Renewed Measure M commercial paper notes and retired \$78,405 of sales tax revenue bonds.

The OCLTA maintains a “AAA” rating from Standard & Poor’s, a “AA” rating from Fitch and a “Aa2” rating from Moody’s for its Measure M 1st Senior Sales Tax Revenue Bonds and a “AA” rating from Standard & Poor’s, an “AA-” rating from Fitch and a “Aa3” rating from Moody’s for its Measure M 2nd Senior Sales Tax Revenue Bonds.

Additional information on the OCLTA’s short-term debt and long-term debt can be found in Notes 7 and 8 to the financial statements, respectively.

ECONOMIC AND OTHER FACTORS

The OCLTA represents the Measure M (M1) half cent sales tax which has delivered on promises made to the residents of Orange County in 1990, with over \$4 billion invested in improvements to freeways, streets and roads and transit. As M1 sunsets on March 2011, the collection of sales tax under the Renewed Measure M (M2) Investment Plan will officially get underway in April 2011. M2 was overwhelmingly approved by the voters of Orange County in 2006 because of the tangible results that were realized through M1. The passage of M2 will allow for the continuation of transportation improvements for 30 years. In an effort to expedite transportation projects, the OCTA Board approved the M2 Early Action Plan (EAP) in 2007, paving the way for financing projects in 2007 through 2012. Under the EAP, five M2 freeway projects are scheduled to be under construction before revenues are collected in 2011.

The OCLTA adopted its 2011 annual budget on June 14, 2010. This \$588.1 million balanced budget includes both M1 and M2. The M1 budget totals \$348.4 million and includes payments to cities and the County of Orange for the turnback and competitive programs, significant investment in the MSEP, Measure M debt service payments, and right-of-way acquisition and construction costs for the I-5 Gateway project completed in October 2010. The M2 budget totals \$239.7 million and includes funds for the grade separation projects, grade crossing and quiet zones, environmental mitigation and work related to several freeway projects that have been identified in the Board-approved EAP.

CONTACTING THE OCLTA’S MANAGEMENT

This financial report is designed to provide a general overview of the OCLTA’s finances for all those with an interest in the OCLTA’s finances and to demonstrate OCLTA accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance and Administration Division of the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)
STATEMENT OF NET ASSETS
JUNE 30, 2010

<i>(thousands)</i>	Governmental Activities
ASSETS	
Cash and investments	\$ 431,633
Receivables:	
Interest	1,385
Operating grants	2,207
Other	13
Due from other governments	60,926
Condemnation deposits	1,682
Restricted cash and investments	73,069
Other assets	1,233
Assets held for resale	6,623
Capital assets:	
Nondepreciable	169,014
Depreciable, net	839
TOTAL ASSETS	748,624
LIABILITIES	
Accounts payable	22,465
Accrued interest payable	1,755
Due to other OCTA funds	184
Due to other governments	55,530
Unearned revenue	14,060
Other liabilities	21
Advance from other OCTA funds	7,519
Commercial paper notes	100,000
Noncurrent liabilities:	
Due within one year	82,810
TOTAL LIABILITIES	284,344
NET ASSETS	
Invested in capital assets	169,853
Restricted for:	
Measure M program	184,772
Debt Service	109,655
TOTAL NET ASSETS	\$ 464,280

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

<i>(thousands)</i>	Expenses	Indirect Expense Allocation	Charges for Services	Program Revenues Operating Grants and Contributions	Net Revenue and Changes in Net Assets Governmental Activities
PROGRAM GOVERNMENTAL ACTIVITIES:					
Measure M program	\$ 305,024	\$ 14,281	\$ 434	\$ 34,060	\$ (284,811)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 305,024	\$ 14,281	\$ 434	\$ 34,060	\$ (284,811)
 GENERAL REVENUES:					
Sales taxes					221,855
Unrestricted investment earnings					13,002
TOTAL GENERAL REVENUES					234,857
Change in net assets					(49,954)
Net assets - beginning, as restated					514,234
NET ASSETS - ENDING					\$ 464,280

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

<i>(thousands)</i>	LTA	LTA Debt Service	Total OCLTA
ASSETS			
Cash and investments	\$ 395,203	\$ 36,430	\$ 431,633
Receivables:			
Interest	1,229	156	1,385
Operating grants	2,207	-	2,207
Other	13	-	13
Due from other governments	60,926	-	60,926
Condemnation deposits	1,682	-	1,682
Restricted cash and investments:			
Cash equivalents	-	44,453	44,453
Investments	-	28,616	28,616
Prepaid assets	1,174	-	1,174
TOTAL ASSETS	\$ 462,434	\$ 109,655	\$ 572,089
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 22,465	\$ -	\$ 22,465
Due to other OCTA funds	184	-	184
Due to other governments	55,530	-	55,530
Deferred revenue	17,431	-	17,431
Other liabilities	21	-	21
Advance from other OCTA funds	7,519	-	7,519
Commercial paper notes	100,000	-	100,000
Interest payable	26	-	26
TOTAL LIABILITIES	203,176	-	203,176
FUND BALANCES			
Reserved for:			
Condemnation deposits	1,682	-	1,682
Other assets	1,174	-	1,174
Encumbrances	68,481	-	68,481
Debt service	-	109,655	109,655
Transportation programs	187,921	-	187,921
TOTAL FUND BALANCES	259,258	109,655	368,913
TOTAL LIABILITIES AND FUND BALANCES	\$ 462,434	\$ 109,655	\$ 572,089

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

(thousands)

Amounts reported for governmental activities in the statement of net assets (page 9) are different because:

TOTAL FUND BALANCES (PAGE 11)	\$	368,913
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		169,853
Assets held for resale are not a financial resource and, therefore, are not reported in the funds.		6,623
Other long-term assets related to cost of issuance are not financial resources and, therefore, are not reported in the funds.		59
Earned but unavailable revenue is not available to liquidate current liabilities and, therefore, is deferred in the funds.		3,371
Interest payable on bonds outstanding is not due and payable in the current period and, therefore, is not reported in the funds.		(1,729)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(82,810)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 9)	\$	<u><u>464,280</u></u>

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

<i>(thousands)</i>	LTA	LTA Debt Service	Total OCLTA
REVENUES			
Sales taxes	\$ 221,855	\$ -	\$ 221,855
Contributions from other agencies	31,269	-	31,269
Interest	12,219	783	13,002
Miscellaneous	3,117	-	3,117
TOTAL REVENUES	268,460	783	269,243
EXPENDITURES			
Current:			
General government	65,459	151	65,610
Transportation:			
Contributions to other local agencies	193,355	-	193,355
Capital outlay	54,302	-	54,302
Debt service:			
Principal payments on long-term debt	-	78,405	78,405
Interest on long-term debt and commercial paper	403	9,018	9,421
TOTAL EXPENDITURES	313,519	87,574	401,093
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(45,059)	(86,791)	(131,850)
OTHER FINANCING SOURCES (USES)			
Transfers in	5,241	87,428	92,669
Transfers from OCTA	1,283	-	1,283
Transfers out	(87,428)	(5,241)	(92,669)
Transfers to OCTA	(2,174)	-	(2,174)
TOTAL OTHER FINANCING SOURCES (USES)	(83,078)	82,187	(891)
Net change in fund balances	(128,137)	(4,604)	(132,741)
Fund balances-beginning, as restated	387,395	114,259	501,654
FUND BALANCES-ENDING	\$ 259,258	\$ 109,655	\$ 368,913

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

(thousands)

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (PAGE 13)	\$	(132,741)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation in the current period.		4,016
Transfer of the completion of the SR-22 HOV project to Caltrans		(50)
The net effect of various miscellaneous transactions involving the sale of land held for resale is to decrease net assets.		(2,683)
Deferred revenues received in the current year are reported as revenues in the funds and not reported in the statement of activities.		1,508
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		79,996
		<hr/>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 10)	\$	(49,954)
		<hr/> <hr/>

See accompanying notes to the financial statements.

**ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)**

NOTES TO THE FINANCIAL STATEMENTS

**YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth Management Ordinance, known as Measure M. This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County. The Orange County Local Transportation Authority (OCLTA) is responsible for administering the proceeds of the Measure M sales tax program. The original Measure M Program (M1) commenced on April 1, 1991 for a period of 20 years. Under M1, funds are required to be distributed to four modes: freeways, regional streets and roads, local streets and roads and transit.

On November 7, 2006, Orange County voters approved the renewal of Measure M for a period of 30 more years from April 1, 2011 to March 31, 2041. Renewed Measure M (M2) allocates funds to freeway, street and road, transit and environmental improvements.

On June 20, 1991, under the authority of Senate Bill 838, the Orange County Transportation Authority (OCTA) was formed as a special district by merging several agencies and funds, including the OCLTA, a component unit of the OCTA. Accordingly, the OCLTA's financial activities are included with the financial activities of OCTA for financial reporting purposes.

The OCTA governing board (Board) consists of 17 voting members and functions as the OCLTA governing board. Measure M requires that an eleven-member Taxpayer's Oversight Committee (TOC) monitors the use of Measure M funds and ensures that all revenue collected from Measure M is spent on voter-approved transportation projects.

These financial statements include only the activities of the OCLTA, a component unit of the OCTA. These financial statements are not intended to present the activities of OCTA.

BASIS OF PRESENTATION

The OCLTA's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

GOVERNMENT-WIDE STATEMENTS: The statement of net assets and the statement of activities report information on all of the OCLTA. The effect of significant interfund activity has been removed from these statements. The OCLTA provides only governmental activities which are supported principally by sales taxes.

The statement of activities demonstrates the degree to which the OCLTA Measure M program expenses are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with Measure M, and allocated indirect expenses. Interest expense related to the sales tax revenue bonds and commercial paper is reported as a direct expense of the Measure M program. The

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

borrowings are considered essential to the creation or continuing existence of the Measure M program. For the year ended June 30, 2010, interest expense of \$7,771 was included as Measure M program costs. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by Measure M; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of the Measure M program. Taxes and other items, which are properly not included among program revenues, are reported instead as general revenues.

FUND FINANCIAL STATEMENTS: The fund financial statements provide information about the OCLTA's governmental funds. The OCLTA considers all of its Measure M funds as major governmental funds. They are comprised of the following:

- **LOCAL TRANSPORTATION AUTHORITY (LTA) FUND** - This special revenue fund accounts for revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. Financing is provided by a one-half percent sales and use tax assessed for twenty years pursuant to Measure M, which became effective April 1, 1991, and was recently renewed for an additional 30 years from April 1, 2011 to March 31, 2041. The Measure M ordinance requires that sales tax revenues only be expended on projects included in the ordinance. A decision to use the revenues for any other purpose must be put to the voters in another election.
- **LTA DEBT SERVICE FUND** - This fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the OCLTA.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the OCLTA considers revenues to be available if they are collected within 180 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred; however, principal and interest expenditures on long-term debt of governmental funds are recorded only when payment is due.

Those revenues susceptible to accrual are sales taxes collected and held by the state at year-end on behalf of the OCLTA, intergovernmental revenues and interest revenue. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the OCLTA; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

When both restricted and unrestricted resources are available for use, it is the OCLTA's policy to use restricted resources first and then unrestricted resources as they are needed.

CASH AND INVESTMENTS

The OCLTA maintains cash and investments in a pool with other OCTA cash and investments and in accordance with the Annual Investment Policy (AIP) adopted by the Board on May 8, 1995, and most recently amended April 26, 2010. The AIP complies with, or is more restrictive than, applicable state statutes. Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Pooled cash and investment earnings are allocated based on average daily dollar account balances.

Investments in U.S. government and U.S. agency securities, repurchase agreements, variable and floating rate securities, mortgage and asset-backed securities, and corporate notes are carried at fair value based on quoted market prices, except for securities with a remaining maturity of one year or less at purchase date, which are carried at cost. Certain investment agreements are carried at cost while others are carried at fair value. Treasury mutual funds are carried at fair value based on each fund's share price. The Orange County Investment Pool (OCIP) is carried at fair value based on the value of each participating dollar as provided by the OCIP. The state-managed Local Agency Investment Fund (LAIF) is carried at fair value based on the value of each participating dollar as provided by LAIF. Commercial paper is carried at amortized cost (which approximates fair value).

The AIP requires that assets in the portfolio consist of the following investments, with maximum permissible concentrations based on book value, and is more restrictive than applicable state statutes for the following cases:

OCTA NOTES AND BONDS (25%)

COMMERCIAL PAPER (25%)

- Must be rated by two of the three rating agencies at the following level or better: P-1 by Moody's Investor Service (Moody's), A-1 by Standard & Poor's Corporation (S & P) or F-1 by Fitch Ratings (Fitch).
- Must be issued by corporations rated A- or better by S & P, A3 or better by Moody's or A- or better by Fitch, with further restrictions to issuer size.
- Maximum Term: 180 days.

NEGOTIABLE CERTIFICATES OF DEPOSIT (30%)

- Must be issued by a nationally or state-chartered bank or state or federal association, or be a state licensed branch of a foreign bank, which has been rated by at least two of the Nationally Recognized Statistical Rating Organizations.
- The issuer must have minimum credit ratings of A-1 by S & P, P-1 by Moody's, F1 by Fitch.
- Maximum Term: 270 days.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

BANKERS ACCEPTANCE (30%)

- Must be rated by at least two of the Nationally Recognized Statistical Rating Organizations with minimum credit ratings of A-1 by S & P, P-1 by Moody's, F1 by Fitch and may not exceed the 5% limit by any one commercial bank.
- Maximum Term: 180 days.

MORTGAGE OR ASSET-BACKED SECURITIES (20%)

- Must be rated AAA by S & P, Aaa by Moody's, or AAA by Fitch.
- The issuer must have an A or better rating by S & P, A2 or better by Moody's or A or better by Fitch or an equivalent rating by a Nationally Recognized Statistical Rating Organization recognized for rating service for its long-term debt.
- Maximum Term: Five year stated final maturity.

REPURCHASE AGREEMENTS (75%)

- Must be collateralized at one hundred and two percent (102%).
- Reverse repurchase agreements and securities lending are not permitted.
- Maximum Term: 30 days.

MEDIUM-TERM NOTES (30%):

- Corporate securities which are rated A- or better by S & P, A3 or better by Moody's or A- by Fitch or an equivalent rating by two of the three Nationally Recognized Statistical Rating Organizations.
- Medium term notes must not represent more than ten percent (10%) of the issue in the case of a specific public offering. Under no circumstance may any one corporate issuer represent more than 5% of the portfolio.
- Maximum Term: 5 years.

Other allowable investment categories include money market funds, mutual funds and LAIF. LAIF is regulated by California Government Code (Code) Section 16429 under the oversight of the Treasurer of the State of California. Investment is also allowed in OCIP, but is limited to those funds legally required to be deposited in the County Treasury. Oversight of the OCIP is performed by the County Treasury Oversight Committee.

All investments are subject to a maximum maturity of five years, unless specific direction to exceed the limit is given by the Board and as permitted by the Code.

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of the AIP.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

Outside portfolio managers must review, on an ongoing basis, the portfolios they manage (including bond proceeds portfolios) to ensure compliance with OCTA's diversification guidelines.

- Issuer/Counter-Party Diversification Guidelines apply to all securities except federal agencies, government sponsored enterprises, investment agreements, repurchase agreements and 91 Express Lanes Debt - any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities (5%).
- Issuer/Counter-Party Diversification Guidelines for federal agencies, government sponsored enterprises and repurchase agreements - any one federal agency or government sponsored enterprise (35%); any one repurchase agreement counter-party name if maturity/term is < 7 days (50%), if maturity/term is > 7 days (35%).
- Issuer/Counter-Party Diversification Guidelines for the OCTA's 91 Express Lanes Debt - OCTA may purchase all or a portion of the Orange County Transportation Authority's Toll Road Revenue Refunding Bonds (91 Express Lanes) Series B Bonds maturing December 15, 2030 providing the purchase does not exceed 25% of the Maximum Portfolio.

INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds involving goods provided or services rendered and transfers of revenues from funds authorized to receive the revenue to funds authorized to expend it. Outstanding interfund balances are reported as due to/from other funds. Any residual balances outstanding between the Measure M program governmental activities and other OCTA funds are reported in the government-wide financial statements as due to other OCTA funds.

OCTA allocates indirect costs related to administrative services from certain funds to benefiting funds. For fiscal year 2009-10, \$14,281 of administrative services were charged to the OCLTA and are reported as general government expenditures in the governmental funds.

RESTRICTED CASH AND INVESTMENTS

Certain proceeds of the OCLTA's long-term debt, as well as certain resources set aside for its repayment, are classified as restricted cash and investments, because they are maintained in separate investment accounts and their use is limited by applicable debt covenants.

CAPITAL ASSETS

Capital assets include land, buildings, and machinery and equipment, are reported in the government-wide financial statements. Capital assets are defined by the OCLTA as assets with an initial, individual cost of more than \$5 and a useful life exceeding one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Freeway construction and certain purchases of right-of-way property, for which title vests with the California Department of Transportation (Caltrans), are included in capital outlay. Infrastructure

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

consisting primarily of freeway construction and right-of-way acquisition is not recorded as a capital asset in those instances where the OCLTA does not intend to maintain or operate the property when complete.

Buildings and machinery and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>ASSET TYPE</u>	<u>USEFUL LIFE</u>
Buildings/Right-of-way improvements	10-30 years
Machinery and equipment	3-10 years

ASSETS HELD FOR RESALE

OCLTA holds title to property in connection with the purchase of rights-of-way for infrastructure not held by OCLTA (see above). These assets are reported as assets held for resale in the government-wide financial statements and will be sold and the proceeds reimbursed to the project that funded the expenditure.

LONG-TERM DEBT

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net assets. Bond premiums and discounts and bond refunding costs, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferred bond refunding loss. Bond issuance costs are reported as other assets and amortized over the life of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, in the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CONTRIBUTIONS TO OTHER AGENCIES

Contributions to other agencies primarily represent sales tax revenues received by the OCLTA disbursed to cities for competitive projects, the turnback program and to other agencies for projects which are in accordance with the Measure M ordinance.

NET ASSETS

In the government-wide financial statements, net assets represent the difference between assets and liabilities and are classified into two categories:

- *INVESTED IN CAPITAL ASSETS* - This balance reflects the net assets of the OCLTA that are invested in capital assets. These net assets are generally not accessible for other purposes.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

- **RESTRICTED NET ASSETS** - This balance represents net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties. The government-wide statement of net assets reports \$294,427 of net assets restricted by enabling legislation.

FUND BALANCES

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for a specific purpose.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. As such, actual results could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental funds balance sheet includes a reconciliation between fund balances - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets.

One element of that reconciliation explains that “Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.” The details of this \$169,853 difference are as follows:

Capital assets	\$170,126
Less accumulated depreciation	(273)
NET ADJUSTMENT TO INCREASE FUND BALANCES - TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 169,853</u></u>

Another element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$82,810) difference are as follows:

Bonds payable	\$ (82,795)
Less deferred loss on refunding (to be amortized as interest expense)	336
Plus unamortized bond issuance premium (to be amortized as interest expense)	(351)
NET ADJUSTMENT TO DECREASE FUND BALANCES - TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS - GOVERNMENTAL	<u><u>\$ (82,810)</u></u>

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and change in net assets - governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense.” The details of this \$4,016 difference are as follows:

Capital outlay	\$4,082
Depreciation expense	(66)
	<hr/>
NET ADJUSTMENT TO INCREASE NET CHANGE IN FUND BALANCES -	
TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS	
- GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,016</u></u>

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$79,996 difference are as follows:

Principal repayments - sales tax revenue bonds	\$ 78,405
Change in accrued interest	1,635
Amortization of deferred loss on refunding	(336)
Amortization of premium	351
Amortization of issuance costs	(59)
	<hr/>
NET ADJUSTMENT TO INCREASE NET CHANGE IN FUND BALANCES -	
TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS	
-GOVERNMENTAL ACTIVITIES	<u><u>\$79,996</u></u>

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

3. CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2010:

Deposits	\$ 24,617
Investments:	
With OCTA Commingled Investment Pool	342,543
With Trustee	137,542
Total Investments	<u>480,085</u>
TOTAL CASH AND INVESTMENTS	<u><u>\$ 504,702</u></u>

Total deposits and investments are reported in the financial statements as:

Unrestricted Cash and Investments	\$ 431,633
Restricted Cash and Investments:	
Cash equivalents	44,453
Investments	28,616
TOTAL CASH AND INVESTMENTS	<u><u>\$ 504,702</u></u>

As of June 30, 2010, OCLTA had the following investments:

INVESTMENT	FAIR VALUE	PRINCIPAL	INTEREST RATE RANGE	MATURITY RANGE	WEIGHTED AVERAGE MATURITY (YEARS)
OCTA Commingled Investment Pool	\$342,543	\$340,327	Discount .37%-8.875%	7/1/10- 6/15/15	2.13
Money Market	71,901	71,901	Variable	7/1/10	1 Day
U.S. Agency Notes	36,414	36,414	Discount	8/12/10 - 2/16/11	0.60
Investment Agreements	29,227	19,956	Discount, 3.877%	8/15/10 - 2/15/11	.62
TOTAL INVESTMENTS	<u><u>\$480,085</u></u>	<u><u>\$468,598</u></u>			
PORTFOLIO WEIGHTED AVERAGE MATURITY					1.80

INTEREST RATE RISK

OCTA manages exposure to declines in fair value from increasing interest rates by having an investment policy that limits maturities to five years while also staggering maturities. OCTA maintains a low duration strategy, targeting an estimated average portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile, therefore, less sensitive to interest rate changes. In accordance with the OCTA investment policy, amounts restricted for debt service reserves are invested in accordance with the maturity provision of their specific indenture, which may extend beyond five years.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

As of June 30, 2010, OCLTA was a participant in OCTA's commingled investment pool which had mortgage and asset-backed securities totaling \$66,860. The underlying assets are consumer receivables that include credit cards, auto and home loans. The securities have a fixed interest rate and are rated AAA by at least two of the three Nationally Recognized Rating Services Organizations.

As of June 30, 2010, OCTA's commingled investment pool had the following variable rate notes:

INVESTMENT	FAIR VALUE	COUPON MULTIPLIER	COUPON RESET DATE
American Express Credit Corp	\$ 936	LIBOR + 170 basis points	Monthly
Bank America Corp	1,007	LIBOR + 20 basis points	Quarterly
Berkshire Hathaway Financial	600	LIBOR + 12.5 basis points	Quarterly
Citigroup Inc	423	LIBOR + 33 basis points	Quarterly
Goldman Sachs	1,005	LIBOR + 25 basis points	Quarterly
Paccar Financial Corp	629	LIBOR + 45 basis point	Quarterly
Wachovia Bank NA	1,500	LIBOR + 7 basis points	Quarterly
TOTAL VARIABLE RATE NOTES	\$ 6,100		

CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. OCTA's investment policy requires that a third party bank custody department hold all securities owned by OCTA. All trades are settled on a delivery versus payment basis through OCTA's safekeeping agent. At June 30, 2010, OCTA did not have any securities exposed to custodial credit risk and there was no securities lending.

CREDIT RISK

The AIP sets minimum acceptable credit ratings for investments from any of the three nationally recognized rating services S&P, Moody's, and Fitch. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A" by two of the three rating services. LAIF and the OCTA Commingled Investment Pool are not rated.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2010. (NR means Not Rated):

INVESTMENTS	S & P	MOODY'S	FITCH	% OF
OCTA Commingled Investment	NR	NR	NR	71%
Money Market Mutual Funds	AAA	Aaa	NR	15%
United States Agency Notes	AAA	Aaa	AAA	8%
Investment Agreements	NR	NR	NR	6%
TOTAL				100%

As of June 30, 2010, OCTA's commingled investment pool held one investment in Lehman Brothers Holding Inc. Medium Term Notes. The investment had a \$1,000 par maturing on January 24, 2013. On September 15, 2008, Lehman Brothers Holding Inc. filed for bankruptcy. As of June 30, 2010, the market value of the security was 20.25% of par.

CONCENTRATION OF CREDIT RISK

At June 30, 2010, OCTA did not exceed the AIP limitation that states that no more than:

- 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government sponsored enterprises, investment agreements and repurchase agreements.
- 20% may be invested in any money market mutual fund.

The AIP limitation excludes investment agreements pursuant to the bond indenture. OCTA had the following investment agreements outstanding as of June 30, 2010:

INVESTMENT AGREEMENTS	AMOUNT
FSA Capital Management Services LLC Investment Agreement	\$ 10,248
U.S. Treasury Notes Coupons Components	18,979
TOTAL	\$ 29,227

INVESTMENT IN STATE INVESTMENT POOL

The OCTA is a voluntary participant in the Local LAIF which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the OCTA's investment in this pool is reported in the accompanying financial statements at amounts based upon OCTA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2010 are \$60,926 and are comprised of \$42,071 of sales taxes, \$18,279 for project reimbursements and \$576 related to other miscellaneous transactions.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

5. RELATED PARTY TRANSACTIONS AND INTERFUND TRANSFERS

RELATED PARTY TRANSACTIONS:

During fiscal year 2009-10, transfers of \$2,174 from the OCLTA to OCTA were made for the fare stabilizations and ACCESS programs and for capital projects. Additionally, \$1,283 was transferred from other OCTA funds to OCLTA as contributions for program expenditures.

INTERFUND TRANSFERS:

During fiscal year 2009-10, the LTA Fund transferred \$87,428 to the LTA Debt Service Fund for debt service payments and the LTA Debt Service fund transferred \$5,241 in excess bond reserve to the LTA Fund.

6. CAPITAL ASSETS

Capital assets activity for the OCLTA Measure M governmental activities for the year ended June 30, 2010 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASE	ENDING BALANCE
Capital assets, not being depreciated:				
Land	\$ 165,306	\$ 4,082	\$	\$ 169,014
Construction in progress held for Department of Transportation	50	-	50	-
TOTAL MEASURE M CAPITAL ASSETS, NOT BEING DEPRECIATED	\$ 165,356	\$ 4,082	\$ 424	\$ 169,014
Capital assets, being depreciated:				
Right-of-way Improvements	\$ 1,784	\$ -	\$	\$ 1,086
Machinery and equipment	26	-	-	26
Total capital assets, being depreciated	1,810	-	698	1,112
Less accumulated depreciation for:				
Right-of-way Improvements	(319)	(59)	(116)	(262)
Machinery and equipment	(4)	(7)	-	(11)
Total accumulated depreciation	(323)	(66)	(116)	(273)
TOTAL MEASURE M CAPITAL ASSETS, BEING DEPRECIATED, NET	\$ 1,487	\$ (66)	\$ 582	\$ 839

Depreciation expense charged to the Measure M program was \$66.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

7. SHORT-TERM DEBT

On January 28, 2008, OCLTA was authorized to issue up to \$400,000 in Renewed Measure M Subordinate Tax-Exempt Commercial Paper Notes Series A and Series B (M2 Notes). As a requirement for the issuance of the M2 Notes, OCTA entered into an irrevocable direct-pay Letter of Credit and Reimbursement Agreement issued on a several and not joint basis with Dexia Credit Local, Bank of America, N.A., BNP Paribas, and JP Morgan Chase Bank, National Association as liquidity support for the M2 Notes.

As of June 30, 2010, OCLTA had outstanding M2 Notes in the amount of \$100,000. Interest is payable on the respective maturity dates of the M2 Notes, which are the earlier of 270 days from date of issuance or program termination. The maximum allowable interest rate on the M2 Notes is 12.0%. The average issuance rate during fiscal year 2010 was 0.36%.

CHANGES IN SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2010, was as follows:

	BEGINNING			ENDING
	BALANCE	ISSUED	REDEEMED	BALANCE
Tax exempt commercial paper - M2	\$ 50,000	\$ 50,000	\$ -	\$ 100,000
TOTAL SHORT-TERM DEBT	\$50,000	\$ 50,000	\$ -	\$ 100,000

8. LONG-TERM DEBT

SALES TAX REVENUE BONDS

During fiscal years 1993, 1994 and 1998, the OCLTA issued sales tax revenue bonds to assist in the financing of various highway, local street and road and transit projects in Orange County. The Measure M sales tax is the source of revenue for repaying this debt.

In August 1997, the OCLTA issued \$57,730 in Measure M Sales Tax Revenue Refunding Bonds to advance refund \$57,600 of outstanding 1992 Second Senior Bonds (1992 Second Senior Series). The net proceeds plus additional 1992 Second Senior Series sinking fund moneys and release of funds from the Bond Reserve Fund were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Second Senior Series. In February 2002, the advance refunded 1992 Second Senior Bonds, which have been eliminated in the financial statements, were paid.

In March 1998, the OCLTA issued \$20,270 (1998 First Senior Series) in Measure M Sales Tax Revenue Refunding Bonds to advance refund \$19,885 of outstanding 1992 First Senior Bonds (1992 First Senior Series). In addition to the refunding, OCLTA also issued \$213,985 (1998 Second Senior Series) in revenue bonds to continue with the financing of Measure M related projects. The net proceeds plus additional 1992 First Senior Series sinking fund moneys were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 First Senior Series. In February 2002, the advance refunded 1992 First Senior Bonds, which have been eliminated in the financial statements, were paid. In

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

February 2005, the 1998 First Senior Series Bonds, which have also been eliminated in the financial statements, were paid.

In October 2001, the OCLTA issued \$67,335 (2001 First Senior Series) in Measure M Sales Tax Revenue Refunding Bonds to advance refund \$18,805 of the 1992 First Senior Bonds and \$48,430 of the 1994 Second Senior Bonds. The proceeds plus additional sinking fund moneys were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 and 1994 bonds. In February 2004, the advance refunded 1992 First Senior Bonds, which have been eliminated in the financial statements, were paid. In February 2004, the 2001 First Senior Series bonds, which have also been eliminated in the financial statements, were paid.

A summary of the bonds outstanding is as follows:

	1992 1ST SENIOR BOND	1992 2ND SENIOR BOND	1994 2ND SENIOR BOND	1997 2ND SENIOR BOND	1998 2ND SENIOR BOND	2001 2ND SENIOR BOND
Issuance date	08/27/92	09/18/92	02/24/94	08/15/97	03/15/98	10/15/01
Original issue amount	\$ 350,000	\$ 190,000	\$ 200,000	\$ 57,730	\$ 213,985	\$ 48,430
Original issue (discount)/premium	(2,612)	(727)	(165)	3,800	11,687	3,510
NET BOND PROCEEDS	\$ 347,388	\$ 189,273	\$ 199,835	\$ 61,530	\$ 225,672	\$ 51,940
Issuance costs	\$ 3,508	\$ 2,323	\$ 2,535	\$ 780	\$ 2,194	\$ 590
Reserve requirements	\$ -	\$ 14,416	\$ 11,406	\$ 2,002	\$ 24,581	\$ 6,263
Cash reserve balance	\$ -	\$ 14,772	\$ 12,406	\$ 2,002	\$ 24,581	\$ 6,263
Interest rate	2.8%- 12.23%	2.9%- 12.03%	2.8%- 12.55%	3.8%-5.7%	3.9%-5.5%	4.0%-5.0%
Annual principal payment	\$27,200	\$ -	\$ -	\$15,445	\$23,300	\$16,850
Maturity	2011	2011	2011	2011	2011	2011
Bonds outstanding	\$ 27,200	\$ -	\$ -	\$ 15,445	\$ 23,300	\$ 16,850
Less deferred loss on refunding	-	-	-	-	-	\$ (336)
Plus unamortized premium	-	-	-	-	-	\$ 351
TOTAL	\$ 27,200	\$ -	\$ -	\$ 15,445	\$23,300	\$ 16,685

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2010, are as follows:

<u>YEAR ENDING JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2011	82,795	4,627
TOTAL	\$ 82,795	\$ 4,627

CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	<u>BEGINNING</u>			<u>ENDING</u>	<u>DUE</u>
	<u>BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE</u>	<u>WITHIN</u>
					<u>ONE</u>
					<u>YEAR</u>
Measure M program activities:					
Sales tax revenue bonds	\$ 161,200	\$ -	\$ 78,405	\$ 82,795	\$ 82,795
Unamortized deferred loss on refunding	(673)	-	(337)	(336)	-
Unamortized premium	702	-	351	351	-
TOTAL MEASURE M PROGRAM ACTIVITIES	\$ 161,229	\$ -	\$ 78,419	\$ 82,810	\$ 82,795

ARBITRAGE REBATE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. In general, arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Failure to follow the arbitrage regulations could result in all interest paid to bondholders retroactively rendered taxable.

In accordance with the arbitrage regulations, if excess earnings were calculated, 90% of the amount calculated would be due to the Internal Revenue Service (IRS) at the end of each five year period. The remaining 10% would be recorded as a liability and paid after all bonds had been redeemed. During the current year, no excess earnings were calculated, therefore no payments were made.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

PLEDGED REVENUE

OCLTA has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the bonds outstanding table found on page 28. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions located on page 27 and page 28. For the year ended June 30, 2010, debt service payments as a percentage of the pledged gross revenue net of turnback, are indicated in the table below:

DESCRIPTION OF PLEDGED REVENUE	ANNUAL AMOUNT OF PLEDGED REVENUE	ANNUAL DEBT SERVICE PAYMENTS	DEBT SERVICE AS A PERCENTAGE OF PLEDGED REVENUE
Measure M Sales Tax	\$ 182,471	\$ 87,422	47.9%

9. COMMITMENTS AND CONTINGENCIES

PURCHASE COMMITMENTS

The OCLTA has various long-term outstanding contracts that extend over several years and rely on future years' revenues. Total commitments at June 30, 2010, were \$649,611, the majority of which relate to the expansion of Orange County's freeway and road systems.

FEDERAL GRANTS

The OCLTA receives federal grants for capital projects and other reimbursable activities which are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits would not have a material effect on the OCLTA's financial position or changes in financial position.

10. PRIOR PERIOD ADJUSTMENT

In the prior fiscal year, revenues of \$1,863 for the construction of the SR-22 freeway project were recorded as revenue. However, the amount is considered retention and is not available for reimbursement until February 2011. Therefore, this revenue should have been recorded as deferred revenue in the prior fiscal year as it is not available to finance current expenditures. This impacts the Government Fund statements only as the revenues were earned in the previous fiscal year. Additionally, in the prior fiscal year, \$699 for the I-405 widening project was recorded as revenue. However, it was determined in the current fiscal year that OCTA had not received the program supplement from Caltrans granting OCTA the authority to seek reimbursement.

During fiscal year 2009-10, it was determined when GASB 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented the documentation received from the State was not clear as to when the revenues were earned. In the prior fiscal year, \$27,757 of sales tax revenue was not accrued for at the end of the year.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010
 (IN THOUSANDS)

The following is a summary of the effect of these adjustments:

	Governmental Activities	Local Transportation Authority Fund
Beginning balance, as previously reported	487,176	\$362,200
Adjustment (SR-22 freeway project)	-	(1,863)
Adjustment (Sales Tax Revenue)	27,757	27,757
Adjustment (I-405 widening project)	(699)	(699)
Beginning balance, as restated	514,234	\$387,395

II. EFFECT OF NEW PRONOUNCEMENTS

GASB STATEMENT NO. 51

In June 2007, GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. OCLTA does not have any intangible assets.

GASB STATEMENT NO. 53

In June 2008, GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. As of fiscal year ending June 30, 2010, OCLTA does not have any derivative instruments.

GASB STATEMENT NO. 54

In March 2009, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definition. This statement is effective for OCLTA's fiscal year ending June 30, 2011.

GASB STATEMENT NO. 58

In December 2009, GASB issued Statement No. 58, Accounting and Financial Reporting for Chapter 9 Bankruptcies. This statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement does not apply to OCLTA.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - LTA SPECIAL REVENUE FUND (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2010

<i>(thousands)</i>	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Sales taxes	\$ 234,745	\$ 234,745	\$ 221,855	(12,890)
Contributions from other agencies	8,250	8,250	31,269	23,019
Interest	10,012	10,012	12,219	2,207
Capital assistance grants	64,098	64,098	-	(64,098)
Miscellaneous	2,379	2,379	3,117	738
TOTAL REVENUES	319,484	319,484	268,460	(51,024)
EXPENDITURES:				
Current:				
General government	113,494	119,136	65,459	53,677
Transportation:				
Contributions to other local agencies	332,040	329,353	193,355	135,998
Capital outlay	271,025	270,962	54,302	216,660
Debt service:				
Interest on long-term debt and commercial paper	1,500	1,500	403	1,097
TOTAL EXPENDITURES	718,059	720,951	313,519	407,432
Excess (deficiency) of revenues over (under) expenditures	(398,575)	(401,467)	(45,059)	356,408
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	5,241	5,241
Transfers from OCTA	1,650	1,650	1,283	(367)
Transfers out	(87,404)	(87,404)	(87,428)	(24)
Transfers to OCTA	(2,212)	(2,212)	(2,174)	38
TOTAL OTHER FINANCING SOURCES (USES)	(87,966)	(87,966)	(83,078)	4,888
Net change in fund balances	\$ (486,541)	\$ (489,433)	\$ (128,137)	\$ 361,296

See accompanying notes to the required supplementary information.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2010
(IN THOUSANDS)

1. BUDGETARY DATA

The OCLTA establishes accounting control through formal adoption of an annual operating budget for the LTA special revenue and the debt service governmental funds. The operating budget is prepared in conformity with accounting principles generally accepted in the United States (GAAP) except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Division heads are authorized to approve appropriation transfers within major objects. Major objects are defined as Salaries and Benefits, Supplies and Services and Capital Outlay. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, for budgeted funds, is at the major object level for the budgeted governmental funds. A Fourth Quarter Budget Status Report, June 2010 is available from the OCTA Finance and Administration Division. With the exception of accounts which have been encumbered, appropriations lapse at year end.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A COMPONENT UNIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)
OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - LTA DEBT SERVICE FUND (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2010

<i>(thousands)</i>	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Interest	\$ 2,203	\$ 2,203	\$ 783	\$ (1,420)
TOTAL REVENUES	2,203	2,203	783	(1,420)
EXPENDITURES:				
Current:				
General government	298	298	151	147
Debt service:				
Principal payments on long-term debt	78,405	78,405	78,405	-
Interest on long-term debt and commercial paper	9,000	9,000	9,018	(18)
TOTAL EXPENDITURES	87,703	87,703	87,574	129
Excess (deficiency) of revenues over (under) expenditures	(85,500)	(85,500)	(86,791)	(1,291)
OTHER FINANCING SOURCES (USES):				
Transfers in	87,405	87,405	87,428	23
Transfers out	-	-	(5,241)	(5,241)
TOTAL OTHER FINANCING SOURCES (USES)	87,405	87,405	82,187	(5,218)
Net change in fund balances	\$ 1,905	\$ 1,905	\$ (4,604)	\$ (6,509)



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Board of Directors
Orange County Local Transportation Authority
Orange, California

**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**

We have audited the financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (Authority), as of and for the year ended June 30, 2010, which collectively comprise the OCLTA's basic financial statements and have issued our report thereon dated October 27, 2010. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the OCLTA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OCLTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OCLTA's internal control over financial reporting.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the OCLTA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Board of Directors
Orange County Local Transportation Authority
Orange, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OCLTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

This report is intended solely for the information and use of the Board of Directors and management of the OCLTA and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
October 27, 2010

**ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY**

Debt Service Coverage Tests

Year Ended June 30, 2010

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Debt Service Coverage Tests

Year Ended June 30, 2010

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

**REPORT OF INDEPENDENT AUDITOR ON SCHEDULE OF NET
MEASURE M SALES TAX REVENUE COMPARED TO
MAXIMUM ANNUAL DEBT SERVICE**

We have audited the accompanying Schedule of Net Measure M Sales Tax Revenue Compared to Maximum Annual Debt Service (Schedule) of the Orange County Local Transportation Authority (OCLTA) for the year ended June 30, 2010. This Schedule is the responsibility of the OCLTA's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCLTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedule was prepared for the purpose of complying with, and in conformity with, the method of calculating the debt service coverage test as prescribed by Section 3.01(D) of the Indenture Agreement between the OCLTA and State Street Bank and Trust Company of California, N.A. dated August 15, 1992, as amended on December 1, 1996 to appoint BNY Western Trust Company as the successor trustee, as discussed in Note 1, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the net Measure M sales tax revenue compared to the maximum annual debt service of the OCLTA for the year ended June 30, 2010 on the basis of the requirement described in Note 1.



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

This report is intended solely for the information and use of management, the Board of Directors of the Orange County Local Transportation Authority, the Taxpayers Oversight Committee, BNY Western Trust Company, and Nossaman, Guthner, Knox & Elliott and is not intended to be, and should not be, used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
October 27, 2010

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Schedule of Net Measure M Sales Tax Revenue Compared to
Maximum Annual Debt Service

Year Ended June 30, 2010

Measure M sales tax revenue:	
Measure M sales tax revenue received	\$ 214,161,849
Less: Local revenues	<u>(31,267,630)</u>
Net Measure M sales tax revenue (Note 2) (A)	<u>182,894,219</u>
Senior maximum annual debt service (Note 3)	87,421,904
Multiplied by the debt factor (Note 4)	<u>1.30</u>
130% coverage required (B)	<u>113,648,475</u>
Excess of net Measure M sales tax revenue over 130% coverage required [(A) - (B)]	<u>\$ 69,245,744</u>

See accompanying notes.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Schedule of Net Measure M Sales Tax
Revenue Compared to Maximum Annual Debt Service

Year Ended June 30, 2010

(1) Organization and Schedule Presentation

The Orange County Local Transportation Authority (OCLTA) was formed for the purpose of managing revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. The OCLTA is a separate authority accounted for as a special revenue and debt service fund within the Orange County Transportation Authority. Funds are provided by a 0.5% county sales tax (0.5% Sales Tax) levied pursuant to Measure M, which became effective April 1, 1991, and bond proceeds secured by the Measure M Sales Tax.

The Schedule presents the debt service coverage test in accordance with Section 3.01(D) of the Indenture Agreement between OCLTA and State Street Bank and Trust Company of California, N.A. dated August 15, 1992, as amended on December 1, 1996 to appoint BNY Western Trust Company as the successor trustee, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

The Schedule does not purport to, and does not, present fairly the financial position of OCLTA as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(2) Net Measure M Sales Tax Revenue

Net Measure M Sales Tax Revenue represents amounts as defined in the Indenture Agreement. Measure M Sales Tax Revenue Received represents amounts collected by the State of California and forwarded to OCLTA in connection with the 0.5% Sales Tax. Local Revenues represent the portion of the 0.5% Sales Tax distributed to local governments in accordance with the requirements of Measure M. Management believes that the interest earned on the investment of the 0.5% Sales Tax Revenues has no significant impact on the debt service coverage test; therefore, such amounts have been excluded.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Schedule of Net Measure M Sales Tax Revenue Compared to Maximum Annual Debt Service

(Continued)

(3) **Maximum Annual Debt Service**

Maximum Annual Debt Service represents the largest combined annual debt service amount for the First Senior Bonds, Series 1992, 1998 (Refunding), and 2001A (Refunding) and Second Senior Bonds, Series 1992, 1994, 1997A (Refunding), 1998A and 2001A (Refunding) as listed in the Schedule of Debt Service for Outstanding Bonds contained on page 8 of the Official Statement dated October 15, 2001 for OCLTA Measure M Sales Tax Revenue Bonds (Limited Tax Bonds), First Senior Bonds, Series 2001A and Measure M Sales Tax Revenue Refunding Bonds (Limited Tax Bonds), Second Senior Bonds, Series 2001A.

(4) **Debt Factor**

The debt factor is defined in Section 3.01 (D) of the Indenture Agreement as 130% of maximum annual debt service for all sales tax revenue indebtedness outstanding.

**ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY**

**Report on Agreed-Upon Procedures
Applied to Measure M Status Report**

Year Ended June 30, 2010

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

**Report on Agreed-Upon Procedures
Applied to Measure M Status Report**

Year Ended June 30, 2010

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

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES TO THE
MEASURE M STATUS REPORT**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee (Committee) of the Orange County Local Transportation Authority (OCLTA), solely to assist you with your review of the Measure M Status Report, and to ascertain that the amounts have been derived from the audited financial statements or other published, Board of Director approved documents or internal documents, for the year ended June 30, 2010. The Measure M Status Report consists of the following three schedules (Schedules): Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule 1); Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service) (Schedule 2); and Schedule of Revenues and Expenditures Summary (Schedule 3). Management of the OCLTA is responsible for the Measure M Status Report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 following summary of procedures related to the Measure M Status Report is separated into three sections: Section A describes our procedures applied to Schedule 1; Section B describes our procedures applied to Schedule 2; and Section C describes our procedures applied to Schedule 3. All amounts are reported in thousands.

A. We obtained Schedule 1 and performed the following procedures:

1. Compared Year to Date June 30, 2010 amounts (Column A) to the audited trial balances of the OCLTA Special Revenue Fund 10 and the OCLTA Debt Service Fund 70 and additional detailed information from the underlying accounting records.
2. Recalculated Period From Inception Through June 30, 2010 amounts (Column B) by adding the prior year's Period From Inception through June 30, 2009 amounts with Year to Date June 30, 2010 amounts (Column A).
3. Recomputed totals and subtotals.



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B. We obtained Schedule 2 and performed the following procedures:

1. Compared Year Ended June 30, 2010 (Columns C.1 and C.2) to Schedule 1, column A. For Professional services, non-project related amounts, we compared the sum of this caption allocated to Tax Revenues and to Bond Revenues at June 30, 2010 (C.1 and C.2) to Schedule 1, Column A.
2. Compared Period From Inception Through June 30, 2010 amounts (Columns D.1 and D.2) to Schedule 1, Column B. For the Orange County bankruptcy recovery, professional services, non-project related, Orange County bankruptcy loss and other non-project related amounts, we compared the total of the amounts allocated to Tax Revenues and to Bond Revenues at June 30, 2010 (Columns D.1 and D.2) to Schedule 1, Column B. For the payment to refunded bond escrow, we compared the Period From Inception Through June 30, 2010 amount (Column D.2) to the total of the advance refunding escrow and payment to refunded bond escrow agent amounts at Schedule 1, Column B.
3. Compared forecast amounts (Columns E.1 and E.2) to Measure M Forecast Schedule.
4. Recomputed totals and subtotals.

C. We obtained Schedule 3 and performed the following procedures:

1. Compared Net Tax Revenues Program to Date Actual (Column H) and Total Net Tax Revenues (Column I) amounts to Schedule 2, Column D.1 and Column F.1, Net Tax Revenues (Totals), respectively.
2. Recalculated Net Tax Revenues Program to Date Actual (Column H) and Total Net Tax Revenues (Column I) amounts, by mode and project description, based on the Revised Traffic Improvement and Growth Management Expenditure Plan, as amended (Expenditure Plan).
3. Compared the Project Budget (column J) for Freeways to the Measure M Project Funding Responsibility 1996 Strategic Plan in June 2010 dollars. Regional streets and road projects, local streets and road projects, and certain transit projects are not budgeted due to the fact that these projects are funded on a "pay as you go" basis. Therefore, funds are budgeted as they are allocated to projects.
4. Compared the Estimate at Completion (Column K) to supporting budget documents.



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5. Recalculated the Variance Total Net Tax Revenues to Estimate at Completion (Column L) by subtracting Column K from Column I and the Variance Project Budget to Estimate at Completion (Column M) by subtracting Column K from Column J.
6. Reconciled Expenditures through June 30, 2010 (Column N) to Schedule 1, Column B. Agreed column N, by project description to the project job ledger by fiscal year.
7. We judgmentally selected a sample of 25 expenditures from Column N and compared them to invoices and supporting documentation. We concluded that the sampled expenditures were properly accrued and classified.
8. Agreed Reimbursements through June 30, 2010 (Column O) to Schedule 1, Column B, the combined total of other agencies' share of Measure M costs, capital grants, right-of-way leases, proceeds from sale of capital assets, interest, transfers in, and current year miscellaneous revenues.
9. Agreed Column O to supporting revenue summary by project and fiscal year. We judgmentally selected a sample of 22 reimbursements from Column O and compared them to invoices and remittance advices. We concluded that the sampled reimbursements were properly classified.
10. Recalculated the Net Project Cost (Column P) by subtracting Column O from Column N.
11. Recalculated the Percent of Budget Expended (Column Q) by dividing Column P by Column J.
12. Recomputed totals and subtotals.

All of the above procedures were performed without exception.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Measure M Status Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. The Notes to the Measure M Status Report (Notes) have been provided by the OCLTA to describe the purpose, format, and content of the schedules. We were not engaged to and did not perform any procedures on the Notes.



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Orange, California

This report is intended solely for the information and use of OCLTA' s management, the Board of Directors, and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hillier Anderson P.C.

Irvine, California
January 3, 2011

Measure M
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of June 30, 2010
(Unaudited)

<i>(\$ in thousands)</i>	Year to Date June 30, 2010	Period from Inception to June 30, 2010
	(A)	(B)
Revenues:		
Sales taxes	\$ 221,855	\$ 3,828,802
Other agencies share of Measure M costs		
Project related	23,607	406,789
Non-project related	-	614
Interest:		
Operating:		
Project related	38	1,052
Non-project related	12,183	256,232
Bond proceeds	-	136,067
Debt service	783	81,629
Commercial paper	-	6,072
Orange County bankruptcy recovery	-	42,268
Capital grants	1,955	158,248
Right-of-way leases	434	5,145
Proceeds on sale of assets held for resale	2,683	24,575
Miscellaneous:		
Project related	-	26
Non-project related	-	775
Total revenues	<u>263,538</u>	<u>4,948,294</u>
Expenditures:		
Supplies and services:		
State Board of Equalization (SBOE) fees	2,583	54,283
Professional services:		
Project related	11,698	189,252
Non-project related	2,833	32,147
Administration costs:		
Project related	1,661	19,408
Non-project related	6,744	83,808
Orange County bankruptcy loss	-	78,618
Other:		
Project related	296	1,528
Non-project related	220	15,734
Payments to local agencies:		
Turnback	31,689	562,445
Competitive projects	143,890	707,912
Capital outlay	51,956	2,016,727
Debt service:		
Principal payments on long-term debt	78,405	921,160
Interest on long-term debt and commercial paper	9,018	556,922
Total expenditures	<u>340,993</u>	<u>5,239,944</u>
Deficiency of revenues under expenditures	<u>(77,455)</u>	<u>(291,650)</u>
Other financing sources (uses):		
Transfers out:		
Project related	(1,990)	(254,664)
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>(1,990)</u>	<u>758,187</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	<u>\$ (79,445)</u>	<u>\$ 466,537</u>

See Notes to Measure M Status Report (Unaudited)

Measure M
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of June 30, 2010
(Unaudited)

<i>(\$ in thousands)</i>	Year Ended June 30, 2010 (actual) (C.1)	Period from Inception through June 30, 2010 (actual) (D.1)	Period from July 1, 2010 through March 31, 2011 (forecast) (E.1)	Total (F.1)
Tax revenues:				
Sales taxes	\$ 221,855	\$ 3,828,802	\$ 161,974	\$ 3,990,776
Other agencies' share of Measure M costs	-	614	-	614
Operating interest	12,183	256,232	6,515	262,747
Orange County bankruptcy recovery	-	20,683	-	20,683
Miscellaneous, non-project related	-	775	-	775
Total tax revenues	<u>234,038</u>	<u>4,107,106</u>	<u>168,489</u>	<u>4,275,595</u>
Administrative expenditures:				
SBOE fees	2,583	54,283	1,506	55,789
Professional services, non-project related	2,832	23,286	1,592	24,878
Administration costs, non-project related	6,744	83,808	5,279	89,087
Operating transfer out, non-project related	-	5,116	-	5,116
Orange County bankruptcy loss	-	29,792	-	29,792
Other, non-project related	220	6,635	1,244	7,879
	<u>12,379</u>	<u>202,920</u>	<u>9,621</u>	<u>212,541</u>
Net tax revenues	<u><u>\$ 221,659</u></u>	<u><u>\$ 3,904,186</u></u>	<u><u>\$ 158,868</u></u>	<u><u>\$ 4,063,054</u></u>
<hr/>				
	(C.2)	(D.2)	(E.2)	(F.2)
Bond revenues:				
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	783	81,629	3,593	85,222
Interest revenue from commercial paper	-	6,072	-	6,072
Orange County bankruptcy recovery	-	21,585	-	21,585
Total bond revenues	<u>783</u>	<u>1,415,352</u>	<u>3,593</u>	<u>1,418,945</u>
Financing expenditures and uses:				
Professional services, non-project related	1	8,861	-	8,861
Payment to refunded bond escrow	-	153,861	-	153,861
Bond debt principal	78,405	921,160	82,795	1,003,955
Bond debt interest expense	9,018	556,922	4,889	561,811
Orange County bankruptcy loss	-	48,826	-	48,826
Other, non-project related	-	9,099	-	9,099
Total financing expenditures and uses	<u>87,424</u>	<u>1,698,729</u>	<u>87,684</u>	<u>1,786,413</u>
Net bond revenues (debt service)	<u><u>\$ (86,641)</u></u>	<u><u>\$ (283,377)</u></u>	<u><u>\$ (84,091)</u></u>	<u><u>\$ (367,468)</u></u>

See Notes to Measure M Status Report (Unaudited)

Measure M
Schedule of Revenues and Expenditures Summary
as of June 30, 2010
(Unaudited)

Project Description (G)	Net Tax Revenues Program to Date Actual (H)	Total Net Tax Revenues (I)	Project Budget (J)	Estimate at Completion (K)	Variance		Expenditures through June 30, 2010 (N)	Reimbursements through June 30, 2010 (O)	Net Project Cost (P)	Percent of Budget Expended (Q)
					Total Net Tax Revenues to Est at Completion (L)	Project Budget to Est at Completion (M)				
Freeways (43%)										
I-5 between I-405 (San Diego Fwy) and I-605 (San Gabriel Fwy)	\$ 941,396	\$ 979,701	\$ 810,010	\$ 800,650	\$ 179,051	\$ 9,360	\$ 856,652	\$ 85,925	\$ 771,127	95.2%
I-5 between I-5/I-405 Interchange and San Clemente	65,885	68,566	57,836	59,936	8,630	(2,100)	70,294	10,358	59,936	103.6%
I-5/I-405 Interchange	83,623	87,026	72,802	73,075	13,951	(273)	98,157	25,082	73,075	100.4%
S.R. 55 (Costa Mesa Fwy) between I-5 and S.R. 91 (Riverside Fwy)	55,749	58,017	44,511	50,225	7,792	(5,714)	55,366	6,172	49,194	110.5%
S.R. 57 (Orange Fwy) between I-5 and Lambert Road	27,874	29,009	24,128	22,759	6,250	1,369	25,617	2,859	22,758	94.3%
S.R. 91 (Riverside Fwy) between Riverside Co. line & Los Angeles Co. line	120,367	125,265	116,136	105,389	19,876	10,747	123,995	18,606	105,389	90.7%
S.R. 22 (Garden Grove Fwy) between S.R. 55 and Valley View St.	383,907	399,529	303,297	302,934	96,595	363	617,917	313,385	304,532	100.4%
Subtotal Projects	1,678,801	1,747,113	1,428,720	1,414,968	332,145	13,752	1,847,998	461,987	1,386,011	
Net (Bond Revenue)/Debt Service			309,224	309,224	(309,224)	-	238,462		238,462	
Total Freeways	\$ 1,678,801	\$ 1,747,113	\$ 1,737,944	\$ 1,724,192	\$ 22,921	\$ 13,752	\$ 2,086,460	\$ 461,987	\$ 1,624,473	47.3%
Regional Street and Road Projects (11%)										
Smart Streets	\$ 147,244	\$ 153,235	\$ 150,846	\$ 150,846	\$ 2,389	\$ -	\$ 174,772	\$ 11,739	\$ 163,033	108.1%
Regionally Significant Interchanges	85,892	89,387	89,387	89,387	-	-	64,530	146	64,384	72.0%
Intersection Improvement Program	122,703	127,696	127,696	127,696	-	-	89,527	214	89,313	69.9%
Traffic Signal Coordination	61,351	63,848	63,848	63,848	-	-	53,811	1,247	52,564	82.3%
Transportation Systems Management and Transportation Demand Management	12,270	12,770	12,770	12,770	-	-	7,740	149	7,591	59.4%
Subtotal Projects	429,460	446,936	444,547	444,547	2,389	-	390,380	13,495	376,885	
Net (Bond Revenue)/Debt Service			2,389	2,389	(2,389)	-	1,842		1,842	
Total Regional Street and Road Projects	\$ 429,460	\$ 446,936	\$ 446,936	\$ 446,936	\$ -	\$ -	\$ 392,222	\$ 13,495	\$ 378,727	11.0%

See Notes to Measure M Status Report (Unaudited)

Measure M
Schedule of Revenues and Expenditures Summary
as of June 30, 2010
(Unaudited)

Project Description (G)	Net Tax Revenues Program to Date Actual (H)	Total Net Tax Revenues (I)	Project Budget (J)	Estimate at Completion (K)	Variance		Expenditures through June 30, 2010 (N)	Reimbursements through June 30, 2010 (O)	Percent of Budget Expended (Q)	
					Total Net Tax Revenues to Est. at Completion (L)	Project Budget to Est. at Completion (M)				
Local Street and Road Projects (21%)										
Master Plan of Arterial Highway Improvements	\$ 152,270	\$ 162,536	\$ 162,536	\$ 162,536	\$ -	\$ -	\$ 108,200	\$ 99	66.5%	
Streets and Roads Maintenance and Road Improvements	567,609	590,706	590,706	590,706	-	-	562,461	-	95.2%	
Growth Management Area Improvements	100,000	100,000	100,000	100,000	-	-	82,704	431	82.3%	
Subtotal Projects	819,879	853,242	853,242	853,242	-	-	753,365	530	752,835	
Net (Bond Revenue)/Debt Service										
Total Local Street and Road Projects	\$ 819,879	\$ 853,242	\$ 853,242	\$ 853,242	\$ -	\$ -	\$ 753,365	\$ 530	\$ 752,835	
%				21.1%					21.9%	
Transit Projects (25%)										
Pacific Electric Right-of-Way	\$ 18,891	\$ 19,660	\$ 15,000	\$ 14,000	\$ 5,660	\$ 1,000	\$ 16,721	\$ 2,819	\$ 13,902	92.7%
Commuter Rail	351,527	366,645	351,414	388,614	(21,969)	(37,200)	351,437	60,805	290,632	82.7%
High-Technology Advanced Rail Transit	428,201	445,625	427,113	410,688	34,937	16,425	210,384	21,263	189,121	44.3%
Elderly and Handicapped Fare Stabilization	20,000	20,000	20,000	20,000	-	-	19,000	-	19,000	95.0%
Transitways	157,427	163,833	146,381	126,606	37,227	19,775	162,651	36,765	125,886	86.0%
Subtotal Projects	976,046	1,015,763	959,908	959,908	55,855	-	760,193	121,652	638,541	
Net (Bond Revenue)/Debt Service			55,855	55,855	(55,855)	-	43,073		43,073	
Total Transit Projects	\$ 976,046	\$ 1,015,763	\$ 1,015,763	\$ 1,015,763	\$ -	\$ -	\$ 803,266	\$ 121,652	\$ 681,614	
%				25.1%					19.8%	
Total Measure M Program	\$ 3,904,186	\$ 4,063,054	\$ 4,053,885	\$ 4,040,133	\$ 22,921	\$ 13,752	\$ 4,035,313	\$ 597,664	\$ 3,437,649	

See Notes to Measure M Status Report (Unaudited)

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M Status Report (Unaudited)

Year Ended June 30, 2010

Measure M Summary

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth Management Ordinance, known as Measure M. This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County. On November 7, 2006, Orange County voters approved the renewal of Measure M (M2) for a period of 30 more years from April 1, 2011 to March 31, 2041. The Orange County Local Transportation Authority (OCLTA) is responsible for administering the proceeds of the Measure M sales tax program, which commenced on April 1, 1991 for a period of 20 years and the M2 sales tax program, which will commence on April 1, 2011 for a period of 30 years. This report includes only the activities of Measure M and is not intended to present the activities of M2. Under Measure M, funds are required to be distributed to four modes: freeways, regional streets and roads, local streets and roads, and transit.

Demonstrating accountability for the receipt and expenditure of Measure M funds has been accomplished by the issuance of quarterly reports on Measure M activities. The reports for Measure M activities through June 30, 2010 are included as Schedules 1-3. The following is a summary of the purpose, format and content of each schedule. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Schedule 1—Schedule of Revenues, Expenditures and Changes in Fund Balance

This schedule presents a summary of revenues, expenditures and changes in fund balance of the combined Measure M special revenue and debt service funds. Such financial information has been derived from the trial balance with additional detailed information from the underlying accounting records. The schedule is presented for the latest fiscal year and for the period from inception through the latest fiscal year.

Year to Date June 30, 2010 (Column A)

This column presents the revenues, expenditures, and other financing sources (uses) of the combined Measure M special revenue and debt service funds for the fiscal year ended June 30, 2010. Amounts for individual revenue sources, expenditures by major object, and other financing sources (uses) are derived from the trial balance, while detailed amounts for certain revenue sources and expenditures by major object have been obtained from the general ledger.

The net change in fund balance of \$(79,445) agrees with the combined change in fund balances of \$(74,841) in the Measure M special revenue fund and \$(4,604) in the Measure M debt service fund, in the trial balance for the year ended June 30, 2010.

Non-project related revenues, expenditures, and other financing sources (uses) are included in the net tax revenues and net bond revenues (debt service) calculations in Schedule 2.

Orange County Local Transportation Authority
Notes to Measure M Status Report (Unaudited)
(Continued)

Year Ended June 30, 2010

Period from Inception to June 30, 2010 (Column B)

This column presents the revenues, expenditures, and other financing sources (uses) of the combined Measure M special revenue and debt service funds for the period from inception through June 30, 2010. Amounts for individual revenue sources, expenditures by major object, and other financing sources (uses) are summarized from the trial balance, while detailed amounts for certain revenue sources and expenditures by major object have been obtained and summarized from the general ledger.

The net fund balance of \$466,537 agrees with the combined ending fund balances of \$356,882 in the Measure M special revenue fund and \$109,655 in the Measure M debt service fund, as presented in the trial balance for the year ended June 30, 2010.

Period from inception amounts include adjustments affecting the prior year portion of sales tax revenue and capital grants. In the prior fiscal year, sales tax revenue of \$27,757 should have been accrued and capital grants of \$1,863 should have been deferred.

Non-project related revenues, expenditures, and other financing sources (uses) are included in the net tax revenues and net bond revenues (debt service) calculations in Schedule 2. Project related revenues are presented as "Reimbursements" in Schedule 3. Project related expenditures and other financing uses are included as "Expenditures" in Schedule 3.

Schedule 2—Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)

This schedule presents calculations of net tax revenues and of net bond revenues (debt service), which are allocated in Schedule 3 to transportation projects specified in the Measure M modes.

Net tax revenues are calculated as tax revenues including sales taxes, other agencies share of Measure M costs, operating interest, Orange County bankruptcy recovery, and miscellaneous revenues less administrative expenditures that are not project or financing related.

Net bond revenues (debt service) are bond revenues comprised of proceeds from bond issuances, interest, and Orange County bankruptcy recovery less financing expenditures and uses.

Actual revenues, expenditures, and other financing sources (uses) in this schedule were obtained from amounts on Schedule 1. Forecast amounts were obtained from the Orange County Transportation Authority Forecast Model. The schedule is presented for the latest fiscal year, for the period from inception through the latest fiscal year, for subsequent years through the expiration of Measure M, and for the combined total of actual and forecast amounts for the period from inception through the expiration of Measure M.

Orange County Local Transportation Authority
Notes to Measure M Status Report (Unaudited)
(Continued)

Year Ended June 30, 2010

Calculation of Net Tax Revenues

Year Ended June 30, 2010 (actual) (Column C.1)

Tax revenues consisting of sales taxes, other agencies share of Measure M costs, operating interest, Orange County bankruptcy recovery, and miscellaneous revenue and administrative expenditures which are non-project and non-financing related for the year ended June 30, 2010 were obtained from Column A in Schedule 1. Orange County bankruptcy recovery amounts are distributed between tax revenues and bond proceeds based on the cash account balance in the Orange County Investment Pool (OCIP) at the OCIP bankruptcy date. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Net tax revenues represent total tax revenues less total administrative expenditures for year ended June 30, 2010.

Period from Inception through June 30, 2010 (actual) (Column D.1)

Tax revenues consisting of sales taxes, other agencies share of Measure M costs, operating interest, Orange County bankruptcy recovery, and miscellaneous revenue and administrative expenditures, which are non-project and non-financing related for the period from inception through June 30, 2010, were obtained from Column B in Schedule 1. Orange County bankruptcy recovery amounts are distributed between tax revenues and bond proceeds based on the cash account balance in the OCIP at the OCIP bankruptcy date. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Orange County bankruptcy loss amounts are distributed between administrative expenditures and financing expenditures and uses based on the cash account balance in the OCIP at the OCIP bankruptcy date. Net tax revenues represent total cumulative tax revenues less total cumulative administrative expenditures.

Period from July 1, 2010 through March 31, 2011 (forecast) (Column E.1)

Tax revenues consisting of projected sales taxes and operating interest and administrative expenditures which are non-project and non-financing related for subsequent years from July 1, 2010 through March 31, 2011 were obtained from the Orange County Transportation Authority Forecast Model which is updated quarterly. Net tax revenues represent total projected tax revenues less total projected administrative expenditures.

Total (Column F.1)

Total amounts related to the net tax revenues calculation are determined as the sum of columns D.1 and E.1. The total net tax revenues is used in Schedule 3 as "Total Net Tax Revenues."

Orange County Local Transportation Authority
Notes to Measure M Status Report (Unaudited)
(Continued)

Year Ended June 30, 2010

Calculation of Net Bond Revenues (Debt Service)

Year Ended June 30, 2010 (actual) (Column C.2)

Bond revenues consisting of interest revenue from debt service funds and financing expenditures and uses consisting of debt principal payments, interest expenditures, and other non-project and non-operating related expenditures for the year ended June 30, 2010 were obtained from Column A in Schedule 1. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Net bond revenues (debt service) represent total bond revenues less financing expenditures and uses for the year ended June 30, 2010.

Period from Inception through June 30, 2010 (actual) (Column D.2)

Bond revenues consisting of proceeds from the bond issuances, interest revenue from bond proceeds, debt service funds, and commercial paper, and Orange County bankruptcy recovery and financing expenditures and uses which are non-project and non-operating related for the period from inception through June 30, 2010 were obtained from Column B in Schedule 1. Orange County bankruptcy recovery amounts are distributed between tax revenues and bond proceeds based on the cash account balance in the OCIP at the OCIP bankruptcy date. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Orange County bankruptcy loss amounts are distributed between administrative expenditures and financing expenditures and uses based on the cash account balance in the OCIP at the OCIP bankruptcy date. Net bond revenues (debt service) represent total cumulative bond revenues less total cumulative financing expenditures and uses.

Period from July 1, 2010 through March 31, 2011 (forecast) (Column E.2)

Bond revenues consisting of interest revenue from debt service funds and financing expenditures and uses primarily related to principal payments and interest expenditures on long-term debt for subsequent years from July 1, 2010 through March 31, 2011 were obtained from the Orange County Transportation Authority Forecast Model. Net bond revenues (debt service) represent total projected bond revenues less total projected financing expenditures and other uses.

Total (Column F.2)

Total amounts related to the net bond revenues (debt service) calculation are determined as the sum of columns D.2 and E.2. The total net bond revenues (debt service) is used in Schedule 3 as a component of "Project Budget" and "Estimate at Completion."

Schedule 3—Schedule of Revenues and Expenditures Summary

This schedule presents a summary of actual and projected revenues and expenditures by mode and project description as specified in the Traffic Improvement and Growth Management Plan,

Orange County Local Transportation Authority
Notes to Measure M Status Report (Unaudited)
(Continued)

Year Ended June 30, 2010

as amended (Expenditure Plan). Total Measure M program amounts agree with amounts on Schedules 1 and 2; however, amounts by mode and project description are based on proportionate calculations or are obtained from other documents.

Project Description (Column G)

The project descriptions by mode are in accordance with the Expenditure Plan.

Net Tax Revenues Program to date Actual (Column H)

The total Measure M Program net tax revenues for the period from inception through June 30, 2010 agree with net tax revenues in Column D.1 in Schedule 2. Such net tax revenues have been allocated to each of the four modes based on the allocation percentages specified in Measure M. The net tax revenues for each mode have been allocated to each project based on the proportionate share of each project's estimated cost to the total estimated cost per mode as presented in the Expenditure Plan.

Total Net Tax Revenues (Column I)

The total actual and projected net tax revenues (total net tax revenues) during the 20-year life of Measure M agree with total net tax revenues in Column F.1 in Schedule 2. Such total net tax revenues have been allocated to each of the four modes based on the allocations specified in Measure M. The net tax revenues for each mode have been allocated to each project based on the proportionate share of each project's estimated cost to the total estimated cost per mode as presented in the Expenditure Plan.

Project Budget (Column J)

In accordance with Measure M, bond financing authority was approved as an alternative to the "pay as you go" financing method. As a result, all freeway mode, certain regional street and road mode, and certain transit mode projects have been accelerated using bond financing, while all local street and road and remaining regional street and road mode and transit mode projects have been funded on the "pay as you go" financing method.

Total project budget for each "pay as you go" project are based on the total net tax revenues presented in Column I, except for Growth Management Area (GMA) Improvements in the local street and road projects mode and Fare Stabilization in the transitway projects mode. GMA Improvements and Fare Stabilization are subject to a maximum funding of \$100 million and \$20 million, respectively, per Measure M. Total project budget for the freeway mode and transitway projects included in the transit mode are based on amounts obtained from the 1996 Freeway Strategic Plan, adjusted to 2010 dollars. Smart street project budget and net (bond revenue)/debt service costs for regional street and road mode projects comprise the total smart street project budget, as such projects have been accelerated using bond financing. Pacific Electric Right-of-Way project budget is in accordance with the Expenditure Plan. The total net (bond revenue)/debt service project budget agrees with the total amount from Column F.2 in Schedule 2, and such amounts were allocated based on the projects subject to bond financing.

Orange County Local Transportation Authority
Notes to Measure M Status Report (Unaudited)
(Continued)

Year Ended June 30, 2010

Estimate at Completion (Column K)

Estimate at completion represents current estimates of costs to complete the projects.

Variance Total Net Tax Revenues to Estimate at Completion (Column L)

This is a calculation of Column I minus Column K.

Variance Project Budget to Estimate at Completion (Column M)

This is a calculation of Column J minus Column K.

Expenditures through June 30, 2010 (Column N)

Total expenditures less net (bond revenue)/debt service materially agree with the sum of project related expenditures and net operating transfers out from Column B in Schedule 1. Project related expenditures are comprised of professional services, payments to local agencies for turnback and competitive projects, capital outlay, and other. Such expenditures are distributed to the projects based on project amounts accumulated in the project job ledger. The total net (bond revenue)/debt service expenditures through June 30, 2010 from Column N in Schedule 3 agree with the sum of non-project related expenditures from Column D.2 in Schedule 2. Non-project related expenditures are comprised of all financing interest revenue, Orange County bankruptcy recovery (loss) amounts, non-project related professional services, bond debt interest expense and other non-project related financing expenditures.

Reimbursements through June 30, 2010 (Column O)

Total reimbursements agree with the sum of project related revenues from Column B in Schedule 1. Project related revenues consist of other agencies share of Measure M project costs, capital grants, right-of-way leases, proceeds on sale of assets held for resale, interest, transfers in, and miscellaneous project revenues. Such revenues are distributed to the related projects based on project amounts accumulated in the project job ledger.

Net Project Cost (Column P)

This is a calculation of Column N minus Column O. For each mode, a percentage amount has been calculated as the net project cost per mode divided by the total Measure M Program net project cost. Such percentage can be compared to the required percentage included in Measure M as an indication of the progress to date for each mode.

Percent of Budget Expended (Column Q)

This is a calculation of Column P divided by Column J.

**ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY**

**Report on Agreed-Upon Procedures
Applied to Measure M2 Status Report**

Year Ended June 30, 2010

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

**Report on Agreed-Upon Procedures
Applied to Measure M2 Status Report**

Year Ended June 30, 2010

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

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES TO THE
MEASURE M2 STATUS REPORT**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee (Committee) of the Orange County Local Transportation Authority (OCLTA), solely to assist you with your review of the Measure M2 Status Report, and to ascertain that the amounts have been derived from the audited financial statements or other published Board of Director approved documents or internal documents, for the year ended June 30, 2010. The Measure M2 Status Report consists of the following three schedules (Schedules): Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule 1); Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service) (Schedule 2); and Schedule of Revenues and Expenditures Summary (Schedule 3). Management of the OCLTA is responsible for the Measure M2 Status Report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 following summary of procedures related to the Measure M2 Status Report is separated into three sections: Section A describes our procedures applied to Schedule 1; Section B describes our procedures applied to Schedule 2; and Section C describes our procedures applied to Schedule 3. All amounts are reported in thousands.

- A. We obtained Schedule 1 and performed the following procedures:
1. Compared Year to Date June 30, 2010 amounts (Column A) to the audited trial balance of the OCLTA Special Revenue Fund 17 and additional detailed information from the underlying accounting records.
 2. Compared Period from Inception to June 30, 2010 amounts (Column B) to the audited trial balances of the OCLTA Special Revenue Fund 17 cumulatively for the fiscal years ending June 30, 2007 through June 30, 2010 and additional detailed information from the underlying accounting records.
 3. Recomputed totals and subtotals.



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B. We obtained Schedule 2 and performed the following procedures:

1. Compared Year Ended June 30, 2010 (Columns C.1 and C.2) to Schedule 1, column A. For Professional services, non-project related amounts, we compared the sum of this caption allocated to Tax Revenues and to Bond Revenues at June 30, 2010 (C.1 and C.2) to Schedule 1, Column A.
2. Compared Period From Inception Through June 30, 2010 amounts (Columns D.1 and D.2) to Schedule 1, Column B. For professional services, non-project related, and other non-project related amounts, we compared the total of the amounts allocated to Tax Revenues and to Bond Revenues at June 30, 2010 (Columns D.1 and D.2) to Schedule 1, Column B.
3. Compared forecast amounts (Columns E.1 and E.2) to the Measure M2 Forecast Model Schedule.
4. Recomputed totals and subtotals.

C. We obtained Schedule 3 and performed the following procedures:

1. Compared Net Tax Revenues Program to Date Actual (Column H) and Total Net Tax Revenues (Column I) amounts to Schedule 2, Column D.1 and Column F.1, Net Tax Revenues (Totals), respectively.
2. Recalculated Net Tax Revenues Program to Date Actual (Column H) and Total Net Tax Revenues (Column I) amounts, by mode and project description, based on the Measure M2 Transportation Investment Plan (Investment Plan).
3. Compared the Project Budget (Column J) for each project to Total Net Tax Revenues (Column I).
4. Compared the Total Estimate at Completion (Column K) to supporting budget documents.
5. Recalculated the Variance Total Net Tax Revenues to Estimate at Completion (Column L) by subtracting Column K from Column I and the Variance Project Budget to Estimate at Completion (Column M) by subtracting Column K from Column J.
6. Reconciled Expenditures through June 30, 2010 (Column N) to Schedule 1, Column B. Agreed Column N, by project description to the project job ledger by fiscal year.



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7. We judgmentally selected a sample of 25 expenditures from Column N and compared them to invoices and supporting documentation. We concluded that the sampled expenditures were properly accrued and classified.
8. Agreed Reimbursements through June 30, 2010 (Column O) to Schedule 1, Column B, the combined total of other agencies' share of Measure M2 costs, and transfers in.
9. Agreed Column O to supporting revenue summary by project and fiscal year. We judgmentally selected a sample of 5 reimbursements from Column O and compared them to invoices and remittance advices. We concluded that the sampled reimbursements were properly classified.
10. Recalculated the Net Project Cost (Column P) by subtracting Column O from Column N.
11. Recalculated the Percent of Budget Expended (Column Q) by dividing Column P by Column J.
12. Recalculated total revenues for Environmental Cleanup (2% of revenues) (Column I.1) by multiplying total tax revenues reports per Schedule 2, Column F.1 by two percent.
13. Recomputed totals and subtotals.

All of the above procedures were performed without exception.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the Measure M2 Status Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. The Notes to the Measure M2 Status Report (Notes) have been provided by the OCLTA to describe the purpose, format, and content of the schedules. We were not engaged to and did not perform any procedures on the Notes.

This report is intended solely for the information and use of OCLTA' s management, the Board of Directors, and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Morgan Hoffman McCann P.C.

Irvine, California
January 3, 2011

Measure M2
Schedule of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2010
(Unaudited)

<i>(\$ in thousands)</i>	Year to Date June 30, 2010 (A)	Period from Inception to June 30, 2010 (B)
Revenues:		
Sales taxes	\$ -	\$ -
Other agencies share of Measure M2 costs:		
Project related	5,708	5,708
Interest on commercial paper	-	393
	<hr/>	<hr/>
Total revenues	5,708	6,101
	<hr/>	<hr/>
Expenditures:		
Supplies and services:		
State Board of Equalization (SBOE) fees	-	-
Professional services:		
Project related	32,419	57,411
Non-project related	1,153	2,821
Administration costs:		
Project related	2,536	4,651
Non-project related	3,339	6,432
Other:		
Project related	34	132
Non-project related	97	1,021
Payments to local agencies:		
Project related	17,776	31,013
Capital outlay:		
Project related	2,346	3,315
Non-project related	-	26
Debt service:		
Interest on long-term debt and commercial paper	403	1,026
	<hr/>	<hr/>
Total expenditures	60,103	107,848
	<hr/>	<hr/>
Deficiency of revenues under expenditures	(54,395)	(101,747)
	<hr/>	<hr/>
Other financing sources (uses):		
Transfers out		
Project related	(184)	(184)
Transfers in:		
Project related	1,283	4,307
	<hr/>	<hr/>
Total other financing sources (uses)	1,099	4,123
	<hr/>	<hr/>
Deficiency of revenues under expenditures and other financing sources (uses)	\$ (53,296)	\$ (97,624)
	<hr/>	<hr/>

See Notes to Measure M2 Status Report (Unaudited)

Measure M2
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
Year Ended June 30, 2010
(Unaudited)

<i>(\$ in thousands)</i>	Year Ended June 30, 2010 (actual) (C.1)	Period from Inception through June 30, 2010 (actual) (D.1)	Period from July 1, 2010 through March 31, 2041 (forecast) (E.1)	Total (F.1)
Tax revenues:				
Sales taxes	\$ -	\$ -	\$ 14,387,144	\$ 14,387,144
Operating interest	-	-	737,080	737,080
Total tax revenues	<u>-</u>	<u>-</u>	<u>15,124,224</u>	<u>15,124,224</u>
Administrative expenditures:				
SBOE fees	-	-	215,892	215,892
Professional services, non-project related	361	679	94,260	94,939
Administration costs, non-project related	3,339	6,432	397,124	403,556
Operating transfer out, non-project related	-	-	21,577	21,577
Other, non-project related	97	1,021	26,310	27,331
Capital outlay, non-project related	-	26	-	26
Environmental cleanup	489	496	301,988	302,484
	<u>4,286</u>	<u>8,654</u>	<u>1,057,151</u>	<u>1,065,805</u>
Net tax revenues	<u>\$ (4,286)</u>	<u>\$ (8,654)</u>	<u>\$ 14,067,073</u>	<u>\$ 14,058,419</u>
	(C.2)	(D.2)	(E.2)	(F.2)
Bond revenues:				
Proceeds from issuance of bonds	\$ -	\$ -	\$ 658,130	\$ 658,130
Interest revenue from investment of commercial paper proceeds	-	393	-	393
Total bond revenues	<u>-</u>	<u>393</u>	<u>658,130</u>	<u>658,523</u>
Financing expenditures and uses:				
Professional services, non-project related	792	2,142	-	2,142
Bond debt principal	-	-	658,130	658,130
Commercial paper interest expense	403	1,026	19,563	20,589
Total financing expenditures and uses	<u>1,195</u>	<u>3,168</u>	<u>677,693</u>	<u>680,861</u>
Net bond revenues (debt service)	<u>\$ (1,195)</u>	<u>\$ (2,775)</u>	<u>\$ (19,563)</u>	<u>\$ (22,338)</u>

See Notes to Measure M2 Status Report (Unaudited)

Measure M2
Schedule of Revenues and Expenditures Summary
Year Ended June 30, 2010
(Unaudited)

Description	Net Tax Revenues Program to Date Actual (H)	Total Net Tax Revenues (I)	Project Budget (J)	Estimate at Completion (K)	Variance		Expenditures through June 30, 2010 (N)	Reimbursements through June 30, 2010 (O)	Net Project Cost (P)	Percent of Budget Expended (Q)
					Total Net Tax Revenues to Est at Completion (L)	Project Budget to Est at Completion (M)				
Freeways (43% of Net Tax Revenues)										
I-5 Santa Ana Freeway Interchange Improvements	\$ (340)	\$ 554,114	\$ 554,114	\$ 554,114	\$ -	\$ -	\$ 7	\$ -	\$ 7	0.0%
I-5 Santa Ana/San Diego Freeway Improvements	(860)	1,397,262	1,397,262	1,397,262	-	-	6,424	-	6,424	0.5%
SR-22 Garden Grove Freeway Access Improvements	(87)	141,476	141,476	141,476	-	-	1	-	1	0.0%
SR-55 Costa Mesa Freeway Improvements	(266)	431,502	431,502	431,502	-	-	362	-	362	0.1%
SR-57 Orange Freeway Improvements	(188)	305,042	305,042	305,042	-	-	18,969	-	18,969	6.2%
SR-91 Riverside Freeway Improvements	(1,075)	1,746,608	1,746,608	1,746,608	-	-	8,065	4,307	3,758	0.2%
I-405 San Diego Freeway Improvements	(595)	966,380	966,380	966,380	-	-	6,207	699	5,508	0.6%
I-605 Freeway Access Improvements	(15)	23,579	23,579	23,579	-	-	-	-	-	0.0%
All Freeway Service Patrol	(109)	176,845	176,845	176,845	-	-	-	-	-	0.0%
Freeway Mitigation	(186)	302,312	302,312	302,312	-	-	437	-	437	0.1%
Subtotal Projects	(3,721)	6,045,120	6,045,120	6,045,120	-	-	40,472	5,006	35,466	
Net (Bond Revenue)/Debt Service	-	-	9,118	9,118	(9,118)	-	1,133	-	1,133	
Total Freeways	\$ (3,721)	\$ 6,045,120	\$ 6,054,238	\$ 6,054,238	\$ (9,118)	\$ -	\$ 41,605	\$ 5,006	\$ 36,599	41.2%
Street and Roads Projects (32% of Net Tax Revenues)										
Regional Capacity Program	\$ (865)	\$ 1,405,826	\$ 1,405,826	\$ 1,405,826	\$ -	\$ -	\$ 18,429	\$ -	\$ 18,429	1.3%
Regional Traffic Signal Synchronization Program	(346)	562,306	562,306	562,306	-	-	101	-	101	0.0%
Local Fair Share Program	(1,568)	2,530,562	2,530,562	2,530,562	-	-	-	-	-	0.0%
Subtotal Projects	(2,769)	4,498,694	4,498,694	4,498,694	-	-	18,530	-	18,530	
Net (Bond Revenue)/Debt Service	-	-	4,334	4,334	(4,334)	-	538	-	538	
Total Street and Roads Projects	\$ (2,769)	\$ 4,498,694	\$ 4,503,028	\$ 4,503,028	\$ (4,334)	\$ -	\$ 19,068	\$ -	\$ 19,068	21.5%
%				32.0%						

See Notes to Measure M2 Status Report (Unaudited)

Measure M2
Schedule of Revenues and Expenditures Summary
Year Ended June 30, 2010
(Unaudited)

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 at Completion (L)	Variance Project Budget to Est at Completion (M)	Expenditures through June 30, 2010 (N)	Reimbursements through June 30, 2010 (O)	Net Project Cost (P)	Percent of Budget Expended (Q)
Transit Projects (25% of Net Tax Revenues)										
High Frequency Metrolink Service	\$ (775)	\$ 1,258,531	\$ 1,250,659	\$ 1,250,659	\$ 7,872	\$ -	\$ 37,207	\$ 5,009	\$ 32,198	2.6%
Transit Extensions to Metrolink	(764)	1,241,033	1,241,033	1,241,033	-	-	1	-	1	0.0%
Metrolink Gateways	(173)	281,218	281,218	281,218	-	-	-	-	-	0.0%
Expand Mobility Choices for Seniors and Persons with Disabilities	(260)	421,703	-	421,703	-	-	-	-	-	0.0%
Community Based Transit/Circulators	(173)	281,094	281,094	281,094	-	-	-	-	-	0.0%
Safe Transit Stops	(19)	31,026	31,026	31,026	-	-	-	-	-	0.0%
Subtotal Projects	(2,164)	3,514,605	3,506,733	3,506,733	7,872	-	37,208	5,009	32,199	
Net (Bond Revenue)/Debt Service	-	-	7,872	7,872	(7,872)	-	978	-	978	
Total Transit Projects	\$ (2,164)	\$ 3,514,605	\$ 3,514,605	\$ 3,514,605	\$ -	\$ -	\$ 38,186	\$ 5,009	\$ 33,177	
%				25.0%					37.3%	
Measure M2 Program										
	\$ (8,654)	\$ 14,058,419	\$ 14,071,871	\$ 14,071,871	\$ (13,452)	\$ -	\$ 98,859	\$ 10,015	\$ 88,844	

See Notes to Measure M2 Status Report (Unaudited)

Measure M2
Schedule of Revenues and Expenditures Summary
Year Ended June 30, 2010
(Unaudited)

Description (G)	Net Tax Revenues Program to Date Actual (H-1)	Total Net Tax Revenues (I-1)	Project Budget (J)	Estimate at Completion (K)	Variance Total Net Tax Revenues to Est at Completion (L)	Variance Project Budget to Est at Completion (M)	Expenditures through June 30, 2010 (N)	Reimbursements through June 30, 2010 (O)	Net Project Cost (P)	Percent of Budget Expended (Q)
Environmental Cleanup (2% of Revenues)										
Clean Up Highway and Street Runoff that Pollutes Beaches	\$ -	\$ 302,484	\$ 302,352	\$ 302,352	\$ 132	\$ -	\$ 496	\$ -	\$ 496	0.2%
Subtotal Projects	-	302,484	302,352	302,352	132	-	496	-	496	
Net (Bond Revenue)/Debt Service	-	-	132	132	(132)	-	16	-	16	
Total Environmental Cleanup	\$ -	\$ 302,484	\$ 302,484	\$ 302,484	\$ -	\$ -	\$ 512	\$ -	\$ 512	
%				2.0%						

See Notes to Measure M2 Status Report (Unaudited)

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

Year Ended June 30, 2010

Measure M2 Summary

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth Management Ordinance, known as Measure M. This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County. On November 7, 2006 (inception), Orange County voters approved the renewal of Measure M, known as Renewed Measure M (M2) for a period of 30 more years from April 1, 2011 to March 31, 2041. In August 2007, the Orange County Transportation Authority Board of Directors approved the M2 Early Action Plan to advance the completion of projects prior to the start of sales tax collection in April 2011. A Plan of Finance was adopted in November 2007 identifying a tax-exempt commercial paper program as the preferred method of funding Early Action Plan Projects.

The Orange County Local Transportation Authority (OCLTA) is responsible for administering the proceeds of the Measure M sales tax program, which commenced on April 1, 1991 for a period of 20 years and the M2 sales tax program, which will commence on April 1, 2011 for a period of 30 years. This report includes only the activities of M2 and is not intended to present the activities of Measure M. M2 allocates sales tax revenue to freeway, street and road, transit and environmental improvements.

Demonstrating accountability for the receipt and expenditure of M2 funds has been accomplished by the issuance of annual reports on M2 activities. The reports for M2 activities through June 30, 2010 are included as Schedules 1-3. The following is a summary of the purpose, format and content of each schedule. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Schedule 1—Schedule of Revenues, Expenditures and Changes in Fund Balance

This schedule presents a summary of revenues, expenditures and changes in fund balance of the M2 special revenue fund. Such financial information has been derived from the trial balance with additional detailed information from the underlying accounting records. The schedule is presented for the latest fiscal year and for the period from inception through the latest fiscal year.

Year to Date June 30, 2010 (Column A)

This column presents the revenues, expenditures, and other financing sources (uses) of the M2 special revenue fund for the fiscal year ended June 30, 2010. Amounts for individual revenue sources, expenditures by major object, and other financing sources (uses) are derived from the trial balance, while detailed amounts for certain revenue sources and expenditures by major object have been obtained from the general ledger.

The net change in fund balance of \$(53,296) agrees with the change in fund balance in the M2 special revenue fund in the trial balance for the year ended June 30, 2010.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

(Continued)

Year Ended June 30, 2010

Non-project related revenues, expenditures, and other financing sources (uses) are included in the net tax revenues and net bond revenues (debt service) calculations in Schedule 2.

Period from Inception to June 30, 2010 (Column B)

This column presents the revenues, expenditures, and other financing sources (uses) of the M2 special revenue fund for the period from inception through June 30, 2010. Amounts for individual revenue sources, expenditures by major object, and other financing sources (uses) are summarized from the trial balance, while detailed amounts for certain revenue sources and expenditures by major object have been obtained and summarized from the general ledger.

The net fund balance of \$(97,624) agrees with the ending fund balance in the M2 special revenue fund, as presented in the trial balance for the year ended June 30, 2010.

Period from inception amounts include an adjustment affecting the prior year portion of capital grants. In the prior fiscal year, capital grants of \$699 should have been deferred.

Non-project related revenues, expenditures, and other financing sources (uses) are included in the net tax revenues and net bond revenues (debt service) calculations in Schedule 2. Project related revenues are presented as "Reimbursements" in Schedule 3. Project related expenditures and other financing uses are included as "Expenditures" in Schedule 3.

Schedule 2—Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)

This schedule presents calculations of net tax revenues and of net bond revenues (debt service), which are allocated in Schedule 3 to transportation projects specified in the M2 modes.

Net tax revenues are calculated as tax revenues including sales taxes and operating interest less administrative expenditures that are not project or financing related.

Net bond revenues (debt service) are bond revenues comprised of proceeds from issuance of bonds and interest revenue from issuance of commercial paper, less financing expenditures and uses.

Actual revenues, expenditures, and other financing sources (uses) in this schedule were obtained from amounts on Schedule 1. Forecast amounts were obtained from the Orange County Transportation Authority Forecast Model. The schedule is presented for the latest fiscal year, for the period from inception through the latest fiscal year, for subsequent years through the expiration of M2, and for the combined total of actual and forecast amounts for the period from inception through the expiration of M2.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

(Continued)

Year Ended June 30, 2010

Calculation of Net Tax Revenues

Year Ended June 30, 2010 (actual) (Column C.1)

Tax revenues consisting of sales taxes and operating interest and expenditures which are non-project and non-financing related for the year ended June 30, 2010 were obtained from Column A in Schedule 1. There were no sales taxes or operating interest for the year ended June 30, 2010. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Net tax revenues represent total tax revenues less total administrative expenditures for the year ended June 30, 2010.

Period from Inception through June 30, 2010 (actual) (Column D.1)

Tax revenues consisting of sales taxes and operating interest and administrative expenditures which are non-project and non-financing related for the period from inception through June 30, 2010 were obtained from Column B in Schedule 1. There were no sales taxes or operating interest for the period from inception through June 30, 2010. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Net tax revenues represent total cumulative tax revenues less total cumulative administrative expenditures.

Period from July 1, 2010 through March 31, 2041 (forecast) (Column E.1)

Tax revenues consisting of projected sales taxes, operating interest, and expenditures which are non-project and non-financing related for subsequent years from July 1, 2010 through March 31, 2041 were obtained from the Orange County Transportation Authority Forecast Model which is updated annually. Net tax revenues represent total projected tax revenues less total projected expenditures.

Total (Column F.1)

Total amounts related to the net tax revenues calculation are determined as the sum of columns D.1 and E.1. The total net tax revenues are used in Schedule 3 as "Total Net Tax Revenues."

Calculation of Net Bond Revenues (Debt Service)

Year Ended June 30, 2010 (actual) (Column C.2)

Bond revenues consisting of interest revenue from commercial paper (financing interest revenue) and financing expenditures and uses consisting of interest expenditures and professional services non-project related expenditures for the year ended June 30, 2010 were obtained from Column A in Schedule 1. Non-project related professional services expenditures are distributed between administrative expenditures and financing expenditures and uses based

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

(Continued)

Year Ended June 30, 2010

on the job ledger code. Net bond revenues (debt service) represent total bond revenues less financing expenditures and uses for the year ended June 30, 2010.

Period from Inception through June 30, 2010 (actual) (Column D.2)

Bond revenues consisting of financing interest revenue and financing expenditures and uses which are non-project and non-operating related for the period from inception through June 30, 2010 were obtained from Column B in Schedule 1. Non-project related professional services and other expenditures are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code. Net bond revenues (debt service) represent total cumulative bond revenues less total cumulative financing expenditures and uses.

Period from July 1, 2010 through March 31, 2041 (forecast) (Column E.2)

Bond revenues consisting of proceeds from issuance of bonds and financing expenditures and uses primarily related to bond debt principal and interest expenditures on commercial paper for subsequent years from July 1, 2010 through March 31, 2041 were obtained from the Orange County Transportation Authority Forecast Model. Net bond revenues (debt service) represent total projected bond revenues less total projected financing expenditures and other uses.

Total (Column F.2)

Total amounts related to the net bond revenues (debt service) calculation are determined as the sum of columns D.2 and E.2. The percentage of project-related net bond revenues (debt service) is used in Schedule 3 as a component of "Project Budget" and "Estimate at Completion." Net bond revenues (debt service) have been allocated to each mode in Schedule 3 based on commercial paper proceeds used to fund the projects. Commercial paper has also been used for non-project expenditures.

Schedule 3—Schedule of Revenues and Expenditures Summary

This schedule presents a summary of actual and projected revenues and expenditures by mode and project description as specified in the Orange County Transportation Investment Plan (Investment Plan).

Project Description (Column G)

The project descriptions by mode are in accordance with the Investment Plan.

Net Tax Revenues Program to date Actual (Column H)

The total M2 Program net tax revenues for the period from inception through June 30, 2010 agree with net tax revenues in Column D.1 in Schedule 2. Such net tax revenues have been allocated to each of the three modes based on the allocation percentages specified in M2. The

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
Notes to Measure M2 Status Report (Unaudited)
(Continued)

Year Ended June 30, 2010

net tax revenues for each mode have been allocated to each project based on the proportionate share of each project's estimated cost to the total estimated cost per mode as presented in the Investment Plan.

Total Net Tax Revenues (Column I)

The total actual and projected net tax revenues (total net tax revenues) during the 30-year life of M2 agree with total net tax revenues in Column F.1 in Schedule 2. Such total net tax revenues have been allocated to each of the three modes based on the allocations specified in M2. The net tax revenues for each mode have been allocated to each project based on the proportionate share of each project's estimated cost to the total estimated cost per mode as presented in the Investment Plan.

Project Budget (Column J)

Total project budget is based on the total net tax revenues presented in Column I.

Estimate at Completion (Column K)

Estimate at completion is currently based on the total net tax revenues presented in Column J.

Variance Total Net Tax Revenues to Estimate at Completion (Column L)

This is a calculation of Column I minus Column K.

Variance Project Budget to Estimate at Completion (Column M)

This is a calculation of Column J minus Column K.

Expenditures through June 30, 2010 (Column N)

Total expenditures less net (bond revenue)/debt service agree with the sum of project related expenditures and net operating transfers out from Column B in Schedule 1. Project related expenditures are comprised of professional services, payments to local agencies, capital outlay, and other. Such expenditures are distributed to the projects based on project amounts accumulated in the project job ledger. The total net (bond revenue)/debt service expenditures through June 30, 2010 from Column N in Schedule 3 agree with the total net bond revenue/(debt service) from Column D.2 in Schedule 2, excluding the portion of debt used for non-project related purposes.

Reimbursements through June 30, 2010 (Column O)

Total reimbursements agree with the sum of project related revenues from Column B in Schedule 1. Project related revenues consist of other agencies share of Measure M2 project

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
Notes to Measure M2 Status Report (Unaudited)
(Continued)

Year Ended June 30, 2010

costs and transfers in. Such revenues are distributed to the related projects based on project amounts accumulated in the project job ledger.

Net Project Cost (Column P)

This is a calculation of Column N minus Column O. For each mode, a percentage amount has been calculated as the net project cost per mode divided by the total M2 Program net project cost. Such percentage can be compared to the required percentage included in M2 as an indication of the progress to date for each mode.

Percent of Budget Expended (Column Q)

This is a calculation of Column P divided by Column J.

Revenues Program to date Actual (Column H.1)

The total Environmental Cleanup revenues for the period from inception through June 30, 2010 represent two percent (2%) of the tax revenues found in Column D.1 in Schedule 2. Tax revenues consist of all gross revenues generated from the transactions and use tax of one-half of one percent plus interest or other earnings. There have been no tax revenues for the period from inception through June 30, 2010.

Total Revenues (Column I.1)

The total Environmental Cleanup actual and projected revenues during the 30-year life of M2 represent 2% of total tax revenues found in Column F.1 in Schedule 2.



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Board of Directors
Orange County Local Transportation Authority
Orange, California

**INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES
APPLIED TO THE ORANGE COUNTY LOCAL TRANSPORTATION
AUTHORITY'S APPROPRIATIONS LIMIT WORKSHEETS**

We have applied the procedures enumerated below to the appropriations limit worksheets prepared by the Orange County Local Transportation Authority (OCLTA) for the year ended June 30, 2010. These procedures, which were agreed to by OCLTA and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*), were performed solely to assist OCLTA in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. OCLTA's management is responsible for maintaining the appropriations limit records and for its calculation.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. 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 performed and the results of those procedures were as follows:

1. We obtained the worksheets referred to above and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of OCLTA's Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of OCLTA's Board of Directors.

Results: No exceptions were noted as a result of our procedures.

2. We recalculated the mathematical computations reflected in OCLTA's worksheets.

Results: No exceptions were noted as a result of our procedures.



Board of Directors
Orange County Local Transportation Authority
Orange, California

3. We compared information used to determine the current year limit to worksheets prepared by OCLTA and to information provided by the State Department of Finance.

Results: No exceptions were noted as a result of our procedures.

4. We compared the amount of the prior year appropriations limit presented in the worksheets to the amount adopted by OCLTA's Board of Directors for the prior year.

Results: No exceptions were noted as a result of our procedures after giving effect for OCLTA's restatement of the prior year limit to conform to the population increase factor provided by the State Department of Finance for the prior year.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the worksheets referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*.

This report is intended solely for the use of the Board of Directors and the management of OCLTA and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their own purpose. However, this report is a matter of public record and its distribution is not limited.

Mayer Hoffman McCann P.C.

Irvine, California
October 27, 2010



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Finance and Administration Committee
Orange County Transportation Authority
Orange, California

In planning and performing our audit of the financial statements of the Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered OCTA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. The following matter conforms to this definition:

(1) Need to Improve Controls Over Grant Accruals

During the fiscal year ended June 30, 2010, the Finance and Administration Division determined that one prior year grant accrual was not collected during the availability period established by OCTA for revenue recognition purposes. Although the expected collection date was communicated, we noted that the accounts receivable section was unaware of OCTA's revenue recognition policy which requires that revenues collected subsequent to OCTA's availability period be deferred. Accordingly, the financial statements for the year ended June 30, 2010 reflected an adjustment to reassign this grant revenue to the appropriate period in accordance with generally accepted accounting principles. The Finance and Administration Division has implemented procedures to reduce the likelihood of this occurring in the future.

(1) Need to Improve Controls Over Grant Accruals (Continued)

Recommendation

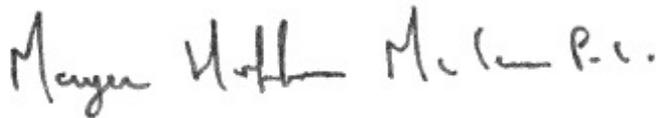
We recommend that management provide additional training to ensure staff are aware of OCTA's availability period and procedures for deferring revenues.

Management's Response Regarding Corrective Action Taken or Planned

The availability period for revenue recognition will be changed from 180 to 90 days. This change will allow revenues to be verified as current or deferred prior to completion of the audit. Additionally, the availability period has been reviewed with the accounts receivable section so that they understand the proper classification of revenues at year end.

OCTA's written response to the matter communicated herein has not been subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, those charged with governance, others within the organization, and agencies that provided federal financial assistance to OCTA and is not intended to be and should not be used by anyone other than these specified parties.



Irvine, California
October 27, 2010



January 27, 2010

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Orange County Local Transportation Authority Measure M Agreed-Upon Procedures Reports, Year Ended June 30, 2009

Overview

Mayer Hoffman McCann P.C., an independent accounting firm, has completed its annual agreed-upon procedures for eight Orange County cities for the fiscal year ended June 30, 2009. These procedures were developed by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority to assist them in evaluating the selected cities' level of compliance with provisions of Measure M Local Transportation Ordinance No. 2.

Recommendations

- A. Receive and file the Orange County Local Transportation Authority Measure M Agreed-Upon Procedures Reports, Year Ended June 30, 2008.
- B. Direct staff to monitor implementation of recommendations related to timely expenditure of turnback funds, indirect cost allocations and inclusion of Measure M projects in city Capital Improvement Programs.

Background

Annually, the Audit Subcommittee of the Taxpayers Oversight Committee (Committee) selects a sample of cities receiving Measure M turnback funding for an evaluation of the cities' level of compliance with provisions of the Measure M Local Transportation Ordinance No. 2 (Ordinance). The selection for the fiscal year ended June 30, 2009, was based, in part, on risks identified through questionnaires, management letters, and single audit reports collected from all 34 Orange County cities. A total of eight cities were selected by the Committee for agreed-upon procedures. These procedures are developed by the Committee.

Discussion

Mayer Hoffman McCann P.C. (MHM or auditors) conducted the agreed-upon procedures, including site visits to each of the selected cities and interviews of city Finance Department and Public Works Department staff. Procedures also included review of the cities' maintenance of effort (MOE) calculation and sample testing of the underlying expenditures to ensure that they met the definition of local street and road expenditures. The auditors also tested a sample of Measure M turnback expenditures to ensure they were related to projects listed in the cities' current year Seven Year Capital Improvement Program (CIP). Other procedures, related to indirect costs, interest earnings, and timing of expenditures were performed.

The auditors recommended the City of Orange reimburse its turnback fund for expenditures totaling \$130,430 that related to landscape maintenance costs and furniture, machinery, and equipment costs that were not included in the city's CIP. The city responded that it believed the costs were eligible maintenance expenditures and would be submitting an amended CIP for fiscal year 2008-09 to OCTA for consideration of approval.

The City of Garden Grove was found to have not spent its turnback funds within three years as required by the Ordinance. The city's turnback fund had a balance of \$8.95 million and the total of the prior three years' payments to the city was \$5.6 million. The auditors recommended the city request an approval for an extension of time as allowed by the Ordinance. The city responded that the delay in spending the funds was related to a lengthy right-of-way acquisition process and that a request for extension would be submitted.

The City of Newport Beach charged \$8.4 million in indirect costs as part of its MOE expenditures. The auditors found that the city's allocation is based on estimates prepared during fiscal year 2002-03 and that the allocation computation included internal service fund expenditures twice. The auditors recommended that the city correct the computational error and perform timesheet review or time studies to ensure allocation percentages remain accurate. The city concurred and indicated that corrective action would be implemented for fiscal year 2009-10. While the level of indirect charges is significant, the city's MOE requirement is only \$7 million and the city charged a total of \$15 million in MOE expenditures. As such, the auditors did not question that the MOE requirement was met.

Agreed-upon procedures performed for three cities: Aliso Viejo, Garden Grove, and Seal Beach, identified some turnback expenditures that were not included in the cities' CIP for fiscal year 2008-09. The expenditures, totaling \$499,006

for the City of Aliso Viejo, \$465,719 for the City of Garden Grove, and \$33,225 for the City of Seal Beach, were in the cities' CIP for fiscal year 2007-08. Because the Ordinance does not specify whether expenditures must be included in the CIP in each year in which expenditures are incurred, MHM recommended that the cities submit revised CIP's for fiscal year 2008-09. This recommendation is consistent with prior years' recommendations.

Summary

Mayer Hoffman McCann P.C., an independent accounting firm, has completed its annual agreed-upon procedures reviews of ten selected cities for the fiscal year ended June 30, 2008. Recommendations have been made to ensure that Measure M expenditures are consistent with Measure M Ordinance requirements. Cities have proposed corrective action to address auditor recommendations.

Attachment

- A. Orange County Local Transportation Authority Measure M Agreed-Upon Procedures Reports, Year Ended June 30, 2009

Approved by:

Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669

**ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY**

**MEASURE M
AGREED-UPON PROCEDURES REPORTS**

Year Ended June 30, 2009

**ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY**

**MEASURE M
AGREED-UPON PROCEDURES REPORTS**

Year Ended June 30, 2009

The cities listed below were selected by the Authority to perform agreed-upon procedures for the fiscal year ended June 30, 2009. Please refer to the individual divider tabs for our report on each City.

City of Aliso Viejo

City of Anaheim

County of Orange

City of Dana Point

City of Garden Grove

City of Newport Beach

City of Orange

City of Seal Beach



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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES –
CITY OF ALISO VIEJO**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Aliso Viejo's (City's) level of compliance with the provisions of Measure M, Local Transportation Ordinance #2 (Ordinance) as of and for the fiscal year ended June 30, 2009. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 performed and the results of those procedures were as follows:

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by the OCLTA for the City and determined the minimum the City was required to spend in MOE expenditures.

Results: The City was required to spend \$400,000 in MOE expenditures during the fiscal year ended June 30, 2009.

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

Results: All MOE expenditures are tracked in the general ledger by fund, account number, department, program and project number. The City records its MOE expenditures in Fund 101, General Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2009 to determine whether the City met the minimum MOE requirement.



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

Results: The City's MOE expenditures for the fiscal year ended June 30, 2009 were \$400,000 (see Schedule A), which was equal to the requirement.

4. We judgmentally selected a sample of 8 MOE expenditures from the City's general ledger expenditure detail. MOE expenditures tested totaled \$185,109, representing approximately 46% of total MOE expenditures for the fiscal year ended June 30, 2009. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the MOE expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was properly classified as a local street and road expenditure.

Results: No exceptions were noted as a result of our procedures.

5. We determined whether or not indirect costs were charged as MOE expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Director of Finance, MOE expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

6. We obtained a listing of Turnback payments made from the OCLTA to the City and calculated the amount the City received for the past three fiscal years.

Results: The City received \$1,403,225 of Turnback monies for the three fiscal years ended June 30, 2009, including \$440,796 for the fiscal year ended June 30, 2009.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2009.

Results: The City's Turnback expenditures are recorded in Fund 204, Measure M Special Revenue Fund (Turnback Fund). Total Turnback expenditures during the fiscal year ended June 30, 2009 were \$579,784 (see Schedule A).



Board of Directors of the
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and the Taxpayers Oversight Committee of the
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8. We obtained the City's Seven-Year Capital Improvement Program and judgmentally selected a sample of 7 Turnback expenditures from the City's general ledger expenditure detail. Turnback expenditures tested totaled \$334,209, representing approximately 58% of total Turnback expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the Turnback expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher; and
 - b. Verified that the expenditure was related to projects included in the City's Seven-Year Capital Improvement Program (CIP).

Results: The City's Turnback expenditures during the fiscal year ended June 30, 2009 included \$499,006 for two projects (Town Center Loop and Aliso Creek rehabilitation project) that were included in the City's approved Seven-Year Capital Improvement Program for the fiscal year ended June 30, 2008. The City did not include these projects on the Seven-Year CIP it submitted to OCLTA for the fiscal year ended June 30, 2009 due to oversight.

Recommendation: We recommend that the City submit an amended Seven-Year CIP to OCLTA for the fiscal year ended June 30, 2009.

City's Response: The City included the Aliso Creek Rehabilitation Project in its Seven-year Capital Improvement Program (CIP) that was submitted to OCLTA for the fiscal year ended June 30, 2008. This project was delayed and completed during fiscal year ended June 30, 2009. The Town Center Loop project was presented to the City Council for approval at its meeting on June 18, 2008 as a viable project for Measure M funding. The City inadvertently excluded both of these projects from the CIP it submitted to OCLTA for the fiscal year ended June 30, 2009.

9. We determined whether or not indirect costs were charged as Turnback expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Director of Finance, Turnback expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.



Board of Directors of the
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10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2009 to determine whether funds were expended within three years of receipt.

Results: The cash balance in the City's Turnback Fund as of June 30, 2009 was \$843,541. No exceptions were noted as a result of our procedures.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

Results: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The City's written response to the recommendation identified in the procedures performed is described above. We did not perform any additional agreed-upon procedures related to the City's response.

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.

Mayer Hoff McCombs P.C.

Irvine, California
August 27, 2009

CITY OF ALISO VIEJO, CALIFORNIA
 Schedule of MOE and Turnback Expenditures
 Year Ended June 30, 2009
 (Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Street maintenance	<u>\$ 400,000</u>
Total MOE expenditures	<u>400,000</u>
Turnback Expenditures:	
Town Center Loop (1)	232,032
Aliso Creek rehabilitation project (1)	266,974
Aliso Creek at Pacific Park median	48,123
Bike trail on Southern California Edison right-of-way	<u>32,655</u>
Total Turnback expenditures	<u>579,784</u>
Total MOE and Turnback expenditures	<u>\$ 979,784</u>

(1) We identified \$499,006 in expenditures for projects that were not included in the City's Seven-Year Capital Improvement Program for the fiscal year ended June 30, 2009. However, we verified through inspection that these projects were included in the City's Seven-Year Capital Improvement Program for the fiscal year ended June 30, 2008.

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



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Board of Directors of the
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Orange County Local Transportation Authority

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES –
CITY OF ANAHEIM**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Anaheim's (City's) level of compliance with the provisions of Measure M, Local Transportation Ordinance #2 (Ordinance) as of and for the fiscal year ended June 30, 2009. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 performed and the results of those procedures were as follows:

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by the OCLTA for the City and determined the minimum the City was required to spend in MOE expenditures.

Results: The City was required to spend \$7,496,000 in MOE expenditures during the fiscal year ended June 30, 2009.

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

Results: All MOE expenditures are tracked in the general ledger by fund, department, unit and object number. The City records its MOE expenditures in Fund 101, General Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2009 to determine whether the City met the minimum MOE requirement.



Board of Directors of the
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Results: The City's MOE expenditures for the fiscal year ended June 30, 2009 were \$8,604,279 (see Schedule A), which exceeded the MOE requirement by \$1,108,279.

4. We judgmentally selected a sample of 45 MOE expenditures from the City's general ledger expenditure detail. MOE expenditures tested totaled \$2,073,701, representing approximately 24% of total MOE expenditures for the fiscal year ended June 30, 2009. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the MOE expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was properly classified as a local street and road expenditure.

Results: No exceptions were noted as a result of our procedures.

5. We determined whether or not indirect costs were charged as MOE expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Public Works Senior Accountant, MOE expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

6. We obtained a listing of Turnback payments made from the OCLTA to the City and calculated the amount the City received for the past three fiscal years.

Results: The City received \$12,823,885 of Turnback monies for the three fiscal years ended June 30, 2009, including \$3,905,271 for the fiscal year ended June 30, 2009.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2009.

Results: The City's Turnback expenditures are recorded in Fund 270, Measure M Transportation Improvements Special Revenue Fund (Turnback Fund). Total



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

Turnback expenditures for the fiscal year ended June 30, 2009 were \$8,415,405 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program and judgmentally selected a sample of 9 Turnback expenditures from the City's general ledger expenditure detail. Turnback expenditures tested totaled \$2,806,012, representing approximately 33% of total Turnback expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the Turnback expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was related to projects included in the City's Seven-Year Capital Improvement Program (CIP).

Results: No exceptions were noted as a result of our procedures performed.

9. We determined whether or not indirect costs were charged as Turnback expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Public Works Senior Accountant, Turnback expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2009 to determine whether funds were expended within three years of receipt.

Results: The cash balance in the City's Turnback Fund as of June 30, 2009 was \$6,594,568. No exceptions were noted as a result of our procedures.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

Results: No exceptions were noted as a result of our procedures.



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

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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.

Mayer Hoffman McCann P.C.

Irvine, California
December 17, 2009

CITY OF ANAHEIM, CALIFORNIA
 Schedule of MOE and Turnback Expenditures
 Year Ended June 30, 2009
 (Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Engineering and administration	\$ 64,873
Financial and administrative services	133,791
Commuter services	61,749
Traffic systems	551,669
Engineering design	61,256
Traffic operations	399,987
Engineering inspection	101,665
Engineering survey	65,536
Transit planning	22,247
Traffic systems services	2,340,070
Street maintenance	5,866,284
Street signs and safety devices	467,020
Right of way landscape maintenance	1,353,131
Sidewalk and curb maintenance	472,158
Less: Gas Tax funding (1)	<u>(3,357,157)</u>
 Total MOE expenditures	 <u>8,604,279</u>
Turnback Expenditures:	
Gene Autry West Highway improvements (1)	13,373,165
Wagner Avenue (State College Blvd. to Nordica St.)	588,827
La Palma Avenue (East St. to Anaheim Blvd.)	538,132
Magnolia Avenue (La Palma to Crescent)	596,577
Frontera Street (Rio Vista to 250' e/o Park Vista)	306,721
Euclid Street (470' s/o Romneya to La Palma)	283,069
Weir Canyon Roda (S/S River Bridge to 1600" n/o Sacr)	181,373
Capital Project Administration	158,710
Richfield Rd. (NCL to La Palma Ave.)	112,940
Orangethorpe Street improvements (various)	114,532
Blue Gum/Miraloma/Coronado	85,530
Nohl Ranch Road (Meats to 500' w/o Royal Oaks)	81,478
Miraloma Avenue improvements (various)	65,853
Serrano Avenue (Hidden Canyon to Canyon Rim)	51,083
East Street (Santa Ana to Cypress)	37,899
Dale Avenue (Ball Rd. to Broadway)	35,502
Sunkist Street (Wagner to Cerritos Ave.)	33,303
Other street improvements	1,038,315
Less: Federal Highway Planning and Construction funding (2)	<u>(9,267,604)</u>
 Total Turnback expenditures	 <u>8,415,405</u>
 Total MOE and Turnback expenditures	 <u>\$ 17,019,684</u>

(1) The City records all its MOE expenditures in its General Fund. However, the City's MOE expenditures are funded with General Fund and Gas Tax funds. As a result, the City recorded a transfer to the General Fund from the Gas Tax Fund to fund the Gas Tax Fund's portion of the City's total MOE expenditures.

(2) This project was funded with Turnback and federal grant funds. All of the project expenditures were recorded in the City's Turnback Fund. As a result, the City recorded a transfer to its Turnback Fund to reimburse the Turnback fund for the federal grant's portion of the project expenditures.

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



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

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES –
COUNTY OF ORANGE**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the County of Orange's (County's) level of compliance with the provisions of Measure M, Local Transportation Ordinance #2 (Ordinance) as of and for the fiscal year ended June 30, 2009. The County's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 performed and the results of those procedures were as follows:

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by the OCLTA for the County and determined the minimum the County was required to spend in MOE expenditures.

Results: The County did not have an MOE requirement for the fiscal year ended June 30, 2009. MOE requirements were determined based on the level of street maintenance expenditures funded through the jurisdiction's General Fund prior to the enactment of the Ordinance. At that time, the County had sufficient Gas Tax revenues to fund all street maintenance in the County's unincorporated areas. As a result, no General Fund money was used for street and road maintenance and the County's MOE was calculated at zero. Therefore, this procedure is not applicable.

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

Results: The County did not have an MOE requirement for the fiscal year ended June 30, 2009. As a result, this procedure was not applicable.



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

3. We obtained the detail of MOE expenditures during the fiscal year ended June 30, 2009 to determine whether the County met the minimum MOE requirement.

Results: The County did not have an MOE requirement for the fiscal year ended June 30, 2009. As a result, this procedure was not applicable.

4. We judgmentally selected a sample of MOE expenditures from the County's general ledger expenditure detail. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the MOE expenditure to supporting documentation, including the County check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was properly classified as local street and road expenditures.

Results: The County did not have an MOE requirement for the fiscal year ended June 30, 2009. As a result, this procedure was not applicable.

5. We identified MOE expenditures that were included through indirect cost allocation and reviewed the County's indirect cost allocation plan for reasonableness.

Results: The County did not have an MOE requirement for the fiscal year ended June 30, 2009. As a result, this procedure was not applicable.

6. We obtained a listing of Turnback payments made from the OCLTA to the County and calculated the amount the County received for the past three fiscal years.

Results: The County received \$6,615,101 of Turnback monies for the three fiscal years ended June 30, 2009, including \$2,032,855 for the fiscal year ended June 30, 2009.

7. We documented which fund the County used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2009.

Results: The County's Turnback expenditures are tracked in the general ledger by job number. The County does not have a separate Turnback fund in its



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general ledger to track Turnback revenues and expenditures. Total Turnback expenditures during the fiscal year ended June 30, 2009 were \$5,948,236.

8. We obtained the County's Seven-Year Capital Improvement Program and judgmentally selected a sample of 60 Turnback expenditures from the County's general ledger expenditure detail. Turnback expenditures tested totaled \$1,286,472, representing approximately 21% of total Turnback expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the Turnback expenditure to supporting documentation, including the County check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was related to projects included in the County's Seven-Year Capital Improvement Program (CIP).

Results: No exceptions were noted as a result of our procedures.

9. We determined whether or not indirect costs were charged as Turnback expenditures. If applicable, we reviewed the County's indirect cost allocation plan for reasonableness.

Results: The County charged \$1,479,467 of direct and indirect costs to Turnback expenditures during the fiscal year ended June 30, 2009. These costs consisted of two cost pools, labor burden and labor overhead rate. The amount allocated to a specific project is based on direct labor charged to a specific job number. Based upon our review, no exceptions were noted as a result of our procedures.

10. We reviewed the County's Measure M Turnback Revenue Analysis for the three fiscal years ended June 30, 2009 to determine whether funds were expended within three years of receipt.

Results: The County's Turnback expenditures for the three fiscal years ended June 30, 2009 were \$19.3 million which exceeded the total Turnback payments the County has received from OCLTA (see procedure # 6).

11. We reviewed the County's interest allocation methodology to ensure the proper amount of interest was credited to unspent Turnback monies.



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Results: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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.

Mayer Hoffman McCann P.C.

Irvine, California
September 2, 2009

COUNTY OF ORANGE, CALIFORNIA
Schedule of Turnback Expenditures
Year Ended June 30, 2009
(Unaudited)

Annual road maintenance	<u>\$ 5,948,236</u>
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Note: The above amount was taken directly from the financial records of the County of Orange and was not audited.



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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES –
CITY OF DANA POINT**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Dana Point's (City's) level of compliance with the provisions of Measure M, Local Transportation Ordinance #2 (Ordinance) as of and for the fiscal year ended June 30, 2009. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 performed and the results of those procedures were as follows:

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by the OCLTA for the City and determined the minimum the City was required to spend in MOE expenditures.

Results: The City was required to spend \$942,000 in MOE expenditures during the fiscal year ended June 30, 2009.

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

Results: All MOE expenditures are tracked in the general ledger by fund and project number. The City records its MOE expenditures in Fund 01, General Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2009 to determine whether the City met the minimum MOE requirement.



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Results: The City's MOE expenditures for the fiscal year ended June 30, 2009 were \$1,663,232 (see Schedule A), which exceeded the MOE requirement by \$721,232.

4. We judgmentally selected a sample of 14 MOE expenditures from the City's general ledger expenditure detail. MOE expenditures tested totaled \$745,364, representing approximately 45% of total MOE expenditures during the fiscal year ended June 30, 2009. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the MOE expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was properly classified as a local street and road expenditure.

Results: No exceptions were noted as a result of our procedures.

5. We determined whether or not indirect costs were charged as MOE expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Accounting Manager, MOE expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

6. We obtained a listing of Turnback payments made from the OCLTA to the City and calculated the amount the City received for the past three fiscal years.

Results: The City received \$1,265,842 of Turnback monies for the three fiscal years ended June 30, 2009, including \$389,780 for the fiscal year ended June 30, 2009.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent for the fiscal year ended June 30, 2009.



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Results: The City's Turnback expenditures are recorded in Fund 04, Measure M Special Revenue Fund (Turnback Fund). There were no Turnback expenditures during the fiscal year ended June 30, 2009 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program and selected a sample of Turnback 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 for the Turnback expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher; and
 - b. Verified that the expenditure was related to projects included in the City's Seven-Year Capital Improvement Program (CIP).

Results: The City did not incur any Turnback expenditures during the fiscal year ended June 30, 2009. As a result, this procedure was not applicable.

9. We determined whether or not indirect costs were charged as Turnback expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: The City did not incur any Turnback expenditures during the fiscal year ended June 30, 2009. As a result, this procedure was not applicable.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2009 to determine whether funds were expended within three years of receipt.

Results: The cash balance in the City's Turnback Fund as of June 30, 2009 was \$879,732. No exceptions were noted as a result of our procedures.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

Results: No exceptions were noted as a result of our procedures.



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Orange County Local Transportation Authority

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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.

Mayer Hoffman McCann P.C.

Irvine, California
October 16, 2009

CITY OF DANA POINT, CALIFORNIA
Schedule of MOE and Turnback Expenditures
Year Ended June 30, 2009
(Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Street maintenance	\$ 1,120,560
Storm drain maintenance	<u>542,672</u>
Total MOE expenditures	1,663,232
Total Turnback expenditures	<u>-</u>
Total MOE and Turnback expenditures	<u>\$ 1,663,232</u>

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



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Board of Directors of the
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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES –
CITY OF GARDEN GROVE**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Garden Grove's (City's) level of compliance with the provisions of Measure M, Local Transportation Ordinance #2 (Ordinance) as of and for the fiscal year ended June 30, 2009. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 performed and the results of those procedures were as follows:

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by the OCLTA for the City and determined the minimum the City was required to spend in MOE expenditures.

Results: The City was required to spend \$2,732,000 in MOE expenditures during the fiscal year ended June 30, 2009.

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

Results: All MOE expenditures are tracked in the general ledger by fund, department, project, and object code. The City records its MOE expenditures in Fund 111, General Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2009 to determine whether the City met the minimum MOE requirement.



Board of Directors of the
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Results: The City's MOE expenditures for the fiscal year ended June 30, 2009 were \$5,143,812 (see Schedule A), which exceeded the MOE requirement by \$2,411,812.

4. We judgmentally selected a sample of 55 MOE expenditures from the City's general ledger expenditure detail. MOE expenditures tested totaled \$1,156,236, representing approximately 22% of total MOE expenditures for the fiscal year ended June 30, 2009. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the MOE expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was properly classified as a local street and road expenditure.

Results: No exceptions were noted as a result of our procedures.

5. We determined whether or not indirect costs were charged as MOE expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Accounting Manager, MOE expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

6. We obtained a listing of Turnback payments made from the OCLTA to the City and calculated the amount the City received for the past three fiscal years.

Results: The City received \$5,609,307 of Turnback monies for the three fiscal years ended June 30, 2009, including \$1,707,234 for the fiscal year ended June 30, 2009.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2009.



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

Results: The City's Turnback expenditures are recorded in Fund 421, Measure M Special Revenue Fund (Turnback Fund). Total Turnback expenditures during the fiscal year ended June 30, 2009 were \$855,725 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program and judgmentally selected a sample of 14 Turnback expenditures from the City's general ledger expenditure detail. Turnback expenditures tested totaled \$335,740, representing approximately 39% of total Turnback expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the Turnback expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher; and
 - b. Verified that the expenditure was related to projects included in the City's Seven-Year Capital Improvement Program (CIP).

Results: The City's Turnback expenditures for the fiscal year ended June 30, 2009 included \$465,719 for the Arterial Street Rehabilitation project that was included in the City's approved Seven-Year Capital Improvement Program for the fiscal year ended June 30, 2008. The City did not include this project in the Seven-Year CIP submitted to OCLTA for the fiscal year ended June 30, 2009 due to oversight.

Recommendation: We recommend that the City submit an amended Seven-Year CIP to OCLTA for the fiscal year ended June 30, 2009.

Management Response: City will submit an amended Seven- Year CIP for the fiscal year ended June 30, 2009 per the OCTA requirements.

9. We determined whether or not indirect costs were charged as Turnback expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Accounting Manager, Turnback expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2009 to determine whether funds were expended within three years of receipt.



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

Results: The cash balance in the City's Turnback Fund as of June 30, 2009 was \$8,953,787, which exceeds the total Turnback monies for the three fiscal years ended June 30, 2009 (see procedure 6). As a result, it appears the City has not spent its Turnback monies within three years of receipt as required by the Ordinance.

Recommendations: We recommend the following:

- a) The City should request an extension of the three-year limit from OCLTA. Section II(C)(b)(iii) of OCLTA's Policy No. 3, to the Ordinance Expenditures and Allocations, permits extensions up to five years from the date of the initial funding allocation.
- b) The City should develop and implement a plan to spend the excess Turnback monies on projects included in the City's Approved Seven-Year CIP.
- c) If the City does not spend the excess Turnback monies within the five-year limit from the date of the initial funding allocation (or three years if OCLTA does not grant the City an extension), then the City should not be eligible for additional Turnback monies until the excess monies have been spent per Section II(C)(b)(iii) of OCLTA's Policy No. 3, Expenditures and Allocations.

Management Response: The City was not able to spend all the Turnback money because the City is involved in a lengthy right-of-way acquisition process. Once the issue is resolved, the City will be able to complete the purchase transaction and spend the excess funds. The City will submit a request for extension to OCLTA as required by OCLTA's policy.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

Results: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.



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

The City's written responses to the recommendations identified in the procedures performed are described above. We did not perform additional agreed-upon procedures related to the City's responses.

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.

Mayer Hoffman McCann P.C.

Irvine, California
December 17, 2009

CITY OF GARDEN GROVE, CALIFORNIA
 Schedule of MOE and Turnback Expenditures
 Year Ended June 30, 2009
 (Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Public works	\$ 4,710,201
Engineering	<u>433,611</u>
 Total MOE expenditures	 <u>5,143,812</u>
 Turnback Expenditures:	
Arterial street rehabilitation (various locations) (1)	465,719
Trask Avenue rubber asphalt	297,154
Intersection improvements	51,351
Harbor Blvd./SR 22	27,990
Northbound Euclid/SR 22 @ ramp	8,432
Harbor Blvd./Lampson street improvement	3,637
Katella smart street	1,131
Harbor Blvd. smart street	<u>311</u>
 Total Turnback expenditures	 <u>855,725</u>
 Total MOE and Turnback expenditures	 <u>\$ 5,999,537</u>

(1) We identified \$465,719 in expenditures for projects that were not included in the City's Seven-Year Capital Improvement Program for the fiscal year ended June 30, 2009. However, we verified through inspection that these projects were included in the City's Seven-Year Capital Improvement Program for the fiscal year ended June 30, 2008.

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



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Board of Directors of the
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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES –
CITY OF NEWPORT BEACH**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Newport Beach's (City's) level of compliance with the provisions of Measure M, Local Transportation Ordinance #2 (Ordinance) as of and for the fiscal year ended June 30, 2009. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 performed and the results of those procedures were as follows:

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by the OCLTA for the City and determined the minimum the City was required to spend in MOE expenditures.

Results: The City was required to spend \$8,229,000 in MOE expenditures during the fiscal year ended June 30, 2009.

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

Results: All MOE expenditures are tracked in the general ledger by fund, department and by account expenditure code. The City records its MOE expenditures in Fund 010, General Fund, and Fund 610, Equipment Maintenance Internal Service Fund.



Board of Directors of the
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Orange County Local Transportation Authority

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2009 to determine whether the City met the minimum MOE requirement.

Results: The City's MOE expenditures for the fiscal year ended June 30, 2009 were \$15,315,446 (see Schedule A), which exceeded the requirement by \$7,086,446.

4. We judgmentally selected a sample of 37 MOE expenditures from the City's general ledger expenditure detail. MOE expenditures tested totaled \$1,968,865, representing approximately 13% of total MOE expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the MOE expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was properly classified as local street and road expenditures.

Results: No exceptions were noted as a result of our procedures.

5. We determined whether or not indirect costs were charged as MOE expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: The City charged \$8,399,678 of indirect costs as MOE expenditures for the fiscal year ended June 30, 2009. The costs include payroll and non-payroll expenditures incurred by several City departments that are tracked in the City's General Fund, as well as the expenditures recorded in the City's Equipment Maintenance Internal Service Fund (refer to the list of departments reported on Schedule A.) The City allocates between 30 and 60 percent of each department's total expenditures as MOE expenditures. Per discussion with the City's Deputy General Services Director and the City's Public Works Administrative Manager, the City established the percentages based upon estimates prepared by City staff during fiscal year 2002-2003. The City has not evaluated the accuracy of these estimates since fiscal year 2002-2003.

In addition, costs of \$455,103 reported in the City's Equipment Maintenance Internal Service Fund are allocated to all departments as part of the City's monthly Internal Service Fund allocation journal entries. Therefore, the City is including the Internal Service Fund expenditures in its computation of MOE expenditures



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twice since these costs were already included in the General Fund departments' total expenditures.

Recommendations: We recommend the following:

- a) The City should exclude its Equipment Maintenance Internal Service Fund from its determination of total MOE expenditures since these expenditures are already being allocated to each City department.
- b) The City should review the percentages used to compute its MOE expenditures to verify that the percentages are still accurate by reviewing current documentation, such as timesheets or by performing time studies. The City should document its rationale for how each percentage was determined.

Management Response: The City concurs with the accountants' recommendations and will incorporate the recommendations during fiscal year 2010.

6. We obtained a listing of Turnback payments made from the OCLTA to the City and calculated the amount the City received for the past three fiscal years.

Results: The City received \$3,978,871 of Turnback monies for the three years ended June 30, 2009, including \$1,235,819 for the fiscal year ended June 30, 2009.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent for the fiscal year ended June 30, 2009.

Results: The City's Turnback expenditures are recorded in Fund 280, Measure M Special Revenue Fund (Turnback Fund). Total Turnback expenditures for the fiscal year ended June 30, 2009 were \$1,075,027 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program and judgmentally selected 12 Turnback expenditures from the City's general ledger expenditure detail. Total Turnback expenditures tested were \$526,111 representing approximately 49% of total Turnback expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:



Board of Directors of the
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Orange County Local Transportation Authority

- a. Agreed the dollar amount listed on the general ledger for the Turnback expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
- b. Verified that the expenditure was related to projects included in the City's Seven-Year Capital Improvement Program.

Results: Based upon our review of the City's Seven-Year Capital Improvements and its Turnback expenditures, no exceptions were noted.

9. We determined whether or not indirect costs were charged as Turnback expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Finance staff, Turnback expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2009 to determine whether funds were expended within three years of receipt.

Results: The City's cash balance in its Turnback Fund as of June 30, 2009 was \$3,729,856. No exceptions were noted as a result of our procedures.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

Results: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The City's written response to the recommendations identified in the procedures performed is described above. We did not perform additional agreed-upon procedures related to the City's response.



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

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

Mayer Hoffman McCann P.C.

Irvine, California
December 14, 2009

CITY OF NEWPORT BEACH, CALIFORNIA

Schedule of MOE and Turnback Expenditures

Year Ended June 30, 2009

(Unaudited)

Maintenance of Effort (MOE) expenditures:

Public works - administration (1)	\$ 678,227
Public works - engineering (1)	1,729,258
Public works - transportation and development services (1)	816,013
Public works - electrical (1)	872,815
General services - administration (1)	260,092
General services - field maintenance	3,791,944
General services - operations support (1)	2,544,491
General services - equipment maintenance (1)	455,103
General services - parks, parkways, etc. (1)	1,043,679
General services - street trees	1,311,927
General Fund street maintenance capital projects	<u>1,811,897</u>

Total MOE expenditures	<u>15,315,446</u>
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Turnback expenditures:

Traffic signal improvements	817,857
Street rehabilitation projects	175,937
Pavement management plan update	68,008
Slurry seal	<u>13,225</u>

Total Turnback expenditures	<u>1,075,027</u>
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Total MOE and Turnback expenditures	<u>\$ 16,390,473</u>
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(1) These costs represent indirect costs charged as MOE expenditures for the fiscal year ended June 30, 2009. The City allocates a percentage of these departments' total expenditures to its MOE expenditures.

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



Mayer Hoffman McCann P.C.

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Board of Directors of the
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Orange County Local Transportation Authority

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

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Orange's (City's) level of compliance with the provisions of Measure M, Local Transportation Ordinance #2 (Ordinance) as of and for the fiscal year ended June 30, 2009. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 performed and the results of those procedures were as follows:

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by the OCLTA for the City and determined the minimum the City was required to spend in MOE expenditures.

Results: The City was required to spend \$2,205,000 in MOE expenditures during the fiscal year ended June 30, 2009.

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

Results: All MOE expenditures are tracked in the general ledger by fund, activity, and sub object number. The City records its MOE expenditures in Fund 100, General Fund, and Fund 273, OCTA Gas Tax Exchange Special Revenue Fund.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2009 to determine whether the City met the minimum MOE requirement.



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

Results: The City's MOE expenditures for the fiscal year ended June 30, 2009 were \$3,227,240 (see Schedule A), which exceeded the MOE requirement by \$1,022,240.

4. We judgmentally selected a sample of 33 MOE expenditures from the City's general ledger expenditure detail. MOE expenditures tested totaled \$1,039,526, representing approximately 32% of total MOE expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the MOE expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was properly classified as local street and road expenditures.

Results: No exceptions were noted as a result of our procedures.

5. We determined whether or not indirect costs were charged as MOE expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: The City charged \$336,226 of indirect costs as MOE expenditures during the fiscal year ended June 30, 2009. These costs included data processing, computer replacement, fuel, insurance, accounting, vehicle maintenance and a general and administrative allocation. No exceptions were noted as a result of our procedures.

6. We obtained a listing of Turnback payments made from the OCLTA to the City and calculated the amount the City received for the past three fiscal years.

Results: The City received \$5,889,346 of Turnback monies for the three years ended June 30, 2009, including \$1,631,005 for the fiscal year ended June 30, 2009.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent during the fiscal year ended June 30, 2009.

Results: The City's Turnback expenditures are recorded in Fund 262, Measure M Traffic Improvement Special Revenue Fund (Turnback Fund). Total Turnback



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and the Taxpayers Oversight Committee of the
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expenditures during the fiscal year ended June 30, 2009 were \$1,536,637 (see Schedule A).

8. We obtained the City's Seven-Year Capital Improvement Program and judgmentally selected a sample of 20 Turnback expenditures from the City's general ledger expenditure detail. Turnback expenditures tested totaled \$778,684 representing approximately 51% of total Turnback expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the Turnback expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was related to projects included in the City's Seven-Year Capital Improvement Program.

Results: Two of the expenditures tested related to projects that were not included in the City's Seven-Year Capital Improvement Program. These costs included landscape maintenance (\$120,406) and furniture, machinery and equipment (\$10,024).

Recommendation: We recommend the City prepare a journal entry during fiscal year 2010 to reimburse the Turnback Fund for these ineligible costs.

City's Response: The City believes the questioned expenditures are eligible for Turnback funding. The City plans to amend its Seven-Year CIP for the fiscal year ended June 30, 2009 to include the landscape maintenance and equipment expenditures for OCTA's consideration of approval.

9. We determined whether or not indirect costs were charged as Turnback expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: The City charged \$44,517 of indirect costs as Turnback expenditures during the fiscal year ended June 30, 2009. These costs included data processing, computer replacement, and a general and administrative allocation. No exceptions were noted as a result of our procedures.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2009 to determine whether funds were expended within three years of receipt.



Board of Directors of the
Orange County Local Transportation Authority
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Results: The City's cash balance in its Turnback Fund as of June 30, 2009 was \$3,530,632. No exceptions were noted as a result of our procedures.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

Results: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The City's written response to the recommendation identified in the procedures performed is described above. We did not perform any additional agreed-upon procedures related to the City's response.

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

Mayer Hoffman McCann P.C.

Irvine, California
December 14, 2009

CITY OF ORANGE, CALIFORNIA
 Schedule of MOE and Turnback Expenditures
 Year Ended June 30, 2009
 (Unaudited)

Maintenance of Effort (MOE) expenditures:	
General Administration	\$ 336,226
Engineering Services	103,297
Developmental Services	71,117
Street Maintenance Services	362,231
Transportation Services	376,316
Traffic Operations	559,610
Street Maintenance Services	158,583
Traffic Operations	<u>1,259,860</u>
 Total MOE expenditures	 <u>3,227,240</u>
 Turnback expenditures:	
Pavement management program	998,829
Arterial curb, gutter and sidewalk repair	46,142
Minor traffic control devices	30,519
Contracted services (1)	185,498
Asphalt products (1)	49,901
Rock and sand gravel (1)	50,801
Landscape maintenance (2)	120,406
Furniture, machinery, and equipment (2)	10,024
Indirect costs	<u>44,517</u>
 Total Turnback expenditures	 <u>1,536,637</u>
 Total MOE and Turnback expenditures	 <u>\$ 4,763,877</u>

(1) These expenditures primarily consisted of costs related to the City's annual concrete replacement program.

(2) These projects were not identified in the City's Approved Seven-Year Capital Improvement Program for fiscal year ended June 30, 2009.

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



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

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES –
CITY OF SEAL BEACH**

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA), solely to assist you in evaluating the City of Seal Beach's (City's) level of compliance with the provisions of Measure M, Local Transportation Ordinance #2 (Ordinance) as of and for the fiscal year ended June 30, 2009. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. 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 performed and the results of those procedures were as follows:

1. We obtained and read the Maintenance of Effort (MOE) Calculation Report established by the OCLTA for the City and determined the minimum the City was required to spend in MOE expenditures.

Results: The City was required to spend \$505,000 in MOE expenditures during the fiscal year ended June 30, 2009.

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

Results: All MOE expenditures are tracked in the general ledger by fund, department, and project number.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2009 to determine whether the City met the minimum MOE requirement.

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

Results: The City's MOE expenditures for the fiscal year ended June 30, 2009 were \$1,512,581 (see Schedule A), which exceeded the requirement by \$1,007,581.

4. We judgmentally selected a sample of 15 MOE expenditures from the City's general ledger expenditure detail. MOE expenditures tested totaled \$524,426, representing approximately 35% of total MOE expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the MOE expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was properly classified as local street and road expenditures.

Results: No exceptions were noted as a result of our procedures.

5. We determined whether or not indirect costs were charged as MOE expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of general ledger expenditure detail and discussion with the City's Director of Administrative Services, MOE expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

6. We obtained a listing of Turnback payments made from the OCLTA to the City and calculated the amount the City received for the past three fiscal years.

Results: The City received \$892,791 of Turnback monies for the three years ended June 30, 2009, including \$254,477 for the fiscal year ended June 30, 2009.

7. We documented which fund the City used to track expenditures relating to Turnback monies in its general ledger and the amount spent for the fiscal year ended June 30, 2009.

Results: The City's Turnback expenditures are recorded in Fund 41, Measure M Special Revenue Fund (Turnback Fund). Total Turnback expenditures for the fiscal year ended June 30, 2009 were \$800,980 (see Schedule A).



Board of Directors of the
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and the Taxpayers Oversight Committee of the
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8. We obtained the City's Seven-Year Capital Improvement Program (CIP) and judgmentally selected 8 Turnback expenditures from the City's general ledger expenditure detail. Total Turnback expenditures tested were \$799,094 representing approximately 99% of total Turnback expenditures for the fiscal year ended June 30, 2009. For each item selected we performed the following:
 - a. Agreed the dollar amount listed on the general ledger for the Turnback expenditure to supporting documentation, including the City check copy or wire transfer and vendor invoice or journal voucher.
 - b. Verified that the expenditure was related to projects included in the City's Seven-Year Capital Improvement Program.

Results: The City's Turnback expenditures during the fiscal year ended June 30, 2009 included \$60,111 for one project (Annual Concrete Repair Program) that was included in the City's approved Seven-Year CIP for the fiscal years ended June 30, 2008 and June 30, 2010. The City did not include this project on the Seven-Year CIP it submitted to OCLTA for the fiscal year ended June 30, 2009 due to oversight. The budget for the City's Annual Concrete Repair Program was approved by the City Council as part of the annual budget for the fiscal year ended June 30, 2009.

Recommendation: We recommend that the City submit an amended Seven-Year CIP to OCLTA for the fiscal year ended June 30, 2009.

City's Response: The City inadvertently removed the Annual Concrete Program in the 2009 Seven-Year Capital Improvement Program. This is an annual project that is programmed each year through the City Council and will continue in future years.

9. We determined whether or not indirect costs were charged as Turnback expenditures. If applicable, we reviewed the City's indirect cost allocation plan for reasonableness.

Results: Based upon our review of the general ledger expenditure detail and discussion with the City's Finance staff, Turnback expenditures for the fiscal year ended June 30, 2009 did not include indirect costs.

10. We obtained the cash balance of the City's Turnback Fund as of June 30, 2009 to determine whether funds were expended within three years of receipt.



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

Results: The City's cash balance in its Turnback Fund as of June 30, 2009 was \$513,192. No exceptions were noted as a result of our procedures.

11. We reviewed the City's interest allocation methodology to ensure the proper amount of interest was credited to the Turnback Fund.

Results: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The City's written response to the recommendation identified in the procedures performed is described above. We did not perform any additional agreed-upon procedures related to the City's response.

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

Irvine, California
September 24, 2009

CITY OF SEAL BEACH, CALIFORNIA
 Schedule of MOE and Turnback Expenditures
 Year Ended June 30, 2009
 (Unaudited)

Maintenance of Effort (MOE) Expenditures:	
Engineering	\$ 167,689
Storm drain maintenance	316,198
Street maintenance	799,329
Landscape maintenance	<u>229,365</u>
 Total MOE expenditures	 <u>1,512,581</u>
Turnback Expenditures:	
Arterial street resurfacing program	431,711
Local street resurfacing program	17,230
Annual street sealing program	291,928
Annual concrete repair program (1)	<u>60,111</u>
 Total Turnback expenditures	 <u>800,980</u>
 Total MOE and Turnback expenditures	 <u>\$ 2,313,561</u>

(1) We identified \$60,111 in expenditures for projects that were not included in the City's Seven-Year Capital Improvement Program for the fiscal year ended June 30, 2009. However, we verified through inspection that these projects were included in the City's Seven-Year Capital Improvement Program for the fiscal year ended June 30, 2008.

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



January 27, 2010

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Financial and Compliance Audits of Eight Combined Transportation Funding Program Projects

Overview

Audits have been completed of eight projects funded through the Combined Transportation Funding Program of Measure M by external audit firm Mayer Hoffman McCann P.C. Recommendations have been offered to ensure compliance with the Combined Transportation Funding Program Guidelines. The auditors also questioned expenditures of \$84,417 and \$11,868 invoiced by the cities of Stanton and Westminster, respectively, for inadequately supported expenditures. While the cities indicate that there is sufficient evidence of project completion, that evidence does not meet program requirements. Therefore, the Internal Audit Department is recommending that the Orange County Transportation Authority seek reimbursement of these amounts. In the process of seeking reimbursement, staff will work with these jurisdictions to determine if there is any way within the Combined Transportation Funding Program to substantiate the expenditures in question.

Recommendations

- A. Receive and file financial and compliance audits of eight Combined Transportation Funding Program projects, Internal Audit Report 08-019.
- B. Direct staff to seek reimbursement from the City of Stanton, in the amount of \$84,417, and from the City of Westminster, in the amount of \$11,868, for expenditures invoiced under the Combined Transportation Funding Program but inadequately supported.
- C. Direct Orange County Transportation Authority staff to implement recommendations related to jurisdictions' submission of final reports within 180 days of project completion and clarification of allowable overhead cost allocations.

- D. Direct Orange County Transportation Authority staff to enhance final project review procedures to include additional scrutiny of possible excess right of way.

Background

The Combined Transportation Funding Program (CTFP) was created by the Orange County Local Transportation Authority (OCLTA) to provide local agencies with a common set of guidelines (CTFP Guidelines) and project selection criteria for a variety of funding programs. To participate in the CTFP, an agency must have been found eligible to receive Measure M “turnback” funds.

The Orange County Transportation Authority (OCTA) issues a CTFP “call for projects” on a biennial basis to all eligible local agencies, at which time agencies are required to submit an application to OCTA to receive funding. OCTA reviews and ranks each application using evaluation criteria developed for each program. OCTA’s Board of Directors approves projects and funding allocations.

In 2005, OCTA’s Internal Audit Department (Internal Audit) conducted the first audits of projects funded by CTFP. Specifically, Internal Audit selected 15 projects and engaged three contract audit firms to perform the audits. The audits found that agencies receiving CTFP funding generally complied with the CTFP Guidelines. However, recommendations were made to resolve ambiguities in the CTFP Guidelines and to implement other controls to ensure that the CTFP Guidelines were followed and required documentation submitted by the local agencies was complete and accurate.

The Fiscal Year 2008-2009 Internal Audit Plan Audit included CTFP project audits. Through a competitive procurement process, Internal Audit engaged external audit firm Mayer Hoffman McCann P.C. (MHM) to conduct audits of eight completed projects. The audits were recently completed.

Discussion

Selection of Projects

Internal Audit obtained from OCTA’s Development Division an unaudited ledger of all CTFP projects closed out during fiscal year 2007-08. From this population, Internal Audit selected eight projects for audit. The first selection criteria included all projects greater than \$750,000 to ensure adequate coverage of significant projects across the applicable 21 jurisdictions. One

project from this initial selection was eliminated because the jurisdiction, the City of Orange, had two projects that met the criteria.

The second selection criteria was designed to ensure a variety of project categories under the CTFP were represented. The CTFP categories include programs such as the Intersection Improvement Program (IIP), the Signal Improvement Program (SIP), and others. In total, five of the six project categories were represented in the sample. No project was selected from the Transportation Demand Management Program category due to immateriality. Finally, Internal Audit randomly selected one additional jurisdiction not selected under the first two criteria to expand coverage. A summary of the selected projects and audit results can be found at Attachment A.

Statistics for the population of projects closed and the sample selected for audit are as follows:

Total costs of projects closed during fiscal year 2007-08:	\$32,978,263
Total costs of projects selected for audit:	19,988,982
Percentage of total closed project costs selected for audit:	61%
Total number of projects closed during fiscal year 2007-08:	71
Total number of projects selected for audit:	8

Audit Objectives

The primary objective of the audits was to ensure compliance with CTFP Guidelines and verify that project records and documentation supported the amounts invoiced to OCTA. A secondary objective of the audits was to ensure that policies, procedures, and processes of the OCTA are in place and operating effectively to promote compliance with the Ordinance.

Audit Findings and Recommendations

Auditors MHM identified issues both with CTFP projects and OCTA administration. A summary of the findings for the jurisdictions audited can be found at Attachment A, and the detailed audit reports can be found in Attachments B through H. The auditor's recommendations for OCTA can be found at Attachment I.

Two jurisdictions did not have sufficient documentation to support expenditures. CTFP Guidelines require that documents supporting expenditures be retained for five years following project completion. The City of Stanton began its project in fiscal year 1999-00, completed it in 2001-02, but

did not submit the final report until fiscal year 2007-08. Between 1999 and this 2009 audit, the city destroyed pertinent records. As a result, auditors questioned all expenditures and Internal Audit is recommending that OCTA seek reimbursement of \$84,417 of CTFP funding from the City of Stanton. The City of Stanton maintains that while records are unavailable, there is obvious evidence of project completion.

Similarly, the City of Westminster was unable to produce detailed timesheets to support labor charges for its project which began in fiscal year 1999-00 and for which a final report was submitted to OCTA in fiscal year 2007-08. Auditors questioned \$11,868 of labor costs and associated overhead. Internal Audit is recommending that OCTA seek reimbursement of \$11,868 from the City of Westminster. The City of Westminster maintains that summary records of time incurred and charged to the project is adequate evidence.

Three jurisdictions were found to have submitted final project reports more than 180 days following project completion. Auditors recommended that cities' establish procedures to ensure timely filing of final reports. The City of Orange took exception to this recommendation, indicating that because of delayed payment approval by OCTA the final report was not submitted timely. OCTA management indicated that the final report submission deadline is independent of the reimbursement cycle and Internal Audit agrees.

Auditors also found, through discussion with OCTA Development Division staff, that the disposition of a remnant piece of property purchased by the City of Lake Forest for its transportation project was not negotiated with OCTA as required by CTFP Guidelines. The City of Lake Forest, in its final project report, did not declare the excess right-of-way but had used it for aesthetic improvements and landscaping. The City of Lake Forest disputed the auditor's finding, indicating that semi-annual project update information provided to OCTA represented sufficient communication as to excess right-of-way. Internal Audit has reviewed the documentation provided to the auditor and has determined that it did not reflect right-of-way status or discussions with OCTA about disposition.

During 2009, OCTA's Development Division initiated a review of certain CTFP projects and identified the City of Lake Forest's project as one with unreported excess right-of-way. Staff met with the City of Lake Forest in December 2009 and came to agreement that the excess was an uneconomic remnant. Internal Audit recommends that OCTA's Development Division develop enhanced procedures for ongoing monitoring of possible excess right-of-way.

In addition to findings and recommendations related to jurisdictions' compliance with the CTFP Guidelines, MHM has made two recommendations related to OCTA's administration of the program (Attachment I). First, the auditors recommended that OCTA ensure that final project reports are submitted within the required 180 days. Management responded that the CTFP Guidelines offer no punitive consequences. As a result, OCTA's Chief Executive Officer sent reminder letters to all agencies with delinquent reports. Management also indicated that punitive language is being added to the guidelines for Measure M2.

Auditors also found unclear language in the CTFP Guidelines with regard to overhead charges. The CTFP Guidelines indicate that cities may charge overhead "at allowable rate(s) up to 30% of payroll and fringe benefits..." The auditors recommended that OCTA clarify this language to indicate that the overhead rate should be the actual overhead rate, not to exceed 30 percent of salaries and fringe benefits. Management responded that the Renewed Measure M guidelines will include clarifying language.

Summary

Audits have been completed of eight CTFP projects funded by Measure M. External auditors MHM have provided recommendations related to both the jurisdictions' compliance with the Ordinance, as well as recommendations to improve OCTA's administration of CTFP projects.

Attachments

- A. Orange County Transportation Authority Combined Transportation Funding Program Summary of Project Audit Results
- B. City of Stanton, California Closeout Audit of Costs Claimed Combined Transportation Funding Program Project Number 99-STAN-SIP-1192 Cerritos Avenue/Western Avenue Traffic Signal Project For the Period September 12, 2000 through September 19, 2007
- C. City of Westminster, California Closeout Audit of Costs Claimed Combined Transportation Funding Program Project Number 00-WEST-GMA-3198 Intelligent Transportation Project (Phase III) For the Period August 9, 2002 through October 24, 2007
- D. City of Orange, California Closeout Audit of Costs Claimed Combined Transportation Funding Program Project Number 00-ORNG-IIP-3141 Chapman Avenue & Prospect Street Intersection Improvement Project For the Period June 24, 2003 through January 30, 2008
- E. City of Lake Forest, California Closeout Audit of Costs Claimed Combined Transportation Funding Program Project Number 03-LFOR-MPH-1171

- Widening and Improvement of El Toro Road: Interstate 5 to Jutewood Place/Cornelius Drive For the Period August 19, 2003 through June 4, 2008
- F. City of San Clemente, California Closeout Audit of Costs Claimed Combined Transportation Funding Program Project Number 99-SCLM-MPH-2004 Improvement of Avenida La Pata Extension For the Period February 27, 2002 through August 8, 2007
 - G. County of Orange, California Closeout Audit of Costs Claimed Combined Transportation Funding Program Program Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049 Warner Avenue Bridge Widening Project For the Period November 22, 2006 through May 21, 2008
 - H. City of Irvine, California Closeout Audit of Costs Claimed Combined Transportation Funding Program Project Number 99-IRVN-RIP-1104 Improvement to Interchange at Jeffery Road & Interstate 405 Project For the Period January 20, 2005 through September 12, 2007
 - I. January 12, 2010 letter from Mayer Hoffman McCann to Kathleen M. O'Connell

Approved by:



Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669

ORANGE COUNTY TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM
 SUMMARY OF PROJECT AUDIT RESULTS

Jurisdiction	Project # / Description	CTFP Funding	Findings	Recommendations
Stanton	99-STAN-SIP-1192	\$84,417	City did not retain documentation supporting any invoices. Auditors questioned all costs, or \$84,417	Seek reimbursement of \$84,417.
Westminster	00-WEST-SIP-3198	221,744	City did not maintain timesheets to support labor and overhead costs claimed. Auditors questioned salaries of \$9,086 and associated overhead of \$2,782.	Seek reimbursement of \$11,868.
Orange	00-ORNG-IIP-3141	943,376	The city did not submit the final project report to OCTA within 180 days of project completion.	The city should implement procedures to ensure timely submission of final project reports.
Lake Forest	03-LFOR-MPH-1171	13,707,215	Final report submitted by city contained errors, none of which affected CTFP funding. In addition, excess right-of-way purchased for the improvements were not used for transportation purposes and the city did not advise OCTA of this so that the parties could come to agreement on disposition.	City and OCTA should enter into negotiations for final disposition of excess right-of-way. Matter was resolved on December 7, 2009. OCTA should develop enhanced procedures for ongoing monitoring of possible excess right of way.
San Clemente	99-SCLM-MPH-2004	1,044,484	The city did not submit the final project report to OCTA within 180 days of project completion.	The city should implement procedures to ensure timely submission of final project report.
Irvine	99-IRVN-RIP-1104	2,916,879	Final report submitted by city contained errors, none of which affected CTFP funding.	None.
County of Orange (on behalf of Santa Ana)	96-SNTA-GMA-1047	550,000	None.	None.
County of Orange	00-ORCO-MPAH-3049	1,377,028	None.	None.

TOTAL**\$19,988,982**

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

For the Period
September 12, 2000 through September 19, 2007

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

For the Period September 12, 2000 through September 19, 2007

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Board of Directors
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Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Stanton, California (City) for the period September 12, 2000 through September 19, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-STAN-SIP-1192 with the Orange County Transportation Authority (OCTA) for the Cerritos Avenue/Western Avenue traffic signal project. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period September 12, 2000 through September 19, 2007 in accordance with the CTFP program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period September 12, 2000 through September 19, 2007 under CTFP Project Number 99-STAN-SIP-1192 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Stanton and is not intended to be and should not be used by anyone other than those specified parties.

Margen M. M. M. P. C.

Irvine, California
January 8, 2010

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Program Number 99-STAN-SIP-1192
 Cerritos Avenue/Western Avenue Traffic Signal Project

Schedule of Costs Claimed

For the Period September 12, 2000 through September 19, 2007

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
99-STAN-SIP-1192	\$ 84,417	\$ 19,584	\$ 104,001	\$ -	\$ -	\$ -	\$ 84,417	\$ 19,584	\$ 104,001
Local match	-	-	-	-	-	-	-	-	-
Total revenue	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>
Expenditures:									
Construction	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>
Total expenditures	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>
Net revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial schedule

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

Notes to Financial Schedule

For the Period September 12, 2000 through September 19, 2007

(1) General Information

On August 8, 1995, the City of Stanton, California (City), entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On September 12, 2000 the Cerritos Avenue/Western Avenue Traffic Signal Project was approved as Project Number 99-STAN-SIP-1192 under the Signal Improvement Program (SIP). The SIP Program is designed to provide funds for improvements that lead to better operation and management of signal systems and traffic congestion relief. Eligible SIP expenditures under the CTFP Guidelines include:

- Timing
 - Design (new or 3+ years since funded)
 - Equipment such as interconnect, controllers, software (new or 5+ years since funded)
 - Construction engineering (CTFP funding limited to 15 percent of construction costs)
- System detection (new or 5+ years since funded)
 - Closed circuit televisions
 - Inductive loops
 - Video imaging detection systems
 - Other detection systems
- Expert systems (such as decision support systems or adaptive control systems)
 - System communication links (i.e., between master systems/traffic operations centers)
 - Modification of existing traffic signal (i.e., conversion to protective permission signals)

In accordance with the CTFP Guidelines, agencies receiving funding under the SIP Program are required to provide matching funds of at least 20% of eligible expenditures. Based upon review, the City did not satisfy its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City of Stanton to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

Notes to Financial Schedule (Continued)

For the Period September 12, 2000 through September 19, 2007

(3) Questioned Costs

The City was not able to provide complete documentation to support costs incurred on the project. As such, we have questioned \$84,417 of costs, which represents all costs associated with the project. The nature of the documentation provided and missing is as follows:

- The City provided copies of contracts to support budgeted construction costs, but support was not provided to substantiate payments to the contractors.
- No documentation was provided to substantiate change orders or extra work.
- A general ledger was provided to substantiate the other costs such as equipment purchases. However, no invoices or copies of checks were provided to support these costs.
- A Notice of Completion was provided to substantiate that the work was completed and accepted by the City.



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Board of Directors
Orange County Transportation Authority
Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes total costs incurred by the City of Stanton, California (City), for the period September 12, 2000 through September 19, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-STAN-SIP-1192 with the Orange County Transportation Authority (OCTA) for the Cerritos Avenue/Western Avenue traffic signal project, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Findings and Recommendations section as items 1 and 2.

The City's response to the finding identified in our audit is described in the accompanying Findings and Recommendations section of the report. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Stanton and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

Findings and Recommendations

For the Period September 12, 2000 through September 19, 2007

(1) **Need to Ensure that Final Reports are Submitted Within 180 Days After Project Completion**

The City did not submit its final report to OCTA within 180 days after project completion. The Notice of Completion was dated December 3, 2001 and the Final Report was dated September 19, 2007.

Chapter 13, *Final Report*, of the CTFP 2007 Guidelines states, in part:

“The Final Report must be submitted to the Orange County Transportation Authority within 180 days after acceptance of the improvements, study, or project (i.e., Notice of Completion)...”

Recommendation

We recommend that, should the City receive future funding under the CTFP Program, that it establish procedures to ensure that the final report is submitted within 180 days of project completion.

Management Response

As noted in management response (1), the reports have been filed in a timely manner after change of City management in 2007. The City has been submitting final reports within 180 days of project completion.

(2) **Need to Adequately Support Project Costs**

The City of Stanton (City) did not maintain adequate financial records to support project costs claimed for Project Number 99-STAN-SIP-1192. As noted below, only partial records were provided for our review.

- Copies of contracts were provided to support construction costs but support was not provided to substantiate payment to the contractor.
- No documentation was provided to substantiate change orders or extra work.

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

Findings and Recommendations (Continued)

For the Period September 12, 2000 through September 19, 2007

(2) **Need to Adequately Support Project Costs (Continued)**

- The general ledger was provided to substantiate other costs such as equipment; however, no invoices or copies of checks were provided.
- Notice of Completion was provided to substantiate that work was completed.

Although the construction period for this project was from September 12, 2000 through November 14, 2001, the final report submitted to OCTA with the City's request for reimbursement was dated April 3, 2007. Project completion occurs with the filing of the final report. In addition, Guidelines require all supporting documentation to be retained for 5 years after project closeout and final payment.

The 1999 Combined Transportation Funding Program Guidelines, Chapter 14 states, in part:

“...Project records must be maintained for five (5) years ...”

The City stated that the individuals who performed tasks for the project were no longer employed by the City. Without adequate supporting documentation, we were unable to determine whether costs claimed were reasonable and allowable in accordance with the CTFP Guidelines.

Recommendation

We have questioned all project costs totaling \$104,001 as a result of a lack of records to support costs claimed. We recommend that the City maintain project records for at least five (5) years after project completion.

Management Response

The supporting documentation was not available for the auditors to examine because the retention period of seven years had lapsed. The reimbursement report for the completed project in 2001 was not filed until 2007. The City was informed of the audit in 2009. Since the change of management in late 2007, reimbursement reports have been filed in a timely manner.

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
Intelligent Transportation Project (Phase III)

For the Period
August 9, 2002 through October 24, 2007

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
Intelligent Transportation Project (Phase III)

For the Period August 9, 2002 through October 24, 2007

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Westminster, California (City), for the period August 9, 2002 through October 24, 2007 under Combined Transportation Funding Program (CTFP) Project Number 00-WEST-SIP-3198 with the Orange County Transportation Authority (OCTA) for the completion of Phase III of the installation of video imaging detection systems and closed circuit televisions at eight intersections. The costs as presented in the Financial Schedule are the responsibility of the City of Westminster. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period August 9, 2002 through October 24, 2007 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period August 9, 2002 through October 24, 2007 under CTFP Project Number 00-WEST-SIP-3198 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Westminster and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Nathan M. C. P.C.

Irvine, California
January 7, 2010

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Program Number 00-WEST-SIP-3198
 TSCOUP Intelligent Transportation project (Phase III)

Schedule of Costs Claimed

For the Period August 9, 2002 through October 24, 2007

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
00-WEST-SIP-3198	\$ 221,744	\$ -	\$ 221,744	\$ 209,876	\$ -	\$ 209,876	\$ 11,868	\$ -	\$ 11,868
Local match	-	113,569	113,569	-	111,213	111,213	-	2,356	2,356
Total revenue	<u>221,744</u>	<u>113,569</u>	<u>335,313</u>	<u>209,876</u>	<u>111,213</u>	<u>321,089</u>	<u>11,868</u>	<u>2,356</u>	<u>14,224</u>
Expenditures:									
Construction engineering	11,868	2,356	14,224	-	-	-	11,868	2,356	14,224
Construction	<u>209,876</u>	<u>111,213</u>	<u>321,089</u>	<u>209,876</u>	<u>111,213</u>	<u>321,089</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>221,744</u>	<u>113,569</u>	<u>335,313</u>	<u>209,876</u>	<u>111,213</u>	<u>321,089</u>	<u>11,868</u>	<u>2,356</u>	<u>14,224</u>
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
Intelligent Transportation Project (Phase III)

Notes to Financial Schedule

For the Period August 9, 2002 through October 24, 2007

(1) General Information

On August 18, 1995, the City of Westminster, California (City), entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On August 9, 2009, the Intelligent Transportation Project (Phase III) was approved as Project Number 00-WEST-SIP-3198 under the Signal Improvement Program (SIP). The SIP Program is designed to provide funds for improvements that lead to better operation and management of signal systems and traffic congestion relief. Eligible SIP expenditures under the CTFP Guidelines include:

- Timing
 - Design (new or 3+ years since funded)
 - Equipment such as interconnect, controllers, software (new or 5+ years since funded)
 - Construction engineering (CTFP funding limited to 15 percent of construction costs)
- System detection (new or 5+ years since funded)
 - Closed circuit televisions
 - Inductive loops
 - Video imaging detection systems
 - Other detection systems
- Expert systems (such as decision support systems or adaptive control systems)
 - System communication links (i.e., between master systems/traffic operations centers)
 - Modification of existing traffic signal (i.e., conversion to protective/ permission signals)

In accordance with the CTFP Guidelines, agencies receiving funding under the SIP Program are required to provide matching funds of at least 20% of eligible expenditures. The City satisfied its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the CTFP Program. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
--Intelligent Transportation Project (Phase III)

Notes to Financial Schedule

For the Period August 9, 2002 through October 24, 2007

(3) Questioned Costs

The City provided a labor and overhead cost schedule that identified the individuals, hours and amounts charged to Project Number 00-WEST-SIP-3198. However the City was not able to provide detailed time sheets to support the hours. As such, we are unable to verify the accuracy of hours reported on the labor and overhead cost schedule. Therefore, we have questioned salaries in the amount of \$9,086 and associated overhead in the amount of \$2,782.



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Board of Directors
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Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes total costs incurred by the City of Westminster, California (City) for the period August 9, 2002 through October 24, 2007 under Combined Transportation Funding Program (CTFP) Project Number 00-WEST-SIP-3198 with the Orange County Transportation Authority (OCTA) for the completion of phase III of the installation of video imaging detection system and closed circuit televisions at eight intersections, and have issued our report thereon dated January 7, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedules that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Finding and Recommendation as item 1.

The City's and OCTA's response to the finding identified in our audit is described in the accompanying Finding and Recommendation section of the report. We did not audit the City's and OCTA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Westminster and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 7, 2010

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
Intelligent Transportation Project (Phase III)

Finding and Recommendation

For the Period August 9, 2002 through October 24, 2007

(1) **Need to Maintain Timesheets**

The City of Westminster (City) was not able to provide time sheets to support hours on the labor and overhead cost schedule. As such, we are unable to verify the accuracy of time charged to the CTFP project. Guidelines require all supporting documentation to be retained for 5 years after project closeout and final payment.

The 1999 Combined Transportation Funding Program Guidelines, Chapter 14 states, in part:

“...Project records must be maintained for five (5) years ...”

According to the Civil Engineering Principal, due to space constraints, the City did not maintain all project documents and were not aware that detailed timesheets should be retained.

Recommendation

We have questioned in-house labor costs in the amount of \$9,086, and related overhead costs in the amount of \$2,782 due to the lack of detailed records to support the costs claimed. We recommend that the City maintain detailed timesheets for at least five (5) years after project completion.

Management Response

The City of Westminster concurs with the findings in this report. The City staff provided satisfied explanations and back-up payrolls to the questioned salary and overhead costs. The City staff will change future in-house procedures to maintain detailed timesheets with the project's records for five years after project completion as recommended.

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-ORNG-IIP-3141
Chapman Avenue & Prospect Street
Intersection Improvement Project

For the Period
June 24, 2003 through January 30, 2008

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-ORNG-IIP-3141
Chapman Avenue & Prospect Intersection Improvement Project

For the Period June 24, 2003 through January 30, 2008

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Orange, California (City) for the period June 24, 2003 through January 30, 2008 under Combined Transportation Funding Program (CTFP) Project Number 00-ORNG-IIP-3141 with the Orange County Transportation Authority (OCTA) for the improvement of the intersection at Chapman Avenue and Prospect Street. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period June 24, 2003 through January 30, 2008 in accordance with the CTFP program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period June 24, 2003 through January 30, 2008 under CTFP Project Number 00-ORNG-IIP-3141 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Orange and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 00-ORNG-IIP-3141
 Chapman Avenue & Prospect Intersection Improvement Project

Schedule of Costs Claimed

For the Period June 24, 2003 through January 30, 2008

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
00-ORNG-IIP-3141	\$ 943,376	\$ -	\$ 943,376	\$ 943,376	\$ -	\$ 943,376	\$ -	\$ -	\$ -
Local match	-	257,054	257,054	-	257,054	257,054	-	-	-
Total revenue	943,376	257,054	1,200,430	943,376	257,054	1,200,430	-	-	-
Expenditures:									
Right-of-way	263,962	74,451	338,413	263,962	74,451	338,413	-	-	-
Construction engineering	32,000	-	32,000	32,000	-	32,000	-	-	-
Construction	647,414	182,603	830,017	647,414	182,603	830,017	-	-	-
Total expenditures	943,376	257,054	1,200,430	943,376	257,054	1,200,430	-	-	-
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-ORNG-IIP-3141
Chapman Avenue & Prospect Intersection Improvement Project

Notes to Financial Schedule

For the Period June 24, 2003 through January 30, 2008

(1) **General Information**

On August 18, 1995, the City of Orange, California (City) entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On June 24, 2003, the Chapman Avenue and Prospect Street Intersection Improvement Project (Project) was approved as Project Number 00-ORNG-IIP-3141 under the Intersection Improvement Program (IIP). The IIP Program is designed to improve eligible interchanges throughout the County of Orange. Eligible IIP expenditures under the CTFP Guidelines include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction activities including:
 - Widening
 - Traffic signals
 - Bus turnouts (if part of the intersection improvements)
 - Bike lanes (striping only)
 - Cross gutter elimination if it improves traffic flow/capacity
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)
- Grade separation projects (street to street)

In accordance with the CTFP Guidelines, agencies receiving funding under the IIP Program are required to provide matching funds of at least 20% of eligible expenditures. The City satisfied its required match for this project.

(2) **Summary of Significant Accounting Policies**

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.



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Board of Directors
Orange County Transportation Authority
Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes the total costs incurred by the City of Orange, California (City), for the period June 24, 2003 through January 30, 2008 under Combined Transportation Funding Program (CTFP) Project Number 00-ORNG-IIP-3141 with the Orange County Transportation Authority (OCTA) for the improvement of the intersection at Chapman Avenue and Prospect Street, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City of Orange is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Finding and Recommendation section as item 1.

The City's response to the finding identified in our audit is described in the accompanying Finding and Recommendation section of the report. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Orange and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-ORNG-IIP-3141
Chapman Avenue & Prospect Intersection Improvement Project

Finding and Recommendation

For the Period June 24, 2003 through January 30, 2008

(1) Need to Ensure that Final Reports are Submitted Within 180 Days of Project Completion

The City did not submit the final report to OCTA within 180 days of project completion. The Notice of Completion was dated December 12, 2006 and the Final Report was dated January 30, 2008.

Chapter 13, *Final Report*, of the CTFP 1999 Guidelines states, in part:

“The Final Report must be submitted to the Orange County Transportation Authority within 180 days after acceptance of the improvements, study, or project (i.e., Notice of Completion)...”

Recommendation

We recommend that, should the City receive future funding under the CTFP Program, that it establish procedures to ensure that the final report is submitted within 180 days of project completion.

Management Response

The auditor is correct that the Notice of Completion was filed in December 2006, but the Final Report to OCTA was delayed due to OCTA's late approval of the final 10% reimbursement of the project's R/W and Design payment. We filed the final 10% R/W and Design payment request on September 15, 2006, but that payment was not received till February 4, 2008. Without the final 10% R/W and Design payment approval, we could not submit the Final Report to OCTA documenting all the expenditure on the project. In mid January 2008, OCTA finally informed the City that the check has been issued for the 10% payment, so we submitted the Final Report to OCTA on January 29, 2008.

OCTA Response

The city is obligated to submit final reports within 180 days of accepting the improvements regardless of the status of other payments. As per the program guidelines, the final report for each project phase is designed to be independent of the others. The final report for the construction phase is not a full accounting of the project, but an accounting of the construction expenses. Any delays in the processing of final reports for the engineering or right-of-way phases due to missing documentation would not prohibit the City from a timely submittal of the final report for the construction phase.

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of
El Toro Road: Interstate 5 to Jutewood Place/Cornelius Drive

For the Period
August 19, 2003 through June 4, 2008

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

For the Period August 19, 2003 through June 4, 2008

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Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Lake Forest, California (City), for the period August 19, 2003 through June 4, 2008 under Combined Transportation Funding Program (CTFP) Project Number 03-LFOR-MPH-1171 with the Orange County Transportation Authority (OCTA) for the widening and improvement of El Toro Road from Interstate 5 to Jutewood Place/Cornelius Drive. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period August 19, 2003 through June 4, 2008 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. Accordingly, the accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period August 19, 2003 through June 4, 2008 under CTFP Project Number 03-LFOR-MPH-1171 in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 03-LFOR-MPH-1171
 Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

Schedule of Costs Claimed

For the Period August 19, 2003 through June 4, 2008

	As Submitted			As Audited			Variance		
	CTFP	City		CTFP	City		CTFP	City	
		Match	Total		Match	Total		Match	Total
Revenues:									
03-LFOR-MPH-1171	\$ 13,707,215	\$ -	\$ 13,707,215	\$ 13,707,215	\$ -	\$ 13,707,215	\$ -	\$ -	\$ -
Local match	-	18,522,988	18,522,988	-	22,654,093	22,654,093	-	(4,131,105)	(4,131,105)
Total revenue	13,707,215	18,522,988	32,230,203	13,707,215	22,654,093	36,361,308	-	(4,131,105)	(4,131,105)
Expenditures:									
Right-of-way	8,888,059	8,888,060	17,776,119	8,888,059	13,267,423	22,155,482	-	(4,379,363)	(4,379,363)
Construction engineering	534,773	2,602,178	3,136,951	534,773	1,476,971	2,011,744	-	1,125,207	1,125,207
Construction	4,284,383	7,032,750	11,317,133	4,284,383	7,909,699	12,194,082	-	(876,949)	(876,949)
Total expenditures	13,707,215	18,522,988	32,230,203	13,707,215	22,654,093	36,361,308	-	(4,131,105)	(4,131,105)
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

Notes to Financial Schedule

For the Period August 19, 2003 through June 4, 2008

(1) General Information

On August 18, 1995, the City of Lake Forest, California (City), entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. The Widening and Improvement of El Toro Road from Interstate 5 to Jutewood Place/Cornelius Drive was approved under Project Number 03-LFOR-MPH-1171. This project was approved under the Master Plan of Arterial Highways Program (MPAH). Types of improvements and expenditures allowed under the MPAH Program include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)

In accordance with the CTFP Guidelines, agencies receiving funding under the MPAH Program are required to provide matching funds of at least 50% of eligible expenditures. The City satisfied its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.

(3) Adjustments to Final Report

Total project costs as listed on the final invoice submitted to OCTA by the City were understated by \$4,131,105; however this did not impact the amount submitted for reimbursement by the City, or calculation of the City's match requirement.



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Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL SCHEDULES PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes the total cost incurred by the City of Lake Forest, California (City), for the period August 19, 2003 through June 4, 2008 under Combined Transportation Funding Program (CTFP) Project Number 03-LFOR-MPH-1171 with the Orange County Transportation Authority (OCTA) for the widening and improvement of El Toro Road from Interstate 5 to Jutewood Place/Cornelius Drive, and have issued our report thereon dated January 7, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Finding and Recommendation section as item 1.

The City's and OCTA's response to the finding identified in our audit is described in the accompanying Finding and Recommendation section of the report. We did not audit the City's and OCTA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the City of Lake Forest and the Orange County Transportation Authority and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 7, 2010

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

Finding and Recommendation

For the Period August 19, 2003 through June 4, 2008

(1) **Need to Notify/Mutually Agree as to Excess Right of Way**

A component of the total cost of this project included the acquisition of right-of-way. In order to obtain the needed right-of-way, the City negotiated the purchase of a much larger parcel of land than was necessary for the project. The excess right-of-way was retained by the City and used for aesthetic improvements and landscaping.

Amendment #1 to the Master Agreement Number C-95-981 states, in part:

“...AUTHORITY requires written notification at the time when right of way is declared excess to the transportation improvement, and prior to the disposal process. Resolution of any issue regarding whether or not a right of way is excess to the transportation improvement will be by the mutual agreement of AUTHORITY and AGENCY....”

The City did not notify OCTA of the non-transportation use of a portion of the acquired land so that the parties could agree on the disposition of this excess land in accordance with the Amendment to the Master Agreement referenced above.

Recommendation

We recommend that the City enter into discussions with OCTA to obtain agreement as to the disposition of the excess right of way.

Management Response

Thank you for the opportunity to review and comment on the Closeout Audit of Costs Claimed on the El Toro Road CTFP project for the period August 19, 2003 through June 4, 2008. As described in Auditor's Notes 1 and 3, the City of Lake Forest exceeded the 50% matching requirement for this project. However, the City remains concerned that the report does not fairly represent the results of the audit or the City's interests in this matter. The Independent Auditor's report contains a schedule of Costs Claimed which City staff assisted with. As a result of this audit, City staff will submit a revised Final Report and supplemental Final Invoice for approximately \$700,000.

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

Finding and Recommendation (Continued)

For the Period August 19, 2003 through June 4, 2008

(1) **Need to Notify/Mutually Agree as to Excess Right of Way (Continued)**

Management Response (Continued)

City staff disputes the above Finding and Recommendation. It is staff's belief the discussions regarding right-of-way acquisition occurred at semi-annual reviews with OCTA staff during audited period. Correspondence to that effect was provided to the Auditor which seems to contradict the Finding. Further, City staff met with OCTA on December 7, 2009, to discuss project's right-of-way acquisition. That discussion concluded that the City acquired only those real property interests that were necessary to deliver the project, under approved funding agreement with OCTA, and no disposition of excess right-of-way occurred or is anticipated in the foreseeable future.

OCTA Response

City staff met with OCTA on December 7, 2009 to discuss the right-of-way acquisition for the subject project. Those discussions determined that per OCTA's definition, excess right-of-way did exist on the project ("excess" being defined as real property interests acquired deemed in excess of what was necessary for the proposed transportation use). However, it was also determined that this excess property amounted to uneconomic remnants and no disposition of excess right-of-way was to be expected.

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-SCLM-MPH-2004
Improvement of Avenida La Pata Extension

For the Period
February 27, 2002 through August 8, 2007

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-SCLM-MPH-2004
Improvement of Avenida La Pata Extension

For the Period February 27, 2002 through August 8, 2007

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Board of Directors
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Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of San Clemente, California (City), for the period February 27, 2002 through August 8, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-SCLM-MPH-2004 with the Orange County Transportation Authority (OCTA) for the Avenida La Pata Extension. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period February 27, 2002 through August 8, 2007 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period February 27, 2002 through August 8, 2007 under CTFP Project Number 99-SCLM-MPH-2004 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of San Clemente and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hawthorn McCann P.C.

Irvine, California
January 8, 2010

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 99-SCLM-MPH-2004
 Improvement of Avenida La Pata Extension Project

Schedule of Costs Claimed

For the Period February 27, 2002 through August 8, 2007

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
99-SCLM-MPH-2004	\$ 1,044,484	\$ -	\$ 1,044,484	\$ 1,044,484	\$ -	\$ 1,044,484	\$ -	\$ -	\$ -
Local match	-	3,971,219	3,971,219	-	3,971,219	3,971,219	-	-	-
Total revenue	1,044,484	3,971,219	5,015,703	1,044,484	3,971,219	5,015,703	-	-	-
Expenditures:									
Construction engineering	136,237	567,474	703,711	136,237	567,474	703,711	-	-	-
Construction	908,247	3,403,745	4,311,992	908,247	3,403,745	4,311,992	-	-	-
Total expenditures	1,044,484	3,971,219	5,015,703	1,044,484	3,971,219	5,015,703	-	-	-
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-SCLM-MPH-2004
Improvement of Avenida La Pata Extension

Notes to Financial Schedule

For the Period February 27, 2002 through August 8, 2007

(1) General Information

On August 31, 1995, the City of San Clemente, California (City) entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On February 27, 2002, the Avenida La Pata Extension Project was approved as Project Number 99-SCLM-MPH-2004 under the Master Plan of Arterial Highways (MPAH) Program. The MPAH Program is designed to provide a funding source for the build-out of the MPAH. Eligible MPAH expenditures under the CTFP Guidelines include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)

In accordance with the CTFP Guidelines, agencies receiving funding under the MPAH Program are required to provide matching funds of at least 50% of eligible expenditures. The City satisfied its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.



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Board of Directors
Orange County Transportation Authority
Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes the total costs incurred by the City of San Clemente, California (City), for the period February 27, 2002 through August 8, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-SCLM-MPH-2004 with the Orange County Transportation Authority (OCTA) for the Avenida La Pata Extension, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

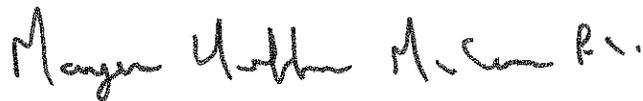
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Finding and Recommendation section as item 1.

The City's response to the finding identified in our audit is described in the accompanying Finding and Recommendation section of the report. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of San Clemente and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-SCLM-MPH-2004
Improvement of Avenida La Pata Extension

Finding and Recommendation

For the Period February 27, 2002 through August 8, 2007

(1) Need to Ensure that Final Reports are Submitted Within 180 Days of Project Completion

The City did not submit the final report to OCTA within 180 days of project completion. The Notice of Completion was dated July 31, 2006 and the Final Report was dated August 8, 2007.

Chapter 13, *Final Report*, of the CTFP 2007 Guidelines states, in part:

“The Final Report must be submitted to the Orange County Transportation Authority within 180 days after acceptance of the improvements, study, or project (i.e., Notice of Completion)...”

Recommendation

We recommend that, should the City receive future funding under the CTFP Program, that it establish procedures to ensure that the final report is submitted within 180 days of project completion.

Management Response

This project was completed and accepted by the City of San Clemente. After the acceptance, third party information submitted was reviewed to make sure all information was verifiable and accessible in the City's files before the final report was filed and dated with the OCTA. City management will implement procedures to meet this criteria in the future.

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Numbers
96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049
Warner Avenue Bridge Widening Project

For the Period
November 22, 2006 through May 21, 2008

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049
Warner Avenue Bridge Widening Project

For the Period November 22, 2006 through May 21, 2008

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the County of Orange, California (County), for the period November 22, 2006 through May 21, 2008 under Combined Transportation Funding Program (CTFP) Project Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049 with the Orange County Transportation Authority (OCTA) for the widening and improvement of the Warner Avenue Bridge. The costs as presented in the Financial Schedule are the responsibility of the County. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the County for the period November 22, 2006 through May 21, 2008 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the County in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, total costs incurred by the County for the period November 22, 2006 through May 21, 2008 under CTFP Project Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the County of Orange and is not intended to be and should not be used by anyone other than those specified parties.

Margaret Matheson DeLeon R.C.

Irvine, California
January 8, 2010

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 00-ORCO-MPAH-3049 and 96-SNTA-GMA-1047
 Warner Avenue Bridge Widening Project

Schedule of Costs Claimed

For the Period November 22, 2006 through May 21, 2008

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
00-ORCO-MPAH-3049	\$ 1,377,028	-	\$ 1,377,028	\$ 1,377,028	-	\$ 1,377,028	\$ -	-	\$ -
96-SNTA-GMA-1047	550,000	-	550,000	550,000	-	550,000	-	-	-
Other GMA funding	1,044,000	-	1,044,000	1,044,000	-	1,044,000	-	-	-
Local match	-	3,734,511	3,734,511	-	3,734,511	3,734,511	-	-	-
Total revenue	2,971,028	3,734,511	6,705,539	2,971,028	3,734,511	6,705,539	-	-	-
Expenditures:									
Construction	2,583,502	2,976,956	5,560,458	2,583,502	2,976,956	5,560,458	-	-	-
Construction engineering	387,526	757,555	1,145,081	387,526	757,555	1,145,081	-	-	-
Total expenditures	2,971,028	3,734,511	6,705,539	2,971,028	3,734,511	6,705,539	-	-	-
Net revenue	\$ -	\$ -	\$ -						

See accompanying notes to financial schedule

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049
Warner Avenue Bridge Widening Project

Notes to Financial Schedule

For the Period November 22, 2006 through May 21, 2008

(1) General Information

On May 23, 1995, the County of Orange, California (County), entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. The Warner Avenue Bridge Widening Project was approved under Program Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049. Program Numbers 96-SNTA-GMA-1047 was originally awarded to the City of Santa Ana. Subsequently the funding was assigned to the County. These Projects were approved under the Growth Management Area (GMA) Program and the Master Plan of Arterial Highways (MPAH). Types of improvements and expenditures allowed under the CTFP Guidelines for the GMA Program include:

- Intersection improvements
 - Design (plans, specification, and estimates)
 - Right-of-way
 - Construction
 - Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Signal coordination
 - Interconnect systems to link arterials
 - Expansion to tie into a coordinated system
 - Signal timing
 - Traffic signal detectors
 - Equipment/modifications to create an "open" system
 - Design (plans, specifications, and estimates)
 - Construction
 - Construction Engineering (CTFP funding limited to 15 percent of construction costs)
- Traffic management systems
 - Hardware (pavement sensors, communications cable, programs to run the computer)
 - Design (plans, specifications, and estimates)
 - Construction
 - Construction engineering (CTFP funding limited to 15 percent of construction costs)

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049
Warner Avenue Bridge Widening Project

Notes to Financial Schedule (Continued)

For the Period November 22, 2006 through May 21, 2008

(1) General Information (Continued)

- Arterial highway improvements
 - Design (plans, specifications, and estimates)
 - Right-of-way
 - Construction activities
 - Construction engineering
- Signal preemption (intersection devices only)

The MPAH Program is designed to provide a funding source that will aid in the build-out of the MPAH. Eligible MPAH expenditures under the CTFP Guidelines include:

- Gap closures
- Widening
- New roadways

For each of these types of projects, eligible expenditures include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)

In accordance with the CTFP Guidelines, agencies receiving funding under the MPAH Program are required to provide matching funds of at least 50% of eligible expenditures. The County satisfied its required match for the MPAH project. There was no matching requirement for the GMA project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the County to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.



Mayer Hoffman McCann P.C.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes the total costs incurred by the County of Orange, California (County), for the period November 22, 2006 through May 21, 2008 under Combined Transportation Funding Program (CTFP) Project Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049 with the Orange County Transportation Authority (OCTA) for the widening of the Warner Avenue Bridge, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's Financial Schedule that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the County is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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*.

This report is intended solely for the information of management of the Orange County Transportation Authority and the County of Orange and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-IRVN-RIP-1104
Improvement to Interchange at Jeffery Road &
Interstate 405 Project

For the Period
January 20, 2005 through September 12, 2007

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-IRVN-RIP-1104
Improvement of Interchange at Jeffery Road & Interstate 405 Project

For the Period January 20, 2005 through September 12, 2007

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Irvine, California (City), for the period January 20, 2005 through September 12, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-IRVN-RIP-1104 with the Orange County Transportation Authority (OCTA) for the improvement of the interchange at Jeffery Road and Interstate 405. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period January 20, 2005 through September 12, 2007 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City of Irvine in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period January 20, 2005 through September 12, 2007 under CTFP Project Number 99-IRVN-RIP-1104 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed

in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Irvine and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "Mayer H. Holt M. Com. P. 2." The signature is written in a cursive, somewhat stylized font.

Irvine, California
January 8, 2010

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 99-IRVN-RIP-1104
 Improvement of Interchange at Jeffery Road & Interstate 405 Project

Schedule of Costs Claimed

For the Period January 20, 2005 through September 12, 2007

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
99-IRVN-RIP-1104	\$ 2,916,879	\$ -	\$ 2,916,879	\$ 2,916,879	\$ -	\$ 2,916,879	\$ -	\$ -	\$ -
Local match	-	7,308,841	7,308,841	-	7,142,117	7,142,117	-	166,724	166,724
Total revenue	<u>2,916,879</u>	<u>7,308,841</u>	<u>10,225,720</u>	<u>2,916,879</u>	<u>7,142,117</u>	<u>10,058,996</u>	<u>-</u>	<u>166,724</u>	<u>166,724</u>
Expenditures:									
Construction engineering	-	105,190	105,190	-	665,971	665,971	-	(560,781)	(560,781)
Construction	<u>2,916,879</u>	<u>7,203,651</u>	<u>10,120,530</u>	<u>2,916,879</u>	<u>6,476,146</u>	<u>9,393,025</u>	<u>-</u>	<u>727,505</u>	<u>727,505</u>
Total expenditures	<u>2,916,879</u>	<u>7,308,841</u>	<u>10,225,720</u>	<u>2,916,879</u>	<u>7,142,117</u>	<u>10,058,996</u>	<u>-</u>	<u>166,724</u>	<u>166,724</u>
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-IRVN-RIP-1104
Improvement of Interchange at Jeffery Road & Interstate 405 Project

Notes to Financial Schedule

For the Period January 20, 2005 through September 12, 2007

(1) General Information

On July 17, 1995, the City of Irvine, California (City) entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On January 20, 2005, the improvement to the interchange at Jeffery Road and Interstate 405 was approved as Project Number 99-IRVN-RIP-1104 under the Regional Improvement Program (RIP). The RIP Program is designed to improve eligible interchanges throughout the County of Orange. Eligible RIP expenditures under the CTFP Guidelines include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction activities including:
 - approaches/exits/ramps
 - signals (traffic, ramp meters)
 - widening
 - restriping (high occupancy vehicle bi-pass and mixed flow)
 - bridge structures
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)

In accordance with the CTFP Guidelines, agencies receiving funding under the RIP Program are required to provide matching funds of at least 50% of eligible expenditures. The City satisfied its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-IRVN-RIP-1104
Improvement of Interchange at Jeffery Road & Interstate 405 Project

Notes to Financial Schedule (Continued)

For the Period January 20, 2005 through September 12, 2007

(3) Questioned Costs

Total project costs as listed on the final report submitted by the City were overstated by \$166,724; however, this had no impact on the amount requested for reimbursement or the required 50% match by the City.



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AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes total costs incurred by the City of Irvine, California (City), for the period January 20, 2005 through September 12, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-IRVN-RIP-1104 with the Orange County Transportation Authority (OCTA) for the improvement of the interchange at Jeffery Road and Interstate 405, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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*.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Irvine and is not intended to be and should not be used by anyone other than those specified parties.

Mayer North Miller P.C.

Irvine, California
January 8, 2010



January 12, 2010

Ms. Kathleen M. O'Connell, CPA
Executive Director, Internal Audit
Orange County Transportation Authority
600 S. Main Street, 12th Floor
Orange, California 92868

Dear Ms. O'Connell

In planning and performing our audit of the following Combined Transportation Funding Program (CTFP) projects, we considered Orange County Transportation Authority's (OCTA's) internal control structure to the extent necessary to design our audit procedures. An audit is not designed to provide assurance on the internal control structure for other purposes.

<u>Jurisdiction</u>	<u>CTFP Grant Number</u>	<u>Reporting Period</u>
City of Irvine	99-IRVN-RIP-1104	January 20, 2005 through September 12, 2007
City of Lake Forest	03-LFOR-MPH-1171	August 19, 2003 through June 4, 2007
City of Orange	00-ORNG-IIP-3141	June 24, 2003 through January 30, 2008
City of San Clemente	99-SCLM-MPH-2004	February 27, 2002 through August 8, 2007
City of Stanton	99-STAN-SIP-1192	September 12, 2000 through September 19, 2007
City of Westminster	00-WEST-SIP-3198	August 9, 2002 through October 24, 2007
County of Santa Ana	96-SNTA-GMA-1047	November 22, 2006 through May 21, 2008
County of Orange	99-SCLM-MPH-2004	November 22, 2006 through May 21, 2008

During our audit we became aware of certain matters that we believe present an opportunity for OCTA to further strengthen its internal controls, operating efficiency and CTFP Guidelines. These matters do not represent significant deficiencies, material weaknesses in internal control, or material instances of noncompliance. The following summarizes our comments and suggestions regarding these matters. This letter does not affect our reports issued on the projects audited.

(1) Need to Ensure that Final Reports are Submitted Within 180 Days of Project Completion

The following jurisdictions did not submit their final report to OCTA within 180 days of project completion.

<u>Jurisdiction</u>	<u>Date of Notice of Completion</u>	<u>Final Report Date</u>
City of Orange	December 12, 2006	January 30, 2008
City of San Clemente	July 31, 2006	August 8, 2007
City of Stanton	December 3, 2001	September 19, 2007

(1) Need to Ensure that Final Reports are Submitted Within 180 Days of Project Completion (Continued)

Chapter 13, *Delinquent Report*, of the CTFP 1999 and 2007 Guidelines states, in part:

“...OCTA will work with jurisdictions to ensure the timeliness of final reports by utilizing the following procedures:..

- Require all jurisdictions to file a final report within 180 days of project completion date...’

Recommendation

We recommend that OCTA establish procedures to ensure that all jurisdictions receiving funds under the CTFP Program submit a final report within 180 days of project completion.

Management Response

The current CTFP guidelines offer no punitive actions for delinquent final reports. Staff actively pursues the reports and reminds agency staff to submit final reports. In July 2009, reminder letters were sent under OCTA Chief Executive Office signature to all agencies with delinquent final reports.

The Measure M2 Comprehensive Transportation Guidelines (CTP), currently scheduled to be approved by the Board in January 2010, includes specific language on the procedures to be followed in the event of a delinquent final report. These include punitive actions which ultimately culminate in the cancellation of the project and an invoice being sent to the agency for all monies reimbursed.

(2) Allowable Overhead Rate

OCTA allows jurisdictions receiving funds under the CTFP Program to bill an overhead rate of 30% of payroll and fringe benefits without supporting documentation for the rate charged. This is not consistent with the CTFP Guidelines.

Chapter 13, Exhibit 13-3, *Final Report*, of the CTFP 1999 and 2007 Guidelines state, in part:

“...Overhead at allowable rate up to 30% of payroll and fringe benefits...”

The Final Report as depicted in Exhibit 13-3 of the CTFP Guidelines allows a maximum overhead rate of 30% of salaries and fringe benefits. The claimed overhead, however, should be based upon jurisdiction’s actual costs.

(2) **Allowable Overhead Rate (Continued)**

Recommendation

We recommend that OCTA provide written clarification to jurisdictions receiving funding under the CTFP program clarifying that the allowable overhead rate is the jurisdiction's actual overhead rate, not to exceed 30% of salaries and fringe benefits.

Management Response

The CTFP guidelines state that overhead is allowable at a rate "up to 30%" of the specific agency's payroll and fringe benefits. Some agencies, due to size, cannot calculate their specific overhead rate. In such cases, the Cost Accounting Policies and Procedures Manual of the California Uniform Public Construction Cost Accounting Commission allows for a fixed overhead rate billing dependant on city size.

The Measure M2 CTP guidelines, currently scheduled to be approved by the Board in January 2010, includes the word "actual" to now state "actual overhead at allowable rate up to 30% of payroll and fringe benefits

OCTA's written responses to the other matters identified in our audit are described above. We did not audit OCTA's responses, and accordingly, we express no opinion on them.

Should you have any questions regarding this matter, please do not hesitate to call me at (949) 474-2020 extension 244, or Sam Perera at extension 272.

Sincerely,

MAYER HOFFMAN McCANN P.C.



Marcus D. Davis, CPA
Shareholder

ORANGE COUNTY TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM
 SUMMARY OF PROJECT AUDIT RESULTS

Jurisdiction	Project # / Description	CTFP Funding	Findings	Recommendations
Stanton	99-STAN-SIP-1192	\$84,417	City did not retain documentation supporting any invoices. Auditors questioned all costs, or \$84,417	Seek reimbursement of \$84,417.
Westminster	00-WEST-SIP-3198	221,744	City did not maintain timesheets to support labor and overhead costs claimed. Auditors questioned salaries of \$9,086 and associated overhead of \$2,782.	Seek reimbursement of \$11,868.
Orange	00-ORNG-IIP-3141	943,376	The city did not submit the final project report to OCTA within 180 days of project completion.	The city should implement procedures to ensure timely submission of final project reports.
Lake Forest	03-LFOR-MPH-1171	13,707,215	Final report submitted by city contained errors, none of which affected CTFP funding. In addition, excess right-of-way purchased for the improvements were not used for transportation purposes and the city did not advise OCTA of this so that the parties could come to agreement on disposition.	City and OCTA should enter into negotiations for final disposition of excess right-of-way. Matter was resolved on December 7, 2009. OCTA should develop enhanced procedures for ongoing monitoring of possible excess right of way.
San Clemente	99-SCLM-MPH-2004	1,044,484	The city did not submit the final project report to OCTA within 180 days of project completion.	The city should implement procedures to ensure timely submission of final project report.
Irvine	99-IRVN-RIP-1104	2,916,879	Final report submitted by city contained errors, none of which affected CTFP funding.	None.
County of Orange (on behalf of Santa Ana)	96-SNTA-GMA-1047	550,000	None.	None.
County of Orange	00-ORCO-MPAH-3049	1,377,028	None.	None.

TOTAL**\$19,988,982**

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

For the Period
September 12, 2000 through September 19, 2007

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

For the Period September 12, 2000 through September 19, 2007

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Stanton, California (City) for the period September 12, 2000 through September 19, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-STAN-SIP-1192 with the Orange County Transportation Authority (OCTA) for the Cerritos Avenue/Western Avenue traffic signal project. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period September 12, 2000 through September 19, 2007 in accordance with the CTFP program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period September 12, 2000 through September 19, 2007 under CTFP Project Number 99-STAN-SIP-1192 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Stanton and is not intended to be and should not be used by anyone other than those specified parties.

Margen M. M. M. P. C.

Irvine, California
January 8, 2010

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Program Number 99-STAN-SIP-1192
 Cerritos Avenue/Western Avenue Traffic Signal Project

Schedule of Costs Claimed

For the Period September 12, 2000 through September 19, 2007

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
99-STAN-SIP-1192	\$ 84,417	\$ 19,584	\$ 104,001	\$ -	\$ -	\$ -	\$ 84,417	\$ 19,584	\$ 104,001
Local match	-	-	-	-	-	-	-	-	-
Total revenue	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>
Expenditures:									
Construction	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>
Total expenditures	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,417</u>	<u>19,584</u>	<u>104,001</u>
Net revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial schedule

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

Notes to Financial Schedule

For the Period September 12, 2000 through September 19, 2007

(1) General Information

On August 8, 1995, the City of Stanton, California (City), entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On September 12, 2000 the Cerritos Avenue/Western Avenue Traffic Signal Project was approved as Project Number 99-STAN-SIP-1192 under the Signal Improvement Program (SIP). The SIP Program is designed to provide funds for improvements that lead to better operation and management of signal systems and traffic congestion relief. Eligible SIP expenditures under the CTFP Guidelines include:

- Timing
 - Design (new or 3+ years since funded)
 - Equipment such as interconnect, controllers, software (new or 5+ years since funded)
 - Construction engineering (CTFP funding limited to 15 percent of construction costs)
- System detection (new or 5+ years since funded)
 - Closed circuit televisions
 - Inductive loops
 - Video imaging detection systems
 - Other detection systems
- Expert systems (such as decision support systems or adaptive control systems)
 - System communication links (i.e., between master systems/traffic operations centers)
 - Modification of existing traffic signal (i.e., conversion to protective permission signals)

In accordance with the CTFP Guidelines, agencies receiving funding under the SIP Program are required to provide matching funds of at least 20% of eligible expenditures. Based upon review, the City did not satisfy its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City of Stanton to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

Notes to Financial Schedule (Continued)

For the Period September 12, 2000 through September 19, 2007

(3) Questioned Costs

The City was not able to provide complete documentation to support costs incurred on the project. As such, we have questioned \$84,417 of costs, which represents all costs associated with the project. The nature of the documentation provided and missing is as follows:

- The City provided copies of contracts to support budgeted construction costs, but support was not provided to substantiate payments to the contractors.
- No documentation was provided to substantiate change orders or extra work.
- A general ledger was provided to substantiate the other costs such as equipment purchases. However, no invoices or copies of checks were provided to support these costs.
- A Notice of Completion was provided to substantiate that the work was completed and accepted by the City.



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Board of Directors
Orange County Transportation Authority
Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes total costs incurred by the City of Stanton, California (City), for the period September 12, 2000 through September 19, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-STAN-SIP-1192 with the Orange County Transportation Authority (OCTA) for the Cerritos Avenue/Western Avenue traffic signal project, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Findings and Recommendations section as items 1 and 2.

The City's response to the finding identified in our audit is described in the accompanying Findings and Recommendations section of the report. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Stanton and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

Findings and Recommendations

For the Period September 12, 2000 through September 19, 2007

(1) **Need to Ensure that Final Reports are Submitted Within 180 Days After Project Completion**

The City did not submit its final report to OCTA within 180 days after project completion. The Notice of Completion was dated December 3, 2001 and the Final Report was dated September 19, 2007.

Chapter 13, *Final Report*, of the CTFP 2007 Guidelines states, in part:

“The Final Report must be submitted to the Orange County Transportation Authority within 180 days after acceptance of the improvements, study, or project (i.e., Notice of Completion)...”

Recommendation

We recommend that, should the City receive future funding under the CTFP Program, that it establish procedures to ensure that the final report is submitted within 180 days of project completion.

Management Response

As noted in management response (1), the reports have been filed in a timely manner after change of City management in 2007. The City has been submitting final reports within 180 days of project completion.

(2) **Need to Adequately Support Project Costs**

The City of Stanton (City) did not maintain adequate financial records to support project costs claimed for Project Number 99-STAN-SIP-1192. As noted below, only partial records were provided for our review.

- Copies of contracts were provided to support construction costs but support was not provided to substantiate payment to the contractor.
- No documentation was provided to substantiate change orders or extra work.

CITY OF STANTON, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-STAN-SIP-1192
Cerritos Avenue/Western Avenue Traffic Signal Project

Findings and Recommendations (Continued)

For the Period September 12, 2000 through September 19, 2007

(2) **Need to Adequately Support Project Costs (Continued)**

- The general ledger was provided to substantiate other costs such as equipment; however, no invoices or copies of checks were provided.
- Notice of Completion was provided to substantiate that work was completed.

Although the construction period for this project was from September 12, 2000 through November 14, 2001, the final report submitted to OCTA with the City's request for reimbursement was dated April 3, 2007. Project completion occurs with the filing of the final report. In addition, Guidelines require all supporting documentation to be retained for 5 years after project closeout and final payment.

The 1999 Combined Transportation Funding Program Guidelines, Chapter 14 states, in part:

"...Project records must be maintained for five (5) years ..."

The City stated that the individuals who performed tasks for the project were no longer employed by the City. Without adequate supporting documentation, we were unable to determine whether costs claimed were reasonable and allowable in accordance with the CTFP Guidelines.

Recommendation

We have questioned all project costs totaling \$104,001 as a result of a lack of records to support costs claimed. We recommend that the City maintain project records for at least five (5) years after project completion.

Management Response

The supporting documentation was not available for the auditors to examine because the retention period of seven years had lapsed. The reimbursement report for the completed project in 2001 was not filed until 2007. The City was informed of the audit in 2009. Since the change of management in late 2007, reimbursement reports have been filed in a timely manner.

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
Intelligent Transportation Project (Phase III)

For the Period
August 9, 2002 through October 24, 2007

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
Intelligent Transportation Project (Phase III)

For the Period August 9, 2002 through October 24, 2007

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Westminster, California (City), for the period August 9, 2002 through October 24, 2007 under Combined Transportation Funding Program (CTFP) Project Number 00-WEST-SIP-3198 with the Orange County Transportation Authority (OCTA) for the completion of Phase III of the installation of video imaging detection systems and closed circuit televisions at eight intersections. The costs as presented in the Financial Schedule are the responsibility of the City of Westminster. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period August 9, 2002 through October 24, 2007 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period August 9, 2002 through October 24, 2007 under CTFP Project Number 00-WEST-SIP-3198 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Westminster and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Nathan M. C. P.C.

Irvine, California
January 7, 2010

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Program Number 00-WEST-SIP-3198
 TSCOUP Intelligent Transportation project (Phase III)

Schedule of Costs Claimed

For the Period August 9, 2002 through October 24, 2007

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
00-WEST-SIP-3198	\$ 221,744	\$ -	\$ 221,744	\$ 209,876	\$ -	\$ 209,876	\$ 11,868	\$ -	\$ 11,868
Local match	-	113,569	113,569	-	111,213	111,213	-	2,356	2,356
Total revenue	221,744	113,569	335,313	209,876	111,213	321,089	11,868	2,356	14,224
Expenditures:									
Construction engineering	11,868	2,356	14,224	-	-	-	11,868	2,356	14,224
Construction	209,876	111,213	321,089	209,876	111,213	321,089	-	-	-
Total expenditures	221,744	113,569	335,313	209,876	111,213	321,089	11,868	2,356	14,224
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
Intelligent Transportation Project (Phase III)

Notes to Financial Schedule

For the Period August 9, 2002 through October 24, 2007

(1) General Information

On August 18, 1995, the City of Westminster, California (City), entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On August 9, 2009, the Intelligent Transportation Project (Phase III) was approved as Project Number 00-WEST-SIP-3198 under the Signal Improvement Program (SIP). The SIP Program is designed to provide funds for improvements that lead to better operation and management of signal systems and traffic congestion relief. Eligible SIP expenditures under the CTFP Guidelines include:

- Timing
 - Design (new or 3+ years since funded)
 - Equipment such as interconnect, controllers, software (new or 5+ years since funded)
 - Construction engineering (CTFP funding limited to 15 percent of construction costs)
- System detection (new or 5+ years since funded)
 - Closed circuit televisions
 - Inductive loops
 - Video imaging detection systems
 - Other detection systems
- Expert systems (such as decision support systems or adaptive control systems)
 - System communication links (i.e., between master systems/traffic operations centers)
 - Modification of existing traffic signal (i.e., conversion to protective/ permission signals)

In accordance with the CTFP Guidelines, agencies receiving funding under the SIP Program are required to provide matching funds of at least 20% of eligible expenditures. The City satisfied its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the CTFP Program. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
--Intelligent Transportation Project (Phase III)

Notes to Financial Schedule

For the Period August 9, 2002 through October 24, 2007

(3) Questioned Costs

The City provided a labor and overhead cost schedule that identified the individuals, hours and amounts charged to Project Number 00-WEST-SIP-3198. However the City was not able to provide detailed time sheets to support the hours. As such, we are unable to verify the accuracy of hours reported on the labor and overhead cost schedule. Therefore, we have questioned salaries in the amount of \$9,086 and associated overhead in the amount of \$2,782.



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Board of Directors
Orange County Transportation Authority
Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes total costs incurred by the City of Westminster, California (City) for the period August 9, 2002 through October 24, 2007 under Combined Transportation Funding Program (CTFP) Project Number 00-WEST-SIP-3198 with the Orange County Transportation Authority (OCTA) for the completion of phase III of the installation of video imaging detection system and closed circuit televisions at eight intersections, and have issued our report thereon dated January 7, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedules that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Finding and Recommendation as item 1.

The City's and OCTA's response to the finding identified in our audit is described in the accompanying Finding and Recommendation section of the report. We did not audit the City's and OCTA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Westminster and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 7, 2010

CITY OF WESTMINSTER, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-WEST-SIP-3198
Intelligent Transportation Project (Phase III)

Finding and Recommendation

For the Period August 9, 2002 through October 24, 2007

(1) **Need to Maintain Timesheets**

The City of Westminster (City) was not able to provide time sheets to support hours on the labor and overhead cost schedule. As such, we are unable to verify the accuracy of time charged to the CTFP project. Guidelines require all supporting documentation to be retained for 5 years after project closeout and final payment.

The 1999 Combined Transportation Funding Program Guidelines, Chapter 14 states, in part:

“...Project records must be maintained for five (5) years ...”

According to the Civil Engineering Principal, due to space constraints, the City did not maintain all project documents and were not aware that detailed timesheets should be retained.

Recommendation

We have questioned in-house labor costs in the amount of \$9,086, and related overhead costs in the amount of \$2,782 due to the lack of detailed records to support the costs claimed. We recommend that the City maintain detailed timesheets for at least five (5) years after project completion.

Management Response

The City of Westminster concurs with the findings in this report. The City staff provided satisfied explanations and back-up payrolls to the questioned salary and overhead costs. The City staff will change future in-house procedures to maintain detailed timesheets with the project's records for five years after project completion as recommended.

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-ORNG-IIP-3141
Chapman Avenue & Prospect Street
Intersection Improvement Project

For the Period
June 24, 2003 through January 30, 2008

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-ORNG-IIP-3141
Chapman Avenue & Prospect Intersection Improvement Project

For the Period June 24, 2003 through January 30, 2008

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Orange, California (City) for the period June 24, 2003 through January 30, 2008 under Combined Transportation Funding Program (CTFP) Project Number 00-ORNG-IIP-3141 with the Orange County Transportation Authority (OCTA) for the improvement of the intersection at Chapman Avenue and Prospect Street. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period June 24, 2003 through January 30, 2008 in accordance with the CTFP program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period June 24, 2003 through January 30, 2008 under CTFP Project Number 00-ORNG-IIP-3141 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

Board of Directors
Orange County Transportation Authority
Orange, California

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Orange and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 00-ORNG-IIP-3141
 Chapman Avenue & Prospect Intersection Improvement Project

Schedule of Costs Claimed

For the Period June 24, 2003 through January 30, 2008

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
00-ORNG-IIP-3141	\$ 943,376	\$ -	\$ 943,376	\$ 943,376	\$ -	\$ 943,376	\$ -	\$ -	\$ -
Local match	-	257,054	257,054	-	257,054	257,054	-	-	-
Total revenue	943,376	257,054	1,200,430	943,376	257,054	1,200,430	-	-	-
Expenditures:									
Right-of-way	263,962	74,451	338,413	263,962	74,451	338,413	-	-	-
Construction engineering	32,000	-	32,000	32,000	-	32,000	-	-	-
Construction	647,414	182,603	830,017	647,414	182,603	830,017	-	-	-
Total expenditures	943,376	257,054	1,200,430	943,376	257,054	1,200,430	-	-	-
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-ORNG-IIP-3141
Chapman Avenue & Prospect Intersection Improvement Project

Notes to Financial Schedule

For the Period June 24, 2003 through January 30, 2008

(1) **General Information**

On August 18, 1995, the City of Orange, California (City) entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On June 24, 2003, the Chapman Avenue and Prospect Street Intersection Improvement Project (Project) was approved as Project Number 00-ORNG-IIP-3141 under the Intersection Improvement Program (IIP). The IIP Program is designed to improve eligible interchanges throughout the County of Orange. Eligible IIP expenditures under the CTFP Guidelines include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction activities including:
 - Widening
 - Traffic signals
 - Bus turnouts (if part of the intersection improvements)
 - Bike lanes (striping only)
 - Cross gutter elimination if it improves traffic flow/capacity
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)
- Grade separation projects (street to street)

In accordance with the CTFP Guidelines, agencies receiving funding under the IIP Program are required to provide matching funds of at least 20% of eligible expenditures. The City satisfied its required match for this project.

(2) **Summary of Significant Accounting Policies**

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.



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Board of Directors
Orange County Transportation Authority
Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes the total costs incurred by the City of Orange, California (City), for the period June 24, 2003 through January 30, 2008 under Combined Transportation Funding Program (CTFP) Project Number 00-ORNG-IIP-3141 with the Orange County Transportation Authority (OCTA) for the improvement of the intersection at Chapman Avenue and Prospect Street, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City of Orange is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Finding and Recommendation section as item 1.

The City's response to the finding identified in our audit is described in the accompanying Finding and Recommendation section of the report. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Orange and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 00-ORNG-IIP-3141
Chapman Avenue & Prospect Intersection Improvement Project

Finding and Recommendation

For the Period June 24, 2003 through January 30, 2008

(1) Need to Ensure that Final Reports are Submitted Within 180 Days of Project Completion

The City did not submit the final report to OCTA within 180 days of project completion. The Notice of Completion was dated December 12, 2006 and the Final Report was dated January 30, 2008.

Chapter 13, *Final Report*, of the CTFP 1999 Guidelines states, in part:

“The Final Report must be submitted to the Orange County Transportation Authority within 180 days after acceptance of the improvements, study, or project (i.e., Notice of Completion)...”

Recommendation

We recommend that, should the City receive future funding under the CTFP Program, that it establish procedures to ensure that the final report is submitted within 180 days of project completion.

Management Response

The auditor is correct that the Notice of Completion was filed in December 2006, but the Final Report to OCTA was delayed due to OCTA's late approval of the final 10% reimbursement of the project's R/W and Design payment. We filed the final 10% R/W and Design payment request on September 15, 2006, but that payment was not received till February 4, 2008. Without the final 10% R/W and Design payment approval, we could not submit the Final Report to OCTA documenting all the expenditure on the project. In mid January 2008, OCTA finally informed the City that the check has been issued for the 10% payment, so we submitted the Final Report to OCTA on January 29, 2008.

OCTA Response

The city is obligated to submit final reports within 180 days of accepting the improvements regardless of the status of other payments. As per the program guidelines, the final report for each project phase is designed to be independent of the others. The final report for the construction phase is not a full accounting of the project, but an accounting of the construction expenses. Any delays in the processing of final reports for the engineering or right-of-way phases due to missing documentation would not prohibit the City from a timely submittal of the final report for the construction phase.

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of
El Toro Road: Interstate 5 to Jutewood Place/Cornelius Drive

For the Period
August 19, 2003 through June 4, 2008

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

For the Period August 19, 2003 through June 4, 2008

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Lake Forest, California (City), for the period August 19, 2003 through June 4, 2008 under Combined Transportation Funding Program (CTFP) Project Number 03-LFOR-MPH-1171 with the Orange County Transportation Authority (OCTA) for the widening and improvement of El Toro Road from Interstate 5 to Jutewood Place/Cornelius Drive. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period August 19, 2003 through June 4, 2008 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. Accordingly, the accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period August 19, 2003 through June 4, 2008 under CTFP Project Number 03-LFOR-MPH-1171 in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Lake Forest and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 7, 2010

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 03-LFOR-MPH-1171
 Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

Schedule of Costs Claimed

For the Period August 19, 2003 through June 4, 2008

	As Submitted			As Audited			Variance		
	CTFP	City		CTFP	City		CTFP	City	
		Match	Total		Match	Total		Match	Total
Revenues:									
03-LFOR-MPH-1171	\$ 13,707,215	\$ -	\$ 13,707,215	\$ 13,707,215	\$ -	\$ 13,707,215	\$ -	\$ -	\$ -
Local match	-	18,522,988	18,522,988	-	22,654,093	22,654,093	-	(4,131,105)	(4,131,105)
Total revenue	13,707,215	18,522,988	32,230,203	13,707,215	22,654,093	36,361,308	-	(4,131,105)	(4,131,105)
Expenditures:									
Right-of-way	8,888,059	8,888,060	17,776,119	8,888,059	13,267,423	22,155,482	-	(4,379,363)	(4,379,363)
Construction engineering	534,773	2,602,178	3,136,951	534,773	1,476,971	2,011,744	-	1,125,207	1,125,207
Construction	4,284,383	7,032,750	11,317,133	4,284,383	7,909,699	12,194,082	-	(876,949)	(876,949)
Total expenditures	13,707,215	18,522,988	32,230,203	13,707,215	22,654,093	36,361,308	-	(4,131,105)	(4,131,105)
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

Notes to Financial Schedule

For the Period August 19, 2003 through June 4, 2008

(1) General Information

On August 18, 1995, the City of Lake Forest, California (City), entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. The Widening and Improvement of El Toro Road from Interstate 5 to Jutewood Place/Cornelius Drive was approved under Project Number 03-LFOR-MPH-1171. This project was approved under the Master Plan of Arterial Highways Program (MPAH). Types of improvements and expenditures allowed under the MPAH Program include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)

In accordance with the CTFP Guidelines, agencies receiving funding under the MPAH Program are required to provide matching funds of at least 50% of eligible expenditures. The City satisfied its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.

(3) Adjustments to Final Report

Total project costs as listed on the final invoice submitted to OCTA by the City were understated by \$4,131,105; however this did not impact the amount submitted for reimbursement by the City, or calculation of the City's match requirement.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL SCHEDULES PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes the total cost incurred by the City of Lake Forest, California (City), for the period August 19, 2003 through June 4, 2008 under Combined Transportation Funding Program (CTFP) Project Number 03-LFOR-MPH-1171 with the Orange County Transportation Authority (OCTA) for the widening and improvement of El Toro Road from Interstate 5 to Jutewood Place/Cornelius Drive, and have issued our report thereon dated January 7, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Finding and Recommendation section as item 1.

The City's and OCTA's response to the finding identified in our audit is described in the accompanying Finding and Recommendation section of the report. We did not audit the City's and OCTA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the City of Lake Forest and the Orange County Transportation Authority and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 7, 2010

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

Finding and Recommendation

For the Period August 19, 2003 through June 4, 2008

(1) **Need to Notify/Mutually Agree as to Excess Right of Way**

A component of the total cost of this project included the acquisition of right-of-way. In order to obtain the needed right-of-way, the City negotiated the purchase of a much larger parcel of land than was necessary for the project. The excess right-of-way was retained by the City and used for aesthetic improvements and landscaping.

Amendment #1 to the Master Agreement Number C-95-981 states, in part:

“...AUTHORITY requires written notification at the time when right of way is declared excess to the transportation improvement, and prior to the disposal process. Resolution of any issue regarding whether or not a right of way is excess to the transportation improvement will be by the mutual agreement of AUTHORITY and AGENCY....”

The City did not notify OCTA of the non-transportation use of a portion of the acquired land so that the parties could agree on the disposition of this excess land in accordance with the Amendment to the Master Agreement referenced above.

Recommendation

We recommend that the City enter into discussions with OCTA to obtain agreement as to the disposition of the excess right of way.

Management Response

Thank you for the opportunity to review and comment on the Closeout Audit of Costs Claimed on the El Toro Road CTFP project for the period August 19, 2003 through June 4, 2008. As described in Auditor's Notes 1 and 3, the City of Lake Forest exceeded the 50% matching requirement for this project. However, the City remains concerned that the report does not fairly represent the results of the audit or the City's interests in this matter. The Independent Auditor's report contains a schedule of Costs Claimed which City staff assisted with. As a result of this audit, City staff will submit a revised Final Report and supplemental Final Invoice for approximately \$700,000.

CITY OF LAKE FOREST, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 03-LFOR-MPH-1171
Widening and Improvement of El Toro Road: I-5 to Jutewood Place/Cornelius Drive

Finding and Recommendation (Continued)

For the Period August 19, 2003 through June 4, 2008

(1) **Need to Notify/Mutually Agree as to Excess Right of Way (Continued)**

Management Response (Continued)

City staff disputes the above Finding and Recommendation. It is staff's belief the discussions regarding right-of-way acquisition occurred at semi-annual reviews with OCTA staff during audited period. Correspondence to that effect was provided to the Auditor which seems to contradict the Finding. Further, City staff met with OCTA on December 7, 2009, to discuss project's right-of-way acquisition. That discussion concluded that the City acquired only those real property interests that were necessary to deliver the project, under approved funding agreement with OCTA, and no disposition of excess right-of-way occurred or is anticipated in the foreseeable future.

OCTA Response

City staff met with OCTA on December 7, 2009 to discuss the right-of-way acquisition for the subject project. Those discussions determined that per OCTA's definition, excess right-of-way did exist on the project ("excess" being defined as real property interests acquired deemed in excess of what was necessary for the proposed transportation use). However, it was also determined that this excess property amounted to uneconomic remnants and no disposition of excess right-of-way was to be expected.

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-SCLM-MPH-2004
Improvement of Avenida La Pata Extension

For the Period
February 27, 2002 through August 8, 2007

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-SCLM-MPH-2004
Improvement of Avenida La Pata Extension

For the Period February 27, 2002 through August 8, 2007

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of San Clemente, California (City), for the period February 27, 2002 through August 8, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-SCLM-MPH-2004 with the Orange County Transportation Authority (OCTA) for the Avenida La Pata Extension. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period February 27, 2002 through August 8, 2007 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period February 27, 2002 through August 8, 2007 under CTFP Project Number 99-SCLM-MPH-2004 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of San Clemente and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hawthorn McCann P.C.

Irvine, California
January 8, 2010

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 99-SCLM-MPH-2004
 Improvement of Avenida La Pata Extension Project

Schedule of Costs Claimed

For the Period February 27, 2002 through August 8, 2007

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
99-SCLM-MPH-2004	\$ 1,044,484	\$ -	\$ 1,044,484	\$ 1,044,484	\$ -	\$ 1,044,484	\$ -	\$ -	\$ -
Local match	-	3,971,219	3,971,219	-	3,971,219	3,971,219	-	-	-
Total revenue	1,044,484	3,971,219	5,015,703	1,044,484	3,971,219	5,015,703	-	-	-
Expenditures:									
Construction engineering	136,237	567,474	703,711	136,237	567,474	703,711	-	-	-
Construction	908,247	3,403,745	4,311,992	908,247	3,403,745	4,311,992	-	-	-
Total expenditures	1,044,484	3,971,219	5,015,703	1,044,484	3,971,219	5,015,703	-	-	-
Net revenue	\$ -	\$ -	\$ -						

See accompanying notes to financial schedule

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-SCLM-MPH-2004
Improvement of Avenida La Pata Extension

Notes to Financial Schedule

For the Period February 27, 2002 through August 8, 2007

(1) General Information

On August 31, 1995, the City of San Clemente, California (City) entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On February 27, 2002, the Avenida La Pata Extension Project was approved as Project Number 99-SCLM-MPH-2004 under the Master Plan of Arterial Highways (MPAH) Program. The MPAH Program is designed to provide a funding source for the build-out of the MPAH. Eligible MPAH expenditures under the CTFP Guidelines include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)

In accordance with the CTFP Guidelines, agencies receiving funding under the MPAH Program are required to provide matching funds of at least 50% of eligible expenditures. The City satisfied its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.



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Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes the total costs incurred by the City of San Clemente, California (City), for the period February 27, 2002 through August 8, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-SCLM-MPH-2004 with the Orange County Transportation Authority (OCTA) for the Avenida La Pata Extension, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

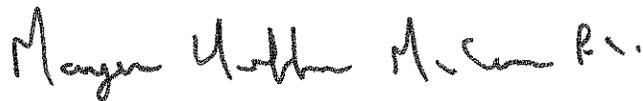
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Finding and Recommendation section as item 1.

The City's response to the finding identified in our audit is described in the accompanying Finding and Recommendation section of the report. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of San Clemente and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
January 8, 2010

CITY OF SAN CLEMENTE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-SCLM-MPH-2004
Improvement of Avenida La Pata Extension

Finding and Recommendation

For the Period February 27, 2002 through August 8, 2007

(1) Need to Ensure that Final Reports are Submitted Within 180 Days of Project Completion

The City did not submit the final report to OCTA within 180 days of project completion. The Notice of Completion was dated July 31, 2006 and the Final Report was dated August 8, 2007.

Chapter 13, *Final Report*, of the CTFP 2007 Guidelines states, in part:

“The Final Report must be submitted to the Orange County Transportation Authority within 180 days after acceptance of the improvements, study, or project (i.e., Notice of Completion)...”

Recommendation

We recommend that, should the City receive future funding under the CTFP Program, that it establish procedures to ensure that the final report is submitted within 180 days of project completion.

Management Response

This project was completed and accepted by the City of San Clemente. After the acceptance, third party information submitted was reviewed to make sure all information was verifiable and accessible in the City's files before the final report was filed and dated with the OCTA. City management will implement procedures to meet this criteria in the future.

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Numbers
96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049
Warner Avenue Bridge Widening Project

For the Period
November 22, 2006 through May 21, 2008

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049
Warner Avenue Bridge Widening Project

For the Period November 22, 2006 through May 21, 2008

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the County of Orange, California (County), for the period November 22, 2006 through May 21, 2008 under Combined Transportation Funding Program (CTFP) Project Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049 with the Orange County Transportation Authority (OCTA) for the widening and improvement of the Warner Avenue Bridge. The costs as presented in the Financial Schedule are the responsibility of the County. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the County for the period November 22, 2006 through May 21, 2008 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the County in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, total costs incurred by the County for the period November 22, 2006 through May 21, 2008 under CTFP Project Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the County of Orange and is not intended to be and should not be used by anyone other than those specified parties.

Margaret Matheson DeLeon R.C.

Irvine, California
January 8, 2010

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 00-ORCO-MPAH-3049 and 96-SNTA-GMA-1047
 Warner Avenue Bridge Widening Project

Schedule of Costs Claimed

For the Period November 22, 2006 through May 21, 2008

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
00-ORCO-MPAH-3049	\$ 1,377,028	-	\$ 1,377,028	\$ 1,377,028	-	\$ 1,377,028	\$ -	-	\$ -
96-SNTA-GMA-1047	550,000	-	550,000	550,000	-	550,000	-	-	-
Other GMA funding	1,044,000	-	1,044,000	1,044,000	-	1,044,000	-	-	-
Local match	-	3,734,511	3,734,511	-	3,734,511	3,734,511	-	-	-
Total revenue	2,971,028	3,734,511	6,705,539	2,971,028	3,734,511	6,705,539	-	-	-
Expenditures:									
Construction	2,583,502	2,976,956	5,560,458	2,583,502	2,976,956	5,560,458	-	-	-
Construction engineering	387,526	757,555	1,145,081	387,526	757,555	1,145,081	-	-	-
Total expenditures	2,971,028	3,734,511	6,705,539	2,971,028	3,734,511	6,705,539	-	-	-
Net revenue	\$ -	\$ -	\$ -						

See accompanying notes to financial schedule

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049
Warner Avenue Bridge Widening Project

Notes to Financial Schedule

For the Period November 22, 2006 through May 21, 2008

(1) General Information

On May 23, 1995, the County of Orange, California (County), entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. The Warner Avenue Bridge Widening Project was approved under Program Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049. Program Numbers 96-SNTA-GMA-1047 was originally awarded to the City of Santa Ana. Subsequently the funding was assigned to the County. These Projects were approved under the Growth Management Area (GMA) Program and the Master Plan of Arterial Highways (MPAH). Types of improvements and expenditures allowed under the CTFP Guidelines for the GMA Program include:

- Intersection improvements
 - Design (plans, specification, and estimates)
 - Right-of-way
 - Construction
 - Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Signal coordination
 - Interconnect systems to link arterials
 - Expansion to tie into a coordinated system
 - Signal timing
 - Traffic signal detectors
 - Equipment/modifications to create an "open" system
 - Design (plans, specifications, and estimates)
 - Construction
 - Construction Engineering (CTFP funding limited to 15 percent of construction costs)
- Traffic management systems
 - Hardware (pavement sensors, communications cable, programs to run the computer)
 - Design (plans, specifications, and estimates)
 - Construction
 - Construction engineering (CTFP funding limited to 15 percent of construction costs)

COUNTY OF ORANGE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049
Warner Avenue Bridge Widening Project

Notes to Financial Schedule (Continued)

For the Period November 22, 2006 through May 21, 2008

(1) General Information (Continued)

- Arterial highway improvements
 - Design (plans, specifications, and estimates)
 - Right-of-way
 - Construction activities
 - Construction engineering
- Signal preemption (intersection devices only)

The MPAH Program is designed to provide a funding source that will aid in the build-out of the MPAH. Eligible MPAH expenditures under the CTFP Guidelines include:

- Gap closures
- Widening
- New roadways

For each of these types of projects, eligible expenditures include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)

In accordance with the CTFP Guidelines, agencies receiving funding under the MPAH Program are required to provide matching funds of at least 50% of eligible expenditures. The County satisfied its required match for the MPAH project. There was no matching requirement for the GMA project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the County to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.



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Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes the total costs incurred by the County of Orange, California (County), for the period November 22, 2006 through May 21, 2008 under Combined Transportation Funding Program (CTFP) Project Numbers 96-SNTA-GMA-1047 and 00-ORCO-MPAH-3049 with the Orange County Transportation Authority (OCTA) for the widening of the Warner Avenue Bridge, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's Financial Schedule that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the County's internal control.

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-IRVN-RIP-1104
Improvement to Interchange at Jeffery Road &
Interstate 405 Project

For the Period
January 20, 2005 through September 12, 2007

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-IRVN-RIP-1104
Improvement of Interchange at Jeffery Road & Interstate 405 Project

For the Period January 20, 2005 through September 12, 2007

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the Schedule of Costs Claimed (Financial Schedule) submitted by the City of Irvine, California (City), for the period January 20, 2005 through September 12, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-IRVN-RIP-1104 with the Orange County Transportation Authority (OCTA) for the improvement of the interchange at Jeffery Road and Interstate 405. The costs as presented in the Financial Schedule are the responsibility of the City. Our responsibility is to express an opinion on the accompanying Financial Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying Financial Schedule was prepared to present the total costs incurred by the City for the period January 20, 2005 through September 12, 2007 in accordance with the CTFP Program as described in Note 1. As more fully described in Note 2, the accounting practices used to prepare the Financial Schedule may differ in some respects from accounting principles generally accepted in the United States of America. The accompanying Financial Schedule is not intended to present the financial position and results of operations of the City of Irvine in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Financial Schedule referred to above presents fairly, in all material respects, the total costs incurred by the City for the period January 20, 2005 through September 12, 2007 under CTFP Project Number 99-IRVN-RIP-1104 with OCTA in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed

in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Irvine and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "Mayer H. Holt M. C. P. C.", written in a cursive style.

Irvine, California
January 8, 2010

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
 Combined Transportation Funding Program
 Project Number 99-IRVN-RIP-1104
 Improvement of Interchange at Jeffery Road & Interstate 405 Project

Schedule of Costs Claimed

For the Period January 20, 2005 through September 12, 2007

	As Submitted			As Audited			Questioned Costs		
	CTFP	City Match	Total	CTFP	City Match	Total	CTFP	City Match	Total
Revenues:									
99-IRVN-RIP-1104	\$ 2,916,879	\$ -	\$ 2,916,879	\$ 2,916,879	\$ -	\$ 2,916,879	\$ -	\$ -	\$ -
Local match	-	7,308,841	7,308,841	-	7,142,117	7,142,117	-	166,724	166,724
Total revenue	<u>2,916,879</u>	<u>7,308,841</u>	<u>10,225,720</u>	<u>2,916,879</u>	<u>7,142,117</u>	<u>10,058,996</u>	<u>-</u>	<u>166,724</u>	<u>166,724</u>
Expenditures:									
Construction engineering	-	105,190	105,190	-	665,971	665,971	-	(560,781)	(560,781)
Construction	<u>2,916,879</u>	<u>7,203,651</u>	<u>10,120,530</u>	<u>2,916,879</u>	<u>6,476,146</u>	<u>9,393,025</u>	<u>-</u>	<u>727,505</u>	<u>727,505</u>
Total expenditures	<u>2,916,879</u>	<u>7,308,841</u>	<u>10,225,720</u>	<u>2,916,879</u>	<u>7,142,117</u>	<u>10,058,996</u>	<u>-</u>	<u>166,724</u>	<u>166,724</u>
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial schedule

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-IRVN-RIP-1104
Improvement of Interchange at Jeffery Road & Interstate 405 Project

Notes to Financial Schedule

For the Period January 20, 2005 through September 12, 2007

(1) General Information

On July 17, 1995, the City of Irvine, California (City) entered into an agreement with the Orange County Transportation Authority (OCTA) to use Measure M funds under the Combined Transportation Funding Program (CTFP) for transportation projects. On January 20, 2005, the improvement to the interchange at Jeffery Road and Interstate 405 was approved as Project Number 99-IRVN-RIP-1104 under the Regional Improvement Program (RIP). The RIP Program is designed to improve eligible interchanges throughout the County of Orange. Eligible RIP expenditures under the CTFP Guidelines include:

- Design (plans, specifications, and estimates)
- Right-of-way
- Construction activities including:
 - approaches/exits/ramps
 - signals (traffic, ramp meters)
 - widening
 - restriping (high occupancy vehicle bi-pass and mixed flow)
 - bridge structures
- Construction engineering (CTFP funding limited to 15 percent of construction costs)
- Aesthetic improvements, including landscaping (CTFP funding limited to 25 percent of construction costs)

In accordance with the CTFP Guidelines, agencies receiving funding under the RIP Program are required to provide matching funds of at least 50% of eligible expenditures. The City satisfied its required match for this project.

(2) Summary of Significant Accounting Policies

The accompanying Financial Schedule has been prepared from costs incurred and reported by the City to OCTA in accordance with the terms of the agreement. The cash basis of accounting, which differs from generally accepted accounting principles, was utilized in the preparation of the Financial Schedule.

CITY OF IRVINE, CALIFORNIA

Closeout Audit of Costs Claimed
Combined Transportation Funding Program
Project Number 99-IRVN-RIP-1104
Improvement of Interchange at Jeffery Road & Interstate 405 Project

Notes to Financial Schedule (Continued)

For the Period January 20, 2005 through September 12, 2007

(3) Questioned Costs

Total project costs as listed on the final report submitted by the City were overstated by \$166,724; however, this had no impact on the amount requested for reimbursement or the required 50% match by the City.



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Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL SCHEDULE PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the Schedule of Costs Claimed (Financial Schedule) which summarizes total costs incurred by the City of Irvine, California (City), for the period January 20, 2005 through September 12, 2007 under Combined Transportation Funding Program (CTFP) Project Number 99-IRVN-RIP-1104 with the Orange County Transportation Authority (OCTA) for the improvement of the interchange at Jeffery Road and Interstate 405, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting of the CTFP Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Financial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's Financial Schedule that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Financial Schedule will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the CTFP Program that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Financial Schedule of the CTFP Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Financial Schedule amounts. 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*.

This report is intended solely for the information of management of the Orange County Transportation Authority and the City of Irvine and is not intended to be and should not be used by anyone other than those specified parties.

Mayer North Miller P.C.

Irvine, California
January 8, 2010



January 12, 2010

Ms. Kathleen M. O'Connell, CPA
Executive Director, Internal Audit
Orange County Transportation Authority
600 S. Main Street, 12th Floor
Orange, California 92868

Dear Ms. O'Connell

In planning and performing our audit of the following Combined Transportation Funding Program (CTFP) projects, we considered Orange County Transportation Authority's (OCTA's) internal control structure to the extent necessary to design our audit procedures. An audit is not designed to provide assurance on the internal control structure for other purposes.

<u>Jurisdiction</u>	<u>CTFP Grant Number</u>	<u>Reporting Period</u>
City of Irvine	99-IRVN-RIP-1104	January 20, 2005 through September 12, 2007
City of Lake Forest	03-LFOR-MPH-1171	August 19, 2003 through June 4, 2007
City of Orange	00-ORNG-IIP-3141	June 24, 2003 through January 30, 2008
City of San Clemente	99-SCLM-MPH-2004	February 27, 2002 through August 8, 2007
City of Stanton	99-STAN-SIP-1192	September 12, 2000 through September 19, 2007
City of Westminster	00-WEST-SIP-3198	August 9, 2002 through October 24, 2007
County of Santa Ana	96-SNTA-GMA-1047	November 22, 2006 through May 21, 2008
County of Orange	99-SCLM-MPH-2004	November 22, 2006 through May 21, 2008

During our audit we became aware of certain matters that we believe present an opportunity for OCTA to further strengthen its internal controls, operating efficiency and CTFP Guidelines. These matters do not represent significant deficiencies, material weaknesses in internal control, or material instances of noncompliance. The following summarizes our comments and suggestions regarding these matters. This letter does not affect our reports issued on the projects audited.

(1) Need to Ensure that Final Reports are Submitted Within 180 Days of Project Completion

The following jurisdictions did not submit their final report to OCTA within 180 days of project completion.

<u>Jurisdiction</u>	<u>Date of Notice of Completion</u>	<u>Final Report Date</u>
City of Orange	December 12, 2006	January 30, 2008
City of San Clemente	July 31, 2006	August 8, 2007
City of Stanton	December 3, 2001	September 19, 2007

(1) Need to Ensure that Final Reports are Submitted Within 180 Days of Project Completion (Continued)

Chapter 13, *Delinquent Report*, of the CTFP 1999 and 2007 Guidelines states, in part:

“...OCTA will work with jurisdictions to ensure the timeliness of final reports by utilizing the following procedures:..

- Require all jurisdictions to file a final report within 180 days of project completion date...’

Recommendation

We recommend that OCTA establish procedures to ensure that all jurisdictions receiving funds under the CTFP Program submit a final report within 180 days of project completion.

Management Response

The current CTFP guidelines offer no punitive actions for delinquent final reports. Staff actively pursues the reports and reminds agency staff to submit final reports. In July 2009, reminder letters were sent under OCTA Chief Executive Office signature to all agencies with delinquent final reports.

The Measure M2 Comprehensive Transportation Guidelines (CTP), currently scheduled to be approved by the Board in January 2010, includes specific language on the procedures to be followed in the event of a delinquent final report. These include punitive actions which ultimately culminate in the cancellation of the project and an invoice being sent to the agency for all monies reimbursed.

(2) Allowable Overhead Rate

OCTA allows jurisdictions receiving funds under the CTFP Program to bill an overhead rate of 30% of payroll and fringe benefits without supporting documentation for the rate charged. This is not consistent with the CTFP Guidelines.

Chapter 13, Exhibit 13-3, *Final Report*, of the CTFP 1999 and 2007 Guidelines state, in part:

“...Overhead at allowable rate up to 30% of payroll and fringe benefits...”

The Final Report as depicted in Exhibit 13-3 of the CTFP Guidelines allows a maximum overhead rate of 30% of salaries and fringe benefits. The claimed overhead, however, should be based upon jurisdiction’s actual costs.

(2) **Allowable Overhead Rate (Continued)**

Recommendation

We recommend that OCTA provide written clarification to jurisdictions receiving funding under the CTFP program clarifying that the allowable overhead rate is the jurisdiction's actual overhead rate, not to exceed 30% of salaries and fringe benefits.

Management Response

The CTFP guidelines state that overhead is allowable at a rate "up to 30%" of the specific agency's payroll and fringe benefits. Some agencies, due to size, cannot calculate their specific overhead rate. In such cases, the Cost Accounting Policies and Procedures Manual of the California Uniform Public Construction Cost Accounting Commission allows for a fixed overhead rate billing dependant on city size.

The Measure M2 CTP guidelines, currently scheduled to be approved by the Board in January 2010, includes the word "actual" to now state "actual overhead at allowable rate up to 30% of payroll and fringe benefits

OCTA's written responses to the other matters identified in our audit are described above. We did not audit OCTA's responses, and accordingly, we express no opinion on them.

Should you have any questions regarding this matter, please do not hesitate to call me at (949) 474-2020 extension 244, or Sam Perera at extension 272.

Sincerely,

MAYER HOFFMAN McCANN P.C.



Marcus D. Davis, CPA
Shareholder