



**March 24, 2021**

**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, 2020

### **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, 2020.

### **Recommendation**

Direct staff to monitor implementation of corrective action by the City of Santa Ana.

### **Background**

The Local Fair Share (LFS) program is a formula-based allocation provided to eligible jurisdictions for use on allowable transportation planning and implementation activities. Since the LFS program is intended to augment, not replace, existing transportation expenditures, each jurisdiction is typically required to maintain a minimum level of local street and road expenditures to conform to a defined maintenance of effort (MOE) requirement.

On May 13, 2019, the Orange County Transportation Authority (OCTA) Board of Directors (Board) directed staff to conduct audits of the City of Santa Ana (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 MOE shortfall amount identified in the FY 2017-18 audit.

The audit for FY 2018-19 found that the City spent sufficient funds to meet the required minimum MOE and the shortfall amount, from FY 2017-18.

On June 22, 2020, in direct response to impacts from the coronavirus, the Board approved an amendment to the Orange County Local Transportation Authority Measure M2 Ordinance to remove minimum MOE requirements for cities receiving Local Fair Share funds during FY 2019-20. As a result of the change, the Board also approved revisions to the audit procedures to be applied to the City for FY 2019-20 to remove the requirement for a 100 percent audit of MOE expenditures.

***Discussion***

Eide Bailly LLP (auditors), tested \$7,720,809 in MOE expenditures, representing 53 percent of the City's total expenditures of \$14,518,020. Testing identified \$30,715 in disallowed expenditures, and \$759,932 of questioned expenditures. The City responded that procedures will be improved to ensure proper identification and coding of MOE expenditures.

The detailed report, along with the City's response, can be found in Attachment A.

***Summary***

The auditors have completed agreed-upon procedures related to Measure M2 MOE expenditures for the City, for FY ended June 30, 2020.

***Attachment***

- A. Measure M2 Maintenance of Effort Agreed-Upon Procedures Report Year Ended June 30, 2020 Orange County Local Transportation Authority - City of Santa Ana, California

**Approved by:**



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



Measure M2 Maintenance of Effort  
Agreed-Upon Procedures Report  
Year Ended June 30, 2020

**Orange County**  
**Local Transportation Authority –**  
**City of Santa Ana, California**

Orange County Local Transportation Authority  
City of Santa Ana, California  
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Year Ended June 30, 2020

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

The 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, 2020. 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 Fiscal Year 2020 Expenditure Report for the City and identified the amount reported as spent on Maintenance of Effort (MOE) expenditures (Schedule 3, Line 18).

**Findings:** MOE expenditures for the fiscal year ended June 30, 2020 totaled \$14,518,020 per the City's Expenditure Report (Schedule 3, line 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, 2020 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, 2020 were \$14,518,020 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$14,518,020 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 a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:
  - a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation. For indirect charges, we reviewed supporting documentation for reasonableness and appropriate methodology.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and was allowable per the Ordinance.

**Findings:** MOE expenditures tested totaled \$7,720,809, representing approximately 53% of the total MOE expenditures for the fiscal year ended June 30, 2020. Of the total tested, we identified the following exceptions:

- \$30,715 of expenditures were not allowable per the Ordinance, as they were not local street and road expenditures.
- \$346,807 of expenditures were questioned due to lack of support demonstrating that the expenditures were eligible local street and road expenditures.
- \$406,125 in graffiti removal expenditures were questioned after testing of the City's methodology for allocating these costs and identified a 25% error rate.

No other exceptions were found as a result of this procedure.

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

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

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

  
Laguna Hills, California  
March 9, 2021

Orange County Local Transportation Authority  
City of Santa Ana, California  
Schedule of Measure M2 Maintenance of Effort Expenditures (Unaudited)  
Year Ended June 30, 2020

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Maintenance of Effort (MOE) Expenditures

Maintenance	
Street Lights & Traffic Signals - Schedule 3, line 13	\$ 9,033,125
Other Street Purpose Maintenance - Schedule 3, line 15	4,049,090
Construction	
Signals, Safety Devices & Street Lights - Schedule 3, line 4	21,960
Indirect and/or Overhead - Schedule 3, line 1	<u>1,413,845</u>
Total MOE expenditures	<u>14,518,020</u>
Direct MOE expenditures tested	6,387,996
Indirect MOE expenditures tested	<u>1,332,813</u>
Total MOE expenditures Tested	<u>7,720,809</u>
Ineligible costs identified	30,715
Questioned costs identified (non-graffiti removal)	346,807
Questioned costs identified (graffiti removal)	<u>406,125</u>
Total exceptions	<u>783,647</u>
Total allowable MOE expenditures tested	<u><u>\$ 6,937,162</u></u>

Note:

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

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MAYOR PRO TEM  
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March 9, 2021

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

The following response from City of Santa Ana Management addresses results of the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the year ended June 30, 2020.

**Procedure #4**

Auditor tested a sample of MOE expenditures from the City’s general ledger expenditure detail. For each item selected, Auditor 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 was allowable per the Ordinance.

**Findings:** MOE expenditures tested totaled \$7,720,809, representing approximately 53% of the total MOE expenditures for the fiscal year ended June 30, 2020. Of the total tested, Auditor identified the following exceptions:

- \$30,715 of expenditures were not allowable per the Ordinance, as they were not local street and road expenditures.
- \$346,807 of expenditures were questioned due to lack of support demonstrating that the expenditures were eligible local street and road expenditures.

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- \$406,125 in graffiti removal expenditures were questioned after testing of the City's methodology for allocating these costs and identified a 25% error rate.

No other exceptions were found as a result of this procedure.

**City's Response:**

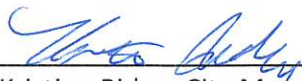
The City expended \$14,518,020 in MOE related expenditures during the fiscal year 2019-20, which exceeds prior year's requirements for MOE compliance.

The City's Public Works Agency (PWA) will continue to review and monitor department procedures to ensure proper identification and coding of Maintenance of Effort (MOE) expenditures.


- During the current and future fiscal years, PWA will ensure MOE-eligible expenditures are properly coded to account numbers assigned to the program, which will make future documentation processes more accurate.
- During the current and future fiscal years, PWA will adopt a budgeting methodology that limits the need for allocating labor costs. If allocation is necessary, the labor distributions will be based on a Cost Allocation Plan prepared by a consultant.

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

Sincerely,



Kristine Ridge, City Manager



Kathryn Downs, Executive Director  
Finance and Management Services Agency



Nabil Saba, Executive Director  
Public Works Agency

SANTA ANA CITY COUNCIL