

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

Tuesday, April 13, 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 February 9, 2010
2. Quarterly Measure M Revenue and Expenditure Report *Kenneth Phipps*
3. OCTA Internal Audit Peer Review Report *Kathleen O'Connell*
4. Revised Stanton CTFP Report *Janet Sutter*
5. Update on City Selection for Audits of Measure M Turnback *Janet Sutter*
6. Measure M2 Triennial Assessment Kick-Off *Alice Rogan*
7. Other Matters
8. Public Comments*

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, February 9, 2010
5:00 p.m. – 6:00 p.m.

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

Meeting was called to order at: 5:08pm.

Review and approve minutes from January 26, 2010: Minutes from the January meeting were approved.

Proposed Measure M1 Freeway Program Amendment: Andrew Oftelie, Manager of Financial Planning and Analysis, apprised the committee of the proposed amendment to the Measure M1 (M1) Freeway Mode to address lower-than-projected sales tax revenues. Part of the amendment process requires OCTA's Board of Directors (Board) to set a date for the public hearing which has been designated for March 8, 2010. Approval from the full Taxpayers Oversight Committee (TOC) is also required and will be solicited at this evening's meeting. Andrew provided copies of the current Revised Traffic Improvement and Growth Management Expenditure Plan that was last amended in September 2007. The second page of the plan shows the new version, with the first line item being the I-5 project which had a cost increase of \$16 million, and the fifth line item being the SR-57 project, which had a cost decrease of \$16 million. Andrew said that \$22 million was being moved, but after funds are deescalated to 1988 dollars, total funds moved is actually \$16 million. The expenditure plan represents the proposed amendment as directed by the TOC Audit Subcommittee (Subcommittee), and which will be presented to the Board for approval at the public hearing on March 8, 2010.

Hamid Bahadori wanted to clarify that this would not affect the SR-57 project because stimulus funds would be funding that project. Andrew explained that the \$22 million would come from Measure M2 (M2) funds and would be started with commercial paper. Specifically, the SR-57 project is going to be funded primarily with Prop 1B funds, but since that program is currently on hold, commercial paper will be used for early engineering work. Originally, commercial paper was to be used for the SR-91 project, but OCTA received stimulus funds for that project which freed up state bond funds which could be applied to the SR-57 project. Jim Kelly asked why 1988 dollar values are used

for the report. Andrew and Alice Rogan, Community Relations Officer, both explained the plan has always been prepared with 1988 dollar values in reference to page 18 of the Ordinance, which is what the voters approved.

Follow-up to Annual Audit Report Questions: Kathleen O'Connell, Executive Director of Internal Audit, provided a compilation of responses to questions that arose during the review of the Local Transportation Authority's (LTA) audited financial statements at the January meeting, and reviewed the responses with Subcommittee members.

CTFP Project Audit Follow-up for Cities of Stanton and Westminster: Kathleen updated the Subcommittee regarding status of the CTFP Project follow-up audits for the cities of Stanton and Westminster, both of which did not have adequate supporting documentation for expenditures. The City of Westminster did not have detailed timesheets to support charges to the project, but they did have a time summary of all the labor charges. Both of these items were presented to the Finance and Administration (F&A) Committee and the Board. The F&A Committee opined that they would accept the time summary as support for the expenditures as opposed to the detailed timesheets. The City of Stanton had no records to support \$84,000 of charges for their CTFP projects. However, the evening before this item was brought before the F&A Committee, the City of Stanton was able to produce the documents. The F&A Committee directed that those documents be reviewed and that a revised report be issued. The review has been completed and a revised report will be issued accepting the documentation from the City of Stanton.

Review of Audit Findings: David Sundstrom, TOC Chairman, conveyed his belief that nothing has surfaced at the committee level or off-line that would lead him to believe that compliance issues are in existence. David believes the annual audit reports show a high level of compliance and made a motion to find OCTA in compliance with the spirit of Measure M as approved by the voters. This motion was seconded and passed unanimously.

Proposed Meeting Stipend for TOC Members: David indicated the Grand Jury of Orange County recommends a modest stipend of \$50 be paid to TOC members to entice better qualified applicants during the recruitment process for new TOC members. A discussion then ensued regarding this recommendation. Alice indicated there would be no recommendations for approval of a stipend at this time pending research of the legal ramifications of implementing a stipend for TOC members. Ultimately, OCTA's Board will decide whether or not to implement a stipend for TOC members.

Status of Selection of Triennial Performance Auditors: Alice, who was on the selection panel for the M2 triennial performance assessment, offered to apprise Subcommittee members on the status of the selection of a consultant on behalf of Howard Mirowitz. Alice indicated three proposals had been submitted, but only two firms, the Orange County Business Council (OCBC) and Sjoberg Evashenk Consulting, Inc. (Sjoberg), were chosen for interview. Andrew was not part of the selection panel to avoid a conflict of interest with OCBC, whose CEO is Stan Oftelie. After discussing both firms' qualifications, the panel determined the ordinance called for an assessment and not an audit, and therefore chose OCBC to conduct the triennial performance assessment believing OCBC to be stronger in assessment abilities than Sjoberg. Hamid Bahadori asked Andrew if he would be the project manager for the assessment. Andrew replied the project manager would most likely

be Kia Mortazavi, Executive Director of Development, however, that has yet to be determined.

David asked if he was alone in believing the selection of OCBC might be seen as a conflict of interest in that the OCBC promoted Measure M2. Stan Oftelie, OCBC's CEO, is a former CEO of OCTA and also the 'father' of Measure M. Alice replied that the selection panel debated this issue and determined that OCBC has a vested interest in the community of Orange County to ensure delivery of what was promised to voters in large part because of their participation in promoting Measure M2. Failure of OCTA to deliver Measure M2 reflects badly on OCBC. Alice also conveyed that the OCBC had performed a very objective review of the delivery of Measure M1 at the 15-year mark of Measure M, which demonstrates non-bias. The selection panel also determined an assessment of Measure M is in order now and an audit in the next three years. Hamid expressed disagreement and stated now is the best time for a performance audit in order to be pro-active as opposed to re-active. Alice agreed, implying this argument steered the panel in the direction of an assessment, which would examine controls, and look not only at the past, but also make suggestions for the future.

Jim Kelly asked what the original budget for the performance assessment was. Andrew replied \$75,000, which is half the cost of the Transportation Development Act (TDA) audits. Andrew conveyed the performance assessment will be half as big as the TDA audit, and thus \$75,000 was determined to be the working budget for the performance assessment. Jim then asked how many projects are on the early action plan for Measure M2. Andrew responded there were nine, with five freeway projects. At this time, only the SR-91 project is underway. Hamid asked to make a suggestion to the Subcommittee, which is to bring OCBC early on to the TOC to present the scope of work and their approach and hear feedback.

David again reiterated being uncomfortable with the selection of OCBC to perform the triennial performance assessment, explaining that whether or not a conflict exists, there is the appearance of a conflict of interest. David understands the selection panel distinguished the need for an assessment review as opposed to a performance audit which is fair, but the panel has chosen to turn down the offer of Sjoberg who at the very least co-authored the book on performance auditing in the United States. The selection panel has turned down the past state auditor for the State of California who ran a very heavy performance audit shop in California before the legislature cut their expenses by 40 percent. David stressed that Sjoberg is very good, he knows them very well, he knows them personally, he knows their work, and it's difficult for him to accept that OCBC, who has a great interest in succeeding, doesn't have the credentials that Sjoberg has. David again stated that even though there might not be a conflict, a rational, reasonable person or an OC Register reporter might see a conflict of interest.

Howard Mirowitz, TOC Audit Subcommittee member who was also on the selection panel, defended the panel's selection by stating that Andrew Oftelie recused himself from the selection panel, and that the panel also examined the Ordinance and determined the Ordinance does not specifically use the word audit. The panel also considered M2 to be in its infancy, and an audit might not be appropriate at this time. David again argued that a performance auditor such as Sjoberg understands systems and controls and would be able to make valuable contributions to the assessment. Hamid echoed his agreement with

David, indicating a performance audit would examine the structure and identify pitfalls and flaws in the system and offer recommendations for improvement.

Alice added another issue that was discussed at the selection meeting was that the person from Sjoberg who would be assigned the most hours on this project was also working a project in Nevada. In total, this person would be working 80 hour weeks. When the panel asked Sjoberg about the amount of hours this person would be working, Sjoberg responded they are used to working 80 hour weeks. Howard noted that both firms had assigned comparable hours and levels of effort. David then presumed that Sjoberg's proposal must not have been very good. Howard replied one of the issues with Sjoberg is they didn't have a good answer when asked how they could propose so much work before proposing a work plan. Howard indicated Sjoberg's approach is to collect information initially, then return at a later time to determine where efforts would be focused.

Hamid suggested the Subcommittee watch this project very carefully and become actively involved early on with the assessment. Jim Kelly asked what the potential conflict of interest is with Andrew Oftelie. David answered the appearance of a conflict lies with Stan Oftelie who is past chairman of OCTA, past chairman of OCBC, and was a chief designer of Measure M.

Quarterly Measure M Revenue and Expenditure Report: Kenneth Phipps, Executive Director of Finance and Administration, said the major message is revenues are still soft. The December 2009 quarterly report shows sales tax revenues at \$99 million, compared to \$119 million at the end of December 2008. Ken stated the only positive news he has for the Subcommittee is the rate of decline for the quarter ending December 2009 was less than the prior quarter. The Metrolink Service Expansion Plan had the most activity for the quarter ending December 2009, as well as the I-5 Gateway in the Freeway Mode.

Other Matters: None

Public Comments: None

Meeting Adjourned at: 6:00 p.m.

Next meeting scheduled for April 13, 2010, 5:00 p.m. CR 506.

Measure M2 Triennial Performance Assessment: Detailed Project Plan

From the Measure M2 Triennial Performance Assessment RFP:

Ordinance No. 3 states: "A performance assessment shall be conducted at least once every three years to evaluate the efficiency, effectiveness, economy and program results of the Authority in satisfying the provisions and requirements of the Investment Summary of the Plan, the Plan and the Ordinance. A copy of the performance assessment shall be provided to the Taxpayers Oversight Committee."

The scope of this effort is focused on performance and any matters involving accounting controls should be referred to a handling under Internal Audit standards conformance task.

Performance Assessment Definition:

Assessment against a set of predetermined criteria of the economy, efficiency and effectiveness with which an organization carries out a particular activity or range of activities. Organizations may be set regular targets on particular aspects of their performance—financial returns, efficiency, quality of services supplied, etc.—against which their performance is monitored and evaluated.

The tasks listed here will inform the initial Inventory, and subsequent Analysis section, of the Triennial Performance Assessment. In combination they will provide a comprehensive picture of how well M2 has performed thus far; whether OCTA procedures and policies adequately support successful implementation; and where improvements can be made.

The table below provides a detailed overview of the project schedule, the various tasks that will guide the performance assessment, key personnel assigned to each task, and the estimated number of hours of work required.

Task Name	Staff	Hours	Month 1	Month 2	Month 3	Month 4
Detailed Project Plan (Ends April 12, 2010)						
Detailed Project Plan	Walrod					
OCTA Review	OCTA Executive Team/TDD					
Finalize Project Plan	Walrod					
Deliverable: Management Progress Report						
Inventory and Assessment (Ends May 3, 2010)						
1. Early Action Plan	Ottalie/Walrod	70				
2. Plan of Finance	Ottalie/Walrod	40				
3. Readiness & Market Conditions Studies	Walrod	16				
4. Outreach and Public Communications	Ottalie/Walrod	24				
5. Taxpayer Oversight Committee	Walrod	24				
6. State Board of Equalization	Ottalie	4				
7. Environmental Committee Program Oversight	Walrod	16				
8. Revenue Forecasting	Walrod/Ottalie	32				
9. Project Management Controls	Ottalie/Walrod	60				
10. Sampling of Change Orders	Ottalie	4				
11. Contractual Performance of Vendors	Ottalie	10				
Deliverable: Management Progress Report						
Analyses and Assessment (Ends June 8, 2010)						

1. Early Action Plan	Ofelie /Walrod	
2. Plan of Finance	Ofelie/Walrod	
3. Readiness & Market Conditions Studies	Walrod	
4. Outreach and Public Communications	Ofelie/Walrod	
5. Taxpayer Oversight Committee	Walrod	
6. State Board of Equalization	Ofelie	
7. Environmental Committee Program Oversight	Walrod	
8. Revenue Forecasting	Walrod/Ofelie	
9. Project Management Controls	Ofelie/Walrod	
10. Sampling of Change Orders	Ofelie	
11. Contractual Performance of Vendors	Ofelie	
Deliverable: Draft Performance Assessment Report		
Finalize Report (Ends August 8, 2010)		
Finalize Report	Walrod/Ofelie	
Present to Project Manager and TOC Chair	Walrod/Ofelie	
Presentation to Taxpayer Oversight Committee	Walrod/Ofelie	
Deliverable: Final Report Document		

Detailed Descriptions of Assessment Tasks

1: M2 Early Action Plan (EAP)

The Orange County Transportation Authority has initiated actions and procedures to start multiple projects now even before funding from M2 has commenced (starting in 2011). Early action of the magnitude contemplated in the M2 EAP is not without risks, especially because of the severe economic downturn. Our performance assessment of the EAP will allow OCTA leadership to determine an appropriate road map during difficult economic times.

Key Personnel: Ofelie/Walrod

Activities:

- Review and assess the EAP; both the plan, all related documents, reports, and presentations, and their associated approaches, procedures, and processes
- Assess the initial EAP resource analysis for appropriateness
- Review subsequent steps taken to implement EAP recommendations
- In light of economic realities, determine if the EAP plan, assumptions and projections indicate if the ability to deliver the full 30-year M2 plan is compromised.

Resources:

Documents:

- M2 Early Action Plan (Available Online)
<http://www.octa.net/uploadedfiles/Files/pdf/renewedmaction.pdf>
- 8/13/07 OCTA Staff Report
- 11/09 Staff Report

Interview(s):

- **Darrell Johnson**
- **Kia Mortazavi**
- **Monte Ward**

2. M2 Plan of Finance

The plan of finance was never intended to be a static document, especially during times of economic volatility such as this when sales tax revenues are down. Project costs, schedules, and revenue estimates need to be continuously monitored as circumstances change. The OCBC team will examine and assess the EAP Plan of Finance. The assessment will examine whether the Orange County Transportation Authorities' initial Plan of Finance was adequate to accomplish early action projects.

Key Personnel: Otelie/Walrod

Activities:

- Evaluate and determine if OCTA's initial Plan of Finance was sufficiently complete to accommodate the early action projects
- Evaluate OCTA's process and assessment of:
 - Available local, state and federal matching funds and grants.
 - M1 reserves that could fund eligible M2 projects.
 - debt financing options, financing costs, and interest rate management strategies
- Recommend any clarifications, expansions, or other suggestions to make the Plan of Finance more useful and understandable

Resources:

Documents:

- Meeting Agendas and Staff Reports contained in the "Mobilization Binder" in the project library at OCBC offices.

Interview(s):

- **Ken Phipps**
- **Kirk Avila**

3: Readiness and Market Conditions Studies and Follow-up

OCTA engaged Parsons Brinckerhoff (PB) to conduct an "Organizational Readiness and Capacity Assessment" and OCBC to evaluate "Readiness and Absorption Capacity" and a "Market Conditions Analysis" in 2008 to assess the competitive environment for labor and materials. Based upon these studies, OCTA put together a list of steps and activities to address the recommendations arising from each.

Key Personnel: Walrod

Activities:

- Examine reports and specific recommendations
- Identify progress made to date
- Determine to what extent OCTA has implemented, or plans to implement, the recommendations effectively

Resources:

Documents:

- Staff Reports, Reports, PowerPoint Presentation.
Directory Available Online: <http://www.octa.net/m2readiness.aspx>

Individual Reports are linked below and also available in the project library.

- M2 Early Action Plan: Market Conditions Analysis Readiness and Absorption Capacity of Public Agencies (OCBC Report). <http://www.octa.net/pdf/ocbcreport.pdf>
- M2 Early Action Plan: Market Conditions Analysis Readiness and Absorption Capacity of Public Agencies (OCBC Presentation). <http://www.octa.net/pdf/ocbcpresentation.pdf>
- M2 Program: Organizational Consideration. <http://www.octa.net/pdf/lmsletter.pdf>
- Organizational Readiness and Capacity Assessment. <http://www.octa.net/pdf/pb.pdf>
- Measure M Readiness and Market Studies (Presentation). <http://www.octa.net/pdf/readiness.pdf>

Interview(s):

- **Kia Mortazavi**
- **Andrew Oftelie**
- **Monte Ward**

4: Outreach and Public Communications

Effective outreach and public communications were key to both the M1 and M2 campaigns. Marketing tools used in M1 have been the backbone of the M2 communication programs. This assessment will examine any additional M2 programs.

Key Personnel: Oftelie/Walrod

Activities:

- Review OCTA communication activities related to the Early Action Plan development, Plan of Finance Development and project activities
- Assess performance of communication activities

Resources:

Documents: Available Online and in the project library.

- M2 Website. <http://www.octa.net/M2Home.aspx>
- Quarterly Reports. <http://www.octa.net/M2ProjectUpdates.aspx>
- Annual Reports:
 - 2007: <http://www.octa.net/pdf/mannual07.pdf>
 - 2008: <http://www.octa.net/pdf/mmannual08.pdf>

Interview(s):

- **Kris Murray**
- **Ellen Burton**
- **Alice Rogan**

5: Taxpayer Oversight Committee

An important component of the taxpayer safeguards built into M2, the Taxpayer Oversight Committee was designed to insure integrity to voters and taxpayers of Orange County through oversight and safeguards. The committee upholds the integrity of the measure by monitoring and reviewing all M1 and M2 expenditures. The report will assess the process by which the TOC was formed and whether its activities are consistent with its objectives.

Key Personnel: Walrod

Activities:

- Inventory differences between the M1 Citizens Oversight Committee and the M2

- Taxpayer Oversight Committee
- Assess the process by which the Taxpayers Oversight Committee was formed and convened
- Review meeting minutes, correspondence, and other reports pertinent to the Taxpayer Oversight Committee

Resources:

Documents:

- Meeting Agendas and Staff Reports contained in the two “Taxpayer Oversight Committee” binders in the project library at OCBC offices.

Interview(s):

- Alice Rogan
- David Sundstrom
- Hamid Bahadori
- Howard Mirowitz

6: State Board of Equalization (SBOE)

The cost of collection is set by statute. The OCTA and other agencies have, in past years, unsuccessfully lobbied to reduce the percentage rate charged by the SBOE. The performance assessment will include a brief description of this on-going SBOE dispute, and the status of SBOE legislation.

Key Personnel: Oftelie

Activities:

- Review the official requirements of the tax collection/distribution agreement and report on the existence and detail of the agreement.

Resources:

Documents:

- Documents in the SBOE folder in the project library.

Interview(s):

- Ken Phipps
- Andrew Oftelie

7: Environmental Committees Program Oversight

The purpose of the Environmental Oversight Committee is to make recommendations to the Board of Directors on the allocation of environmental freeway mitigation funds and monitor the implementation of a master agreement between OCTA and state and federal resource agencies. The Environmental Cleanup Allocation Committee is designed to make recommendations to the Board of Directors on the allocation of funds for water quality improvements. The performance assessment will determine whether the process by which the environmental committees were formed and carry out their duties and responsibilities is appropriate.

Key Personnel: Walrod

Activities:

- *Assess the process by which the two Committees were formed and convened.*
- *Review and assess meeting minutes, correspondence, and other pertinent reports.*

Resources:Documents:

- Agenda Packets, Committees Charters, and Legal Guidelines contained in the two “Environmental Committees Program Oversight” binders in the project library at OCBC offices.

Interview(s):

- **Kurt Brotcke**
- **Dan Phu**
- **Monte Ward**

8: Revenue Forecasting

The economic and tax revenue world in which OCTA operates has been turned upside down by the severe recession of the last two years. OCBC will assess the manner in which OCTA finance staff has responded in light of these significant economic and tax revenue changes and make suggestions as to how OCTA should handle this crucial subject.

Key Personnel: Walrod**Activities:**

- Review, analyze and assess:
 - University economic forecasts
 - Methods used by OCTA to translate these into tax revenue forecasts

Resources:Documents:

- Documents in the “Revenue Forecasting” folder in the project library.

Interview(s):

- **Ken Phipps**
- **Andrew Oftelie**

9: Project Management Controls

Proper and effective project management controls are crucial to any organization operating successfully. The 2008 PB study found that Uniform policies and procedures for managing the Measure M program and its projects (as distinct from OCTA's procurement and contracting procedures) are not in place for all aspects of the Measure M program or non-Measure M projects. The performance assessment will determine the extent to which the OCTA has developed and implemented clear and concise project controls.

Key Personnel: Oftelie**Activities:**

- Inventory changes (if any) between M1 and M2
- Examine the review process
- Evaluate current OCTA project controls
- Evaluate internal control of approval of invoices

- Review current performance measurements

Resources:

Documents:

- Program Management Procedures, Project Status Reports, and Procedures contained in the “Program Management Procedures” binder in the project library at OCBC offices.
- Eligibility Guidelines. <http://atb.octa.net/AgendaPDF/4231.pdf>

Interview(s):

- **Darrell Johnson**
- **Kia Mortazavi**
- **Norbert Lippert**

10: Sampling of Change Orders

Because M2 has only recently been adopted, this assessment will primarily be a small sample that will focus on professional service contracts. With this small sample, our research team will review and assess not only the reasonableness and justification underlying the orders themselves, but will also evaluate the appropriateness of the process by which they were determined, reviewed, and approved.

Key Personnel: Oftelie

Activities:

- Select representative contracts and agreements
- Determine the appropriateness, reasonableness and justification for change orders.
- Assess the review and approval process for change orders

Resources:

Documents:

- List of M2 Contracts. Available in the “Change Orders” folder in the project library.

Interview(s):

- **Virginia Abadessa**

11: Contractual Performance of Vendors

The first step in our research process will be to review CAMM’s existing procedures, analyze M2 procedures, and determine if there are any differences. We will closely work with CAMM Director Virginia Abadessa to accomplish this.

The performance assessment will determine whether vendor performance has met standards established by the Director of CAMM and whether these standards have been equivalently applied to be consistent with broader OCTA rules and practices

Key Personnel: Oftelie/Walrod

Activities:

- Compare vendor performance to ensure consistent M2 procurement and purchasing actions.
- Determine if CAMM contract administration practices are consistent with the broader OCTA rules and practices.

Resources:

Documents:

- CAMM Contract Administration Procedures, CAMM Procurement and Purchasing Procedures available in the project library.

Interview(s):

- Virginia Abadessa

Project Deliverables:

The deliverables for this project will be a final report similar to the previous OCBC assessment of M1 (we have attached hard copies of that report for your review as an Appendix). This report will address all the key questions outlined in the RFP and this proposal. OCBC prides itself on the content and graphic look of our reports, as evidenced by our popular and successful Community Indicator, Workforce indicator, and Workforce Housing Scorecard annual publications. Our expertise allows complex economic, organization, and programmatic analyses to be presented in clear, precise language with illustrative graphics. Distinctive, easy-to-read formatting communicates key points, allowing a general understanding with even a summary reading. In addition, an Executive Level Briefing Regarding Study Findings (PowerPoint and presentation notes) will be prepared regarding the study findings. The OCBC team will be available for presentations with stakeholders and stakeholder groups as requested.

Process for Developing Deliverables:

The OCBC team will meet with OCTA executives at regular times during the process to discuss key findings and results. We anticipate that our findings will be reviewed with OCTA executives prior to development of a final report. We will deliver a draft report to OCTA for their review and comment in advance of delivering the final report.

Schedule: Specific milestones and deliverable dates

<p>1. Develop Detailed Project Plan</p> <p><u>April 5 Kickoff with OCTA Executive Team</u></p> <ul style="list-style-type: none">• Present Draft <i>Detailed Project Plan</i> for review <p><u>April 13 Deliverables:</u> 1. <i>Detailed Project Plan</i> to TOC 2. <i>Management Progress Report</i></p>
<p>2. Inventory and Research of Tasks 1-11</p> <p><u>May TBD with OCTA Executive Team/Deliverable:</u> <i>Management Progress Report</i></p>
<p>3. Analyses and Assessment of Tasks 1-11</p> <p><u>June 7 with OCTA Executive Team</u> <i>Management Progress Report</i></p> <p><u>June 8 TOC Deliverable:</u> <i>Management Progress Report</i></p>



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RAMON J. HIRSIG
 Executive Director

January 19, 2010

TO: CITY AND COUNTY FINANCE OFFICIALS

Continuing the practice of past years, we are sending you recently estimated statewide growth rates to assist in your coming budget preparations.

Preliminary or estimated statewide changes in taxable sales for the first quarter of calendar year 2009 through the second quarter of calendar year 2011 are shown below:

<u>Sales Period</u>	<u>Year to Year Change In Taxable Sales</u>	<u>Allocations Received by Local Jurisdictions</u>
Jan. - Mar. 2009	-16.4 (prelim.)	Mar. - June 2009
Apr. - June 2009	-19.3 (prelim.)	June - Sept. 2009
July - Sept. 2009	-16.8 (prelim.)	Sept. - Dec 2009
Oct. - Dec. 2009	-9.2 (est.)	Dec. 2009 - Mar. 2010
Jan. - Mar. 2010	-3.7 (est.)	Mar.- June 2010
Apr. - June 2010	2.0 (est.)	June - Sept. 2010
July - Sept. 2010	2.8 (est.)	Sept. - Dec. 2010
Oct. - Dec. 2010	6.1 (est.)	Dec. 2010 - Mar. 2011
Jan. - Mar. 2011	7.7 (est.)	Mar. - June 2011
Apr. - June 2011	8.5 (est.)	June - Sept. 2011

The estimates of growth were made in January 2010 by the Department of Finance in conjunction with its preparation of the 2010-11 Governor's Budget.

Sincerely,

Robert Ingenito
 Research and Statistics Section

RI:cee



External Quality Control Review

of the
Orange County Transportation
Authority Internal Audit Department

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**

For the period January through December 2009



Association of Local Government Auditors

February 5, 2010

Ms. Kathleen M. O'Connell, Executive Director
Orange County Transportation Authority
Internal Audit Department
600 S. Main Street – 12th Floor
Orange, California 92863

Dear Ms. O'Connell

We have completed a peer review of the Orange County Transportation Authority Internal Audit Department for the period January through December 2009. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Orange County Transportation Authority Internal Audit Department internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period January through December 2009.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Allen Leatherwood, CPA, CIA
Team Leader
Central New Mexico Community College

Edwin Young, CIA, CFE, CGFM
Team Member
City of Palo Alto, CA



Association of Local Government Auditors

February 5, 2010

Ms. Kathleen M. O'Connell, Executive Director
Orange County Transportation Authority
Internal Audit Department
600 S. Main Street – 12th Floor
Orange, California 92863

Dear Ms. O'Connell

We have completed a peer review of the Orange County Transportation Authority (OCTA) Internal Audit Department for the period January through December 2009 and issued our report thereon dated February 5, 2010. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your Audit function excels:

- The Internal Audit Department adds value to the organization by providing rapid turn-around to organizational requests for Price Reviews and Buy America Reviews.
- Internal audit staff has professional expertise in sophisticated technical areas and is very productive.
- The role of the Finance and Administration Committee promotes independence of the Audit function and the Committee is both supportive and engaged.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

Classification of Audit Services. GAS 3.20 through 3.30 address issues related to performing professional (non-audit) services to an organization. These types of services augment the value an internal audit function can bring to an organization.

During our review we noted that certain services provided at the request of OCTA's Contracts and Materials Management Department (CMM) could be considered non-audit services. GAS Standards were followed for OCTA's Internal Audit Price Reviews however, classification of these services as GAS attestation audits creates additional work due to strict requirements of *Governmental Auditing Standards*.

Suggestion: OCTA's Internal Audit Department should investigate whether services provided to OCTA's Contracts and Materials Management Department could be classified as non-audit services.

Use of Checklists: The Department did not implement Quality Control Checklists until July 2009, representing half of the period under review. In addition, the Checklist is not adequately tailored to address price review engagements.

Suggestion: OCTA's Internal Audit Department should continue to utilize the Quality Control Checklist for audit work; however, in order to enhance controls, should consider developing a Quality Control Checklist specific to price review work.

Development Worksheets: *Government Auditing Standards* require the development of certain elements in an audit finding. These elements are: condition, criteria, cause, effect, and recommendation. Our review of a performance audit required reading the entire report and the supporting workpapers to clearly identify these elements.

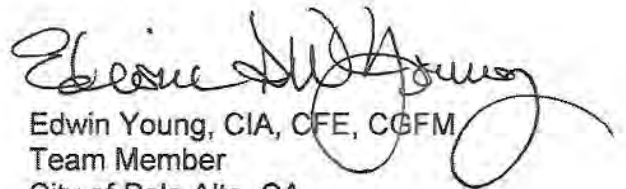
Suggestion: OCTA Internal Audit should prepare formal development finding worksheets that clearly identify each of the elements of a finding as prescribed in *Government Auditing Standards* which would facilitate supervisory review, quality control, and report writing.

We extend our thanks to you, your staff and the other Orange County Transportation Authority officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Allen Underwood, CPA, CIA
Team Leader
Central New Mexico Community College



Edwin Young, CIA, CFE, CGFM
Team Member
City of Palo Alto, CA



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February 5, 2010

Allen Leatherwood, CPA
Central New Mexico Community College
Albuquerque, New Mexico

Edwin S. W. Young
Office of the City Auditor, City of Palo Alto
Palo Alto, California

Dear Msrs. Leatherwood and Young:

I have reviewed your report dated February 4, 2010, containing the results of your External Peer Review of the Internal Audit Department (Department) of the Orange County Transportation Authority (OCTA), performed using guidelines established by the Association of Local Government Auditors (ALGA). As this was the first such review of the Department, it was reassuring to learn that you have concluded that the Department conducts its audit work in accordance with *Government Auditing Standard* (GAS). In addition, I appreciate your recognition of some of the positive accomplishments you found during your review.

While an opinion on the Department's compliance is important, it is also important to identify ways in which to improve operations. In your management letter, you have offered recommendations intended to help the Department enhance compliance with the Standards. Following are my responses to your suggestions.

Suggestion 1: Investigate Classification of Price Reviews and Buy America Reviews

The Department agrees with the recommendation and will investigate the appropriate classification of the Department's work with respect to pre-award price reviews and Buy America reviews. In conducting the investigation, we will contact the Government Accountability Office (GAO) for guidance.

February 5, 2010

Page 2

This classification matter has been the subject of many healthy debates in our Department over the year as we attempted to comply with GAs while recognizing the unique features of this work that make strict GAO compliance inefficient. For example, GAS require audit planning, yet such a procedure is not applicable to price reviews because they are performed using routine procedures suggested by Federal Acquisition Regulations. To plan a price review would be an inefficient exercise. Despite the inapplicability of some standards, we have leaned towards the classification of price reviews and Buy America reviews as "audit services" because we believe that this work is of such vital importance in the government contracting process that it should be subjected to the same sort of rigorous peer review scrutiny as other financial and performance audits.

Suggestion 2: Develop a Quality Control Checklist

The Department agrees with this recommendation and will implement new quality control checklists by June 30, 2010. Since June 2009, the Department has been using ALGA's quality control checklist as the method by which we ensure consistent compliance with the Standards. We recognize, however, that this checklist is neither tailored to the unique policies or procedures of the Department, nor comprehensive in its consideration of all GAS. As such, we will develop a more detailed and thorough checklist of all required workpaper elements to ensure consistent compliance.

SUGGESTION 3: Develop a Worksheet to Identify Condition, Criteria, Cause, Effect and Recommendation for Each Audit Finding

The Department agrees with this recommendation. While we believe the required elements of audit findings are identified in our workpapers and audit reports, we recognize that they are not clearly labeled. Labeling the elements would both enable peer reviewers to identify them easily, as well as serve as a training tool for less experienced auditors as they gain experience drafting audit reports that include these elements. Rather than develop a checklist, however, we will use the Department's recently implemented software package and create tabs in the "Findings" module for each of the elements. We will amend our policies and procedures accordingly. We expect to complete these modifications by June 30, 2010.

February 5, 2010

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Staff in the Internal Audit Department found the ALGA External Peer Review to be a very valuable and constructive process. We very much appreciate the time you took away from your own departments to review our operation. Thank you for the professional and thorough manner in which you conducted this work, and for the opportunity to share ideas that we can apply in our respective audit organizations.

Sincerely,

A handwritten signature in cursive script that reads "Kathleen M. O'Connell". The signature is written in black ink and is positioned above the printed name.

Kathleen M. O'Connell, CPA
Executive Director, Internal Audit

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 February 26, 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 Stanton and is not intended to be and should not be used by anyone other than those specified parties.

Raymond M. ...

Irvine, California
February 26, 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	\$ -	\$ -	\$ -
Total revenue	84,417	19,584	104,001	84,417	19,584	104,001	-	-	-
Expenditures:									
Construction	84,417	19,584	104,001	84,417	19,584	104,001	-	-	-
Total expenditures	84,417	19,584	104,001	84,417	19,584	104,001	-	-	-
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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. We noted that the City reported expenditures for this project along with another SIP project at Cerritos Avenue/Dale Street. The expenditures and match costs for these two projects were reported and invoiced together. Auditors reviewed all supporting documentation for both projects during this audit. When expenditures and match costs for the two projects are separated, we noted that the 20% matching requirement was \$1,520 short for the Cerritos Avenue/Western Avenue project; however, the Orange County Transportation Authority renewed and accepted the accounting for these projects and the related match requirements in a combined format.

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

(1) **General Information (Continued)**

and approved in a combined form, no finding was made regarding the match requirement for the Cerritos Avenue/Western Avenue 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.



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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 February 26, 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 identify 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 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 Stanton and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
February 26, 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 of 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

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.

Measure M Cities - Suggested Selection for FY10 Audits

Agency	Last Audit	No. of Findings Last Audit	Total Payments Sep '08 - Jun '09	Payments Since Inception As of 3/31/10	% of Total	Mgmt Letter Findings
Aliso Viejo	2009	1	230,031.99	3,706,227.09	0.67%	0
Anaheim	2009	0	2,116,772.72	60,416,499.24	10.94%	0
Brea	2006	0	340,514.37	9,831,859.16	1.78%	1
Buena Park	2006	0	560,988.31	14,920,770.98	2.70%	1
Costa Mesa	2008	0	884,378.15	25,929,697.58	4.70%	3
Cypress	2008	1	347,656.31	9,712,440.43	1.76%	0
Dana Point	2009	0	211,480.66	6,152,027.94	1.11%	0
Fountain Valley	2007	0	398,314.32	11,815,799.08	2.14%	1
Fullerton	2008	0	797,095.91	23,602,521.38	4.28%	0
Garden Grove	2009	2	926,311.17	26,925,621.11	4.88%	4
Huntington Beach	2008	1	1,190,534.11	35,255,171.83	6.39%	NOT ISSUED
Irvine	2008	1	1,540,171.83	39,079,148.72	7.08%	1
Laguna Beach	2008	0	163,990.41	4,628,246.59	0.84%	2
Laguna Hills	2006	0	228,368.00	6,497,565.58	1.18%	0
Laguna Niguel	2007	0	423,541.78	11,763,648.58	2.13%	0
Laguna Woods	2006	0	89,131.69	1,726,938.09	0.31%	0
La Habra	2005	0	336,596.78	9,280,213.22	1.68%	NOT ISSUED
Lake Forest	2007	0	494,271.28	12,279,096.51	2.22%	2
La Palma	2006	0	116,162.20	3,115,726.51	0.56%	0
Los Alamitos	2005	0	85,880.10	2,569,948.98	0.47%	NOT ISSUED
Mission Viejo	2007	0	601,053.79	17,130,669.27	3.10%	2
Newport Beach	2009	1	664,055.35	17,195,824.01	3.11%	4
Orange	2009	1	1,017,248.37	28,672,573.50	5.19%	3
Placentia	2008	1	296,471.53	8,527,782.32	1.54%	NOT ISSUED
Rancho Santa Margarita	2008	0	273,537.52	4,746,053.71	0.86%	1
San Clemente	2008	0	352,006.05	8,819,425.41	1.60%	0
San Juan Capistrano	2005	0	247,466.90	6,817,279.87	1.23%	1
Santa Ana	2007	0	1,815,242.59	53,884,893.32	9.76%	10
Seal Beach	2009	1	158,697.19	4,369,597.19	0.79%	0
Stanton	2005	0	190,588.71	5,421,463.10	0.98%	0
Tustin	2006	0	507,017.50	14,847,160.15	2.69%	6
Villa Park	2008	0	35,427.56	987,726.66	0.18%	2
Westminster	2005	0	548,873.90	16,177,922.03	2.93%	0
Yorba Linda	2007	0	366,517.79	10,245,370.12	1.86%	0
County Unincorporated	2009	0	1,097,672.28	35,024,943.97	6.34%	
Total			19,654,069.12	552,077,853.23		

Survey of Measure M Cities for Fiscal Year Ending June 30, 2010 Turnback Audits (Note 1)
as compiled by the Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA)

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	FY2009 Single Audit Findings & Recommendations (Note 2)	Auditor	Single Audit Date
Aliso Viejo	2009	One finding in 2009 turnback audit: 1. The city used turnback funds for 2 projects, totaling \$499,006 that were not included in their CIP for 2009. The expenditures were included in their 2008 CIP.	None	MHM*	None	None	MHM	11/9/09
Anaheim	2009	No concerns identified. No findings in 2009 turnback audit.	None	KPMG	12/3/09	None	KPMG	12/3/09
Brea	2006	Indirect costs allocated based on project costs. No findings in 2006 turnback audit.	One Finding Noted: Auditors noted three invoices paid in FY09-10 that related to expenditures in FY08-09. The City had not accrued these liabilities.	LSL**	1/31/10	None	LSL	12/11/09
Buena Park	2006	The City indicates that they anticipate turnback expenditures during FY09-10 for projects not listed on their FY09-10 Capital Improvement Program (CIP). Further, the City indicated that an amended CIP has not been submitted. No findings in 2006 turnback audit.	One finding noted 1. Bank reconciliations reflected unidentified differences that were not resolved for several months. This was due to a change in accounting system during the same time period.	Diehl, Evans & Co.	12/14/09	None	Diehl, Evans & Co.	12/14/09
Costa Mesa	2008	No concerns identified. No findings in 2008 turnback audit.	Three findings noted: 1. The City should adopt a formal ethics policy and create a mechanism for reporting fraud. 2. The City should review procedures for tracking and reconciling expenditures related to cost reimbursement grants. 3. The City should establish a policy for handling checks outstanding over six months.	MHM	12/11/09	None	MHM	12/11/09
Cypress	2008	Indirect costs allocated as an overhead charge on salaries. One finding in 2008 turnback audit: 1. This City incurred \$73,016 in turnback expenditures that were not included in their 2008 Capital Improvement Plan (CIP). The expenditures were included in the City's 2007 CIP.	None	Caporicci & Larson	None	Not Applicable	N/A	N/A
Dana Point	2009	No concerns identified. No findings in 2009 turnback audit.	None	Rogers, Anderson, Malody & Scott	None	N/A	Rogers, Anderson, Malody & Scott	N/A
Fountain Valley	2007	No concerns identified. No findings in 2007 turnback audit.	One finding noted: 1. Internal controls over cash receipts should be strengthened at the Community and Recreation center.	MHM	12/21/09	None	MHM	12/21/09
Fullerton	2008	Indirect costs allocated according to the Indirect Cost Proposal prepared by external auditors. No findings in 2008 turnback audit.	None	Diehl, Evans & Co.	11/20/09	None	Diehl, Evans & Co.	11/20/09

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Garden Grove	2009	The City's turnback fund balance is \$8.4 million and the total of the last three years' revenues is \$5.3 million. Two findings in 2009 turnback audit: 1. The city used turnback funds totaling \$465,719 on one project that was not included in their 2009 CIP. The expenditures were included in their 2008 CIP. 2. The city has not spent turnback monies within 3 years of receipt as required. The city indicates an extension will be requested.	Four findings noted: 1. The City should develop procedures for timely identification of bank reconciling items and for handling of outstanding checks over six months old. 2. The City maintained two bank accounts that listed a former employee as an authorized signer. 3. The City's June 2009 Investment Report contained errors. 4. The City did not allow adequate time for recording and posting all adjusting entries prior to the start of the audit.	Macias Gini O'Connell	12/15/09	None	Macias Gini O'Connell	12/15/09
Huntington Beach	2008	One finding in 2008 turnback audit: 1. Seven expenditures totaling \$3.4 million were disallowed from the City's calculation of Maintenance of Effort (MOE); however, the City still met their minimum requirement. No recommendation was made.	Not Complete as of 4/12/10			Not Complete as of 4/12/10		
Irvine	2008	All projects are allocated 15% indirect costs based on administrative expenditures. One finding in 2008 turnback audit: 1. Six expenditures, totaling \$2,185,044 related to capital projects that were not included in the City's current year CIP. No concerns identified. No findings in 2005 turnback audit.	One finding noted: 1. Monthly bank reconciliations are not being completed and reviewed in a timely manner.	Diehl Evans & Co.	11/30/09	None	Diehl, Evans & Co.	11/30/09
La Habra	2005	No concerns identified. No findings in 2005 turnback audit.	Not Complete as of 4/12/10			Not Complete as of 4/12/10		
La Palma	2006	Indirect costs allocated according to a Cost Allocation Plan that is updated annually. No findings in 2006 turnback audit.	None	Vavrinek, Trine, Day & Co.	11/6/09	Not Applicable	N/A	N/A
Laguna Beach	2008	The City indicates the turnback fund balance to be \$(636,162). No findings in 2008 turnback audit.	Two findings/recommendations noted: 1. The City's should consider increasing the threshold for capitalizing assets because the current threshold (\$1,000) is burdensome to maintain. 2. Certified payrolls were not reviewed by the third party construction manager for compliance with Davis Bacon Act requirements for the South Laguna Streetscape project.	MHM	2/1/10	None	MHM	2/1/10
Laguna Hills	2006	No concerns identified. No findings in 2006 turnback audit.	None	Moss, Levy & Hartzheim	11/1/09	None	Moss, Levy & Hartzheim	11/1/09
Laguna Niguel	2007	No concerns identified. No findings in 2007 turnback audit.	None	Vavrinek, Trine, Day & Co.	None	Not Applicable	N/A	N/A
Laguna Woods	2006	No concerns identified. No findings in 2006 turnback audit.	None	MHM	2/26/10	Not Applicable	N/A	N/A

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Lake Forest	2007	No concerns identified. No findings in 2007 turnback audit.	Two findings noted: 1. Vendor invoices were not being checked for mathematical accuracy and proper codes because the accounts payable staff member was on leave for most of the year. The Accounting Manager should ensure that invoices reflect documentation of control procedures performed. 2. The City's Deposits Payable account contains deposits that were received over 5 years ago. This account should be reviewed and the City should follow Government code 50050-50055 in regards to escheat rules.	MHM	12/21/09	None	MHM	12/21/09
Los Alamitos	2005	No concerns identified. No findings in 2005 turnback audit.	Not Complete as of 4/12/10			Not Applicable	N/A	N/A
Mission Viejo	2007	No concerns identified. No findings in 2007 turnback audit.	Two findings noted: 1. The City should create procedures for identifying replaced infrastructure assets, including identification of the specific replaced assets, a method for estimating the original cost and accumulated depreciation, and a method for recording deletions of those assets in the accounting system. 2. The City should evaluate its Deposits Payable account, in particular those deposits that date back many years, to determine whether the deposits have been forfeited and can be written off.	MHM	11/6/09	None	MHM	11/6/09
Newport Beach	2009	One finding in 2009 turnback audit: 1. The city utilizes an indirect cost allocation plan that is based on 2002-03 estimates and which included some costs twice. The city will update the calculation for FY09-10.	Four findings noted: 1. The City should require two signatures to execute wire transfers. 2. The City should update the indirect allocation percentages used in the Maintenance of Effort calculation. 3. The City should develop a written ethics policy. 4. The City should incorporate the funding status report being developed for issue to the Council on an annual basis into the City's Reserve Funding Policy.	MHM	12/18/09	None	MHM	12/18/09
Orange	2009	Indirect costs allocated for data processing and computer replacement (based on equipment assigned to personnel working on Measure M improvement services) and G & A (in accordance with cost study performed by external consultant). One finding in 2009 turnback audit: 1. Two expenditures totaling \$130,430 were not included in the city's 2009 CIP	Three findings noted: 1. Processing of payroll and updating the master payroll file, including adding new employees, are performed by the same employees. The City should segregate these functions. 2. Capital asset records for equipment purchased with federal funds do not meet requirements of OMB A-102. 3. The City's investment policy has a reporting requirement that is based on CA government code sec. 53646. This code has been recently updated and the City's policies should be updating accordingly.	MHM	12/4/09	None	MHM	12/4/09
Placentia	2008	One finding noted in 2008 turnback audit: 1. Two accounts included in the calculation of MOE expenditures did not meet the definition of MOE and were disallowed; however, the City still met the minimum MOE requirement for fiscal year 2008. No recommendations were made.	Not Complete as of 4/12/10			Not Complete as of 4/12/10		

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Rancho Santa Margarita	2008	No concerns identified. No findings in 2008 turnback audit.	<p>One findings noted:</p> <ol style="list-style-type: none"> The City failed to obtain certification that the prime contractor for the Bus Shelter Project was not suspended or debarred. This information needs to be verified for contractors receiving individual awards of \$25,000 or more in federal funds. 	MHM	12/11/09	None	MHM	12/11/09
San Clemente	2008	No concerns identified. No findings in 2008 turnback audit.	None	Caporicci & Larson	11/17/09	None	Caporicci & Larson	11/17/09
San Juan Capistrano	2005	No concerns identified. No findings in 2005 turnback audit.	<p>One findings noted:</p> <ol style="list-style-type: none"> The City does not have an employee responsible for monitoring inventory movement throughout the year. It is recommended the City establish procedures to monitor inventory movement and require that inventory is not moved from the warehouse without authorization 	Diehl, Evans & Co.	3/15/10	None	Diehl, Evans & Co.	3/15/10
Santa Ana	2007	No concerns noted. No findings in 2007 turnback audit.	<p>Ten findings noted:</p> <ol style="list-style-type: none"> The list of authorized signers identified by the Office of the Treasurer of the Local Agency Investment Fund (LAIF) was not updated to remove an employee that terminated in December 2008. This condition was also noted in the prior audit. Not all cash and investments held by the fiscal agent were included in the City's Investment Report. This condition was also noted in the prior audit. The market value of some investments held by the fiscal agent were not properly reflected in the June 2009 Investment Report. This condition was also noted in the prior audit. The City should limit system access that allows employees to change allocation codes and void transactions in the accounting system. In addition, the City should implement controls for the monitoring of Treasury Miscellaneous Receipts by sequence. This condition was also noted in the prior audit. New hire information input to the payroll system is not secondarily reviewed for accuracy. This condition was also noted in the prior audit. The City should consider changing pay period cutoffs to allow for processing payroll after the end of the period in order to avoid adjustments. This condition was also noted in the prior audit. Timekeeping entries are reviewed by the employee's responsible for input of the information. This condition was also noted in the prior audit. Procedures allow vendors to pick up their checks at the City if approval for special circumstances is given. The City has not developed a method for documenting this approval. The Police Department submits CHITS to record schedule changes in the payroll system. Currently, these may be submitted up to four months after a change. The City should establish a shorter timeframe for submission of the CHITS. The City was in violation of policies and procedures related to monitoring visits at Federal sub-recipients to ensure funds are administered in accordance with program requirements. Also, the City did not always adhere to policies and procedures to ensure reimbursement requests are submitted timely and in accordance with program requirements. 	Macias Gini O'Connell	12/14/09	<p>Seven findings noted:</p> <ol style="list-style-type: none"> Departments outside of the accounting and financial reporting section provide financial data which is relied upon by Accounting. The City should review the various applications and processes outside accounting to ensure they are providing accurate data. The City does not have documented Information Technology, Application Development and Micro-Support practices. The City does not have a formalized Disaster Recovery Plan. Employee time charged to the Community Development Block Grant (CDBG) Program was incorrect in two out of 40 employees tested, resulting in overcharges of \$374. The City did not adequately monitor a sub-recipient performing housing rehabilitation under the CDBG Program. Employee time charged to the HOME program under the Housing and Urban Development Department was incorrect in four out of forty employees tested, resulting in overcharges of \$472. The City did not maintain adequate records to document equipment purchased with Urban Areas Security Initiative (UASI) funds. 	Macias Gini O'Connell	12/14/09

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Seal Beach	2009	No concerns identified. One finding in 2009 turnback audit: 1. Expenditures totaling \$60,111 for one project were not included in their CIP for 2009. The expenditures were in the CIP's for 2008 and 2010.	None	MHM	12/18/09	Not Applicable	N/A	N/A
Stanton	2005	No concerns identified. No findings in 2005 turnback audit.	None	Caporicci & Larson	11/23/09	None	Caporicci & Larson	11/23/09
Tustin	2006	The City allocates 3% of engineering staff salaries to Measure M projects. No findings in 2006 turnback audit.	Six recommendations noted: 1. The City does not have a formal monitoring plan to ensure procedures are adequate and effective to continually mitigate potential risk to financial reporting. The City should work towards implementing a comprehensive risk assessment plan. 2. The City does not have a comprehensive policies and procedures manual for accounting functions. 3. The City failed to submit a required form for a federal award until it was brought to the attention of the City by the auditors. The City should implement procedures that ensure grant fiscal and compliance requirements are identified, documented, and monitored to ensure compliance. 4. The City does not have a formal credit card policy. The City should develop a policy for City issued cards to decrease the risk of fraud and abuse. 5. Internal controls over cash receipts are inadequately documented. City should develop policies and procedures to reduce risk of fraud and misappropriation of assets. 6. A June, 2009 bank reconciliation included multiple stale dated checks outstanding longer than one year. The City should implement a written policy and procedure for restoration of cash for checks outstanding for a specified period of time.	Macias, Gini, & O'Connell	2/24/10	Two findings noted: 1. Several IT related internal control deficiencies were noted by the auditors. The City should review existing controls and formalize procedures to monitor the adequacy and effectiveness of controls. 2. The City has had difficulty maintaining capital asset records due to lack of information and monitoring of ongoing projects. The City should implement procedures to ensure all improvement projects and properly identified and monitored to ensure all of the City's capital related assets are accounted for properly.	Macias, Gini, & O'Connell	2/24/10
Villa Park	2008	No concerns identified. No findings in 2008 turnback audit.	Two recommendations noted: 1. The City should update its Purchasing Policy to address informal bids/quotes for non-public works contracts and update its Accounts Payable Policy to address when a Purchase Order or Purchase Authorization form is necessary. 2. The City could not locate supporting documentation for a warrant of \$6,725 paid to one of its vendors.	MHM	10/2/09	Not Applicable	N/A	N/A
Westminster	2005	Administrative and salary costs allocated based on time spend and number of projects. Current Measure M fund balance \$(870,196). No findings in 2005 turnback audit.	None	Diehl, Evans & Co.	10/16/09	None	Diehl, Evans & Co.	10/16/09
Yorba Linda	2007	The City's Measure M fund balance of \$2,782,330 exceeds its last 3 years' turnback revenue payments of \$2,342,047. No findings in 2007 turnback audit.	None	LSL	9/30/09	Not Applicable	N/A	N/A

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Orange County	2009	Indirect costs allocated via overhead rate applied to labor. No findings in 2009 turnback audit.	<p>Nine Findings Noted:</p> <ol style="list-style-type: none"> The County posted an improper cutoff entry associated with the Retiree Medical Defined Benefit Plan Trust Fund. It is recommended that the County strengthen its procedures to ensure proper cutoff. The County failed to reconcile its investments held in trust with OCERS with its investment balances in a timely manner. The County also recorded payment in excess of the annual required contribution to the Retiree Medical Plan as a special item. It is recommended that the County formalize a policy requiring timely reconciliation and ensuring that assets are properly recorded on the government wide statement level. Regarding the processing of deposit orders, it was noted that on three occasions required approvals were missing. The County should strengthen procedures to ensure consistency of approvals. The County failed to accrue four invoices in its year-end cutoff for accounts payable. The net effect of the adjustment is approximately \$2 million. The County should strengthen its year-end accounts payable cutoff procedures. During the year-end closing process the County provides questions to departments to identify if receivables accrued as of June 30 have been realized within the County's availability policy of 60 days. As a result of an incorrect response to a questionnaire, an adjustment was necessary. The County should expand its analysis of year-end receivables and consider testing the departments' questionnaires. The County's year-end conversion entries for debt and related accounts required three adjustments due to errors in the calculations of year-end amounts. It is recommended the County strengthen its existing policies and procedures over the year-end government-wide conversion process for interest payable. Local area network administrators are not a part of the IT reporting structure. This has created the potential for conflicts of interest and problems with segregation of duties. The County should ensure proper segregation of duties for its local area network administrators. The County does not have an official policy regarding timely notification to network and application managers of a departing employee or temporary worker. An official policy should be instituted including timely notification of appropriate personnel to inhibit possible malicious activity by departing employees. The County has not tested its comprehensive disaster recovery program or its business continuity plan. The County should consider periodically testing these plans to identify deficiencies and ways to improve plans. 	Vavrinek, Trine, Day & Co.	12/16/09	<p>Nine findings noted:</p> <ol style="list-style-type: none"> The County has failed to submit required reports related to a grant received from the U.S. Dept of Agriculture. It is recommended the County strengthen procedures to ensure compliance. Forms related to a grant received from the U.S. Dept of Agriculture are missing in some cases and not signed by the appropriate employees in other cases. Controls over these forms should be strengthened. The County is required to perform on-site inspections of certain properties in accordance with March 2009 OMB Circular A-133. This inspection was not performed in one instance. Controls should be strengthened to ensure compliance. The County failed to submit a required report to the Department of Justice in a timely manner. Controls should be strengthened to ensure timely submission. As a pass-through entity, the County is required to pass along information to the subrecipient about compliance requirements. The County failed to include this information in several contracts and should improve its procedures to ensure compliance with this requirement. As a pass-through entity the County is responsible for monitoring subrecipients use of federal awards. It was noted that the County failed to perform on-site monitoring and failed to obtain a Single Audit report for one subrecipient. Policies should be changed to ensure compliance. Several forms and reports required for compliance with requirements of Temporary Assistance for Needy Families could not be located. The County should strengthen procedures to ensure that files are properly maintained. The County failed to submit required reports to the California Department of Social Services in a timely manner. The County should strengthen its policies to ensure compliance. The County failed to properly complete forms related to requirements for the Foster Care Program. The County should strengthen procedures to make sure forms are completely filled out. 	Vavrinek, Trine, Day & Co.	12/16/09

Orange County (cont'd)					<p>10. The County incorrectly classified Adoption Assistance Program benefit payments as related to Foster Care. The County should strengthen its procedures to ensure proper classification</p> <p>11. The County is required to use the Income and Eligibility Verification System to verify wage information from certain agencies. There were several instances in which a caseworker did not review these reports. The County should strengthen controls to ensure these reports are reviewed.</p> <p>12. The Sheriff's Department has implemented a barcode inventory system. It was noted that 5 items had not been included in inventory. The Sheriff's Department should consistently adhere to inventory procedures for tracking federal assets.</p>	
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Note 1: A Questionnaire was circulated by Internal Audit in December, 2009. Internal Audit requested all Orange County cities to provide answers to questions concerning funding, segregation of funding, interest on funds and indirect cost allocations. Internal Audit summarized the answers provided by cities on the Questionnaire which could indicate potential issues. Internal Audit also summarized findings from prior Measure M audits of cities.

Note 2: In December 2009, Internal Audit requested that all Orange County cities provide copies of their most recent Management letters and, if applicable, their prior year Single Audit reports issued by independent auditors. Management letter findings and recommendations, as well as Single Audit findings and recommendations have been summarized by Internal Audit. Fully developed findings and recommendations, as written by auditors, are maintained by the Internal Audit Department.

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