



May 11, 2011

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Review of Cost Allocation Plan

Overview

The Internal Audit Department has completed a review of the Orange County Transportation Authority's cost allocation plan. The review found that the cost allocation plan methodology used by the Orange County Transportation Authority appears reasonable and the fiscal year 2009-10 cost allocation appears materially accurate.

Recommendation

Receive and file the Review of Cost Allocation Plan, Internal Audit Report No. 10-506.

Background

In April 2003, the Orange County Transportation Authority (OCTA) contracted with consultant MuniFinancial for development of a cost allocation methodology. After review of departments and interview of staff, MuniFinancial recommended a cost allocation model. OCTA adopted the recommended cost allocation plan (CAP) model and has made applicable adjustments over the years.

OCTA allocates indirect costs in a two-step allocation. For each support service department, a department whose primary duty is to provide services to other OCTA departments, costs are distributed to OCTA's various operating departments proportionately based on a set of statistics (e.g., total expenditures per fund, number of filled positions per fund, number of contract agreements per fund). In the second step, the indirect cost received by the support service departments within the General Fund are re-distributed to operating departments based upon their share of the first-step allocation.

Discussion

The objective was to review OCTA's methodology for, and application of, cost allocation. The scope was limited to review of the current cost allocation methodology and the fiscal year 2009-10 CAP.

The Internal Audit Department (Internal Audit) reviewed the current cost allocation methodology and related procedures for reasonableness. Internal Audit also reviewed supporting documentation for the allocation statistics and bases used in the fiscal year 2009-10 CAP and noted no material exceptions.

Summary

Based on the procedures performed, the CAP methodology used by OCTA appears reasonable and the fiscal year 2009-10 CAP appears materially accurate.

Attachment

- A. Review of Cost Allocation Plan, Internal Audit Report No. 10-506

Approved by:



Janet Sutter
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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Review of Cost Allocation Plan

INTERNAL AUDIT REPORT NO. 10-506

April 25, 2011



Internal Audit Team:

Janet Sutter, CIA, Acting Executive Director
Serena Ng, CPA, Senior Internal Auditor

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

Review of Cost Allocation Plan
April 25, 2011

Contents

Conclusion 1

Background 1

 Background of OCTA’s Cost Allocation Methodology 1

 OCTA’s Current Cost Allocation Methodology and Procedures 1

Objectives, Scope and Methodology 2

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Review of Cost Allocation Plan
April 25, 2011**

Conclusion

The Internal Audit Department (Internal Audit) has completed a review of the Orange County Transportation Authority's (OCTA) cost allocation plan (CAP). The objective was to review OCTA's methodology for, and application of, cost allocation.

Based on the procedures performed, the Cost Allocation Plan (CAP) methodology used by OCTA appears reasonable and the fiscal year 2009-10 CAP appears materially accurate.

Background

Background of OCTA's Cost Allocation Methodology

The cost allocation methodology currently used is based on a model recommended by consultant MuniFinancial in 2004. The model was developed with the ability to be continuously updated as OCTA grows, develops, and/or changes. Over the past six years, OCTA has updated the model. At the time MuniFinancial was consulted, OCTA was considering making claims of indirect costs on grants and also requested approval of the CAP from the Federal Transit Administration (FTA). The FTA approved the CAP pending a financial management oversight review; however, OCTA has never claimed indirect costs against grants as originally thought.

OCTA's Current Cost Allocation Methodology and Procedures

OCTA allocates indirect costs using a two-step allocation process. For each support service department, a department whose primary duty is to provide services to other OCTA departments, total costs are distributed to the various operating funds and departments, such as Orange County Transit District, Community Transportation Services, General Fund, Orange County Local Transportation Authority, and State Route 91 Express Lanes. Costs are allocated proportionately based on a set of statistics (e.g. total expenditures, number of filled positions, number of contract agreements). For example, human resources department costs are allocated based on the number of filled positions. In the second step, indirect costs received by support service departments within the General Fund, are re-distributed to operating departments based upon their share of the first-step allocation.

OCTA's Accounting and Financial Reporting Department (Accounting) prepares the CAP every year. Development of the CAP requires obtaining information on allocation statistics by running reports in Integrated Financial and Administrative Solution (IFAS) and Across the Board (ATB) systems, as well as obtaining allocation statistic information from support service departments.

Every month, Accounting posts a journal entry to distribute costs to operating departments based on the prior year's CAP. After the current year CAP has been

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Review of Cost Allocation Plan
April 25, 2011**

prepared and reviewed by Accounting management, a journal entry is posted to adjust costs to the current year CAP.

Objectives, Scope and Methodology

The objective of this review was to assess OCTA's methodology for, and application of, cost allocation.

In meeting this audit objective, Internal Audit employed the following methodologies:

- Reviewed current cost allocation methodology and compared the methodology with MuniFinancial's recommended template and FTA approval letter;
- Reviewed procedures and controls in allocating cost; and
- Reviewed fiscal year 2009-10 CAP methodology and calculation and supporting documentation for allocation statistics and bases used in the CAP.

The scope of the review was limited to the fiscal year 2009-10 CAP.

This review was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.