



March 11, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director,
Internal Audit Department

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

Overview

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

Recommendation

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

Background

On May 13, 2019, the Orange County Transportation Authority (OCTA) Board of Directors (Board) found the City of Santa Ana (City) ineligible to receive Measure M2 revenues after an audit found that the City had not met the minimum Maintenance of Effort (MOE) requirement of the Measure M2 Ordinance. In addition, the Board directed staff to conduct audits of the City for the fiscal years (FY) ending June 30, 2019 and June 30, 2020, to assess full (100 percent) compliance with MOE requirements and to increase the MOE requirement for FY 2018-19 by the shortfall amount identified in the FY 2017-18 audit.

A written settlement agreement, dated October 22, 2019, was executed between OCTA and the City which outlined requirements for the City to re-establish

eligibility. Among other items, the settlement agreement required the City to undergo, and pay for, audits for FY 2018-19 and 2019-20, to determine compliance with MOE requirements.

Discussion

Eide Bailly LLP (auditors), tested MOE expenditures representing 100 percent of the City's minimum required expenditures and found it met the minimum required expenditures per the settlement agreement with OCTA.

Minimum required MOE expenditures totaled \$8,018,429, per the settlement agreement. The City spent a total of approximately \$10.7 million per its expenditure report and detailed general ledger. Of the amount spent, the auditors tested \$8,761,215 and, after removing ineligible and questioned expenditures, found that the City met the minimum required expenditures.

The detailed audit report can be found at Attachment A.

Summary

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

Attachment

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

Prepared by:



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



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

Orange County
Local Transportation Authority –
City of Santa Ana



**Independent Accountant's Report on Applying
Agreed-Upon Procedures — City Santa Ana, California**

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

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

The procedures and associated findings were as follows:

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

Findings: The City was required to spend \$8,018,429 in MOE expenditures during the fiscal year ended June 30, 2019, which included \$7,755,107 for 2018-19 MOE expenditures and \$263,322 of MOE shortfall from fiscal year 2017-18. No exceptions were found as a result of this procedure.

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

Findings: All MOE expenditures were tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund under the following accounting units: Roadway Markings/Signs (AU 01117625), Street Light Maintenance (AU 01117630), Street Trees (AU 01117643), Street Lights (AU 05117620), Traffic/Transportation Engineering (AU 01117620), and Graffiti Abatement Program (AU 01117642). No exceptions were found as a result of this procedure.

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

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2019 were \$10,738,892 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$10,738,892 to the amount reported on the City's Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.

4. We tested MOE expenditures representing 100 percent of the City's minimum required expenditures, from the City's general ledger expenditure detail. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation. For indirect charges, we reviewed supporting documentation for reasonableness and appropriate methodology.
 - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$8,761,215, representing approximately 109% of the minimum required for the fiscal year ended June 30, 2019. Of the total tested, we identified the following exceptions:

- \$341,070 of expenditures were not allowable per the Ordinance, as they were not local street and road expenditures.
- \$71,864 of expenditures were questioned due to lack of support demonstrating that the expenditures were eligible local street and road expenditures.
- \$225,000 in graffiti removal expenditures were questioned after testing of the City's methodology for allocating these costs and identified a 35% error rate.

After removing \$637,934 from total MOE expenditures, the City continued to meet the minimum MOE requirement, with \$8,123,281 in expenditures tested, or 101% of the MOE benchmark. No other exceptions were found as a result of this procedure.

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

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

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


Laguna Hills, California
February 28, 2020

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

Schedule A

Maintenance of Effort (MOE) Expenditures:

Maintenance:

| | |
|--|--------------|
| Street Lights & Traffic Signals - Schedule 3, line 13 | \$ 5,369,845 |
| Other Street Purpose Maintenance - Schedule 3, line 15 | 2,991,125 |

Construction:

| | |
|--|-------------------|
| Signals, Safety Devices & Street Lights - Schedule 3, line 4 | 1,719,634 |
| Indirect and/or Overhead - Schedule 3, line 1 | 658,288 |
| Total MOE expenditures | <u>10,738,892</u> |

| | |
|---------------------------------|------------------|
| MOE Benchmark 2018-19 | \$ 7,755,107 |
| MOE Shortfall 2017-18 | 263,322 |
| Total required MOE expenditures | <u>8,018,429</u> |

| | |
|----------------------------------|------------------|
| Direct MOE expenditures tested | \$ 8,102,927 |
| Indirect MOE expenditures tested | 658,288 |
| Total MOE expenditures Tested | <u>8,761,215</u> |

| | |
|--|----------------|
| Ineligible costs identified | 341,070 |
| Questioned costs identified (non-graffiti removal) | 71,864 |
| Questioned costs identified (graffiti removal) | 225,000 |
| Total exceptions | <u>637,934</u> |
| Total allowable MOE expenditures tested | \$ 8,123,281 |

| | |
|--|------|
| % allowable tested of required MOE expenditure total | 101% |
|--|------|

Note:

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

MAYOR
Miguel A. Pulido
MAYOR PRO TEM
Juan Villegas
COUNCILMEMBERS
Phil Bacerra
Cecilia Iglesias
David Penalzoa
Vicente Sarmiento
Jose Solorio



EXHIBIT 1
CITY MANAGER
Kristine Ridge
CITY ATTORNEY
Sonia R. Carvalho
CLERK OF THE COUNCIL
Daisy Gomez

CITY OF SANTA ANA

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February 28, 2020

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

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

Procedure #4

We tested MOE expenditures representing 100 percent of the City's minimum required expenditures, from the City's general ledger expenditure detail. For each item selected, we performed the following:

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

Findings: MOE expenditures tested totaled \$8,761,215, representing approximately 109% of the minimum required for the fiscal year ended June 30, 2019. Of the total tested, we identified the following exceptions:

- \$341,070 of expenditures were not allowable per the Ordinance, as they were not local street and road expenditures.
- \$71,864 of expenditures were questioned due to lack of support demonstrating that the expenditures were eligible local street and road expenditures.
- \$225,000 in graffiti removal expenditures were questioned after testing of the City's methodology for allocating these costs and identified a 35% error rate.

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After removing \$637,934 from total MOE expenditures, the City continued to meet the minimum MOE requirement, with \$8,123,281 in expenditures tested, or 101% of the MOE benchmark. No other exceptions were found as a result of this procedure.

City's Response:

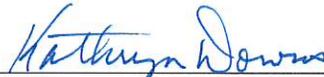
- The Public Works Agency (PWA), with the assistance of the Finance and Management Services Agency, will update its department procedures to properly identify and code Maintenance of Effort (MOE) expenditures to ensure only eligible costs associated with Right-of Way are included in the General Fund accounting units identified for MOE.
- The City will review internal charges to ensure that MOE eligible expenditures are properly supported. MOE employee labor hours will be supported by daily timesheets and/or crew logs.
- PWA will review procedures related to graffiti services and explore the possibility of adding additional categories under the graffiti tracking system to improve the allocation process for MOE eligible expenditures.

With the implementation of procedures noted above, the City will continue to meet its MOE requirements.

Sincerely,



Kristine Ridge, City Manager



Kathryn Downs, Executive Director
Finance and Management Services
Agency



Nabil Saba, Acting Executive
Director of Public Works

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