



OCTA Taxpayers Oversight Committee

Audit Results Fiscal Year 2024

– Audit Subcommittee

May 27, 2025

Here with you today



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Agenda

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Audit Objectives

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Required
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Audit Objectives



OCTA M2 Compliance- Audit Results FY2024



Engagement Deliverables

Orange County Local Transportation Authority's ("OCLTA")
Financial Statements and Compliance audits

Measure M2 Status AUP Report

GANN Limit Article XIII-B AUP Report

The cities selected by the Audit Subcommittee of the
Taxpayers Oversight Committee to perform agreed-upon
procedures (AUP) – *see next slide*

Limited AUPs related to Buena Park and City of Orange related
to Settlement Agreements with OCTA



Engagement Deliverables – City AUPs

- **Local Fair Share**
 - Garden Grove
 - Huntington Beach
 - La Habra
 - Laguna Hills
 - Mission Viejo
 - Orange County
 - San Clemente
 - Seal Beach
 - Westminster
- **Senior Mobility Program**
 - Buena Park
 - Laguna Niguel
 - Laguna Woods
 - Mission Viejo
 - San Juan Capistrano
- **City of Buena Park**
- **City of Orange**



Engagement Objectives – OCLTA Audits

- The objective of this audit is to express an opinion on Orange County Local Transportation Authority's (OCLTA) financial statements and compliance with the Measure M2 Ordinance (Ordinance) for the fiscal year ended June 30, 2024.
- The audit will be performed in accordance with auditing standards generally accepted in the United States (GAAS) and generally accepted *Government Auditing Standards* (GAGAS).
- Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether OCLTA's financial statements and compliance with the Ordinance is free of material misstatement and noncompliance whether caused by error or fraud.
- Our audit includes consideration of internal controls over financial statements and compliance, but we do not express an opinion on the effectiveness of such internal controls. Management is responsible for the design and the effectiveness of internal controls.



OCTA Compliance M2 Audit

- Number of samples selected: **over one thousand samples selected**
- Total Programs selected: seven
 - Freeway projects
 - Project O - Regional Capacity Program (RCP)
 - Project P- Regional Traffic Signal Synchronization Program (RTSSP)
 - Project Q- Local Fair Share
 - Project U- Senior Mobility
 - Project U- Senior Non-Emergency Medical Program
 - Project V - Community Based Circulators
- Additional Jurisdictions selected: six
 - City of Irvine
 - City of Brea
 - City of Santa Ana
 - City of Fullerton
 - County of Orange
 - City of San Clemente

Significant Risks & Materiality

Significant Risks

- Management is primarily responsible for the design, implementation and maintenance of internal controls.
- Auditing standards require a presumed risk of management override of internal controls.

Materiality

- Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.
- Materiality judgments involve both qualitative and quantitative considerations.



Audit Results



OCTA M2 Compliance- Audit Results FY2024



Compliance Audit Reports

Deliverable	Opinion / Matters Noted
Audit of OCLTA Financial Statements	Unmodified Opinion
Audit of OCLTA M2 Compliance	No Material Noncompliance Noted
GANN Limit Article XIII-B AUP Report	No exceptions were found
Measure M2 Status AUP Report	See next slide
The cities selected by the Audit Subcommittee of the Taxpayers Oversight Committee to perform agreed-upon procedures	See next slides
Limited AUPs related to Buena Park and City of Orange related to Settlement Agreements with OCTA	See next slides



Measure M2 Status- AUP Results

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- Identified an expenditure in the amount of \$24 with a service period that fell during fiscal year 2023 and the invoice was received by management outside of the prior period's yearend cut-off procedure. Thus, was reported in the fiscal year 2024 expenditures.
- The expenditure identified above is within management's threshold of passed adjustments for fiscal year 2024.
- No other exceptions were found as a result of these procedures.

LFS- AUP Results

1 of 3

City	Result	City Management Response
City of Garden Grove (Garden Grove)	Garden Grove reported (Maintenance of Effort) MOE expenditures of \$18,362,299; however, actual MOE expenditures, per the general ledger, were \$18,338,943, a variance of \$23,356.	Management acknowledges the \$23,356 variance in MOE expenditures, which resulted from an Excel formula error. This clerical error did not impact compliance with the MOE benchmark. To prevent similar issues, management will enhance its review procedures.
	Testing identified \$11,233 in Maintenance of Effort (MOE) expenditures that were reported as direct expenditures, rather than indirect expenditures.	Management acknowledges the charges were classified as direct MOE expenditures instead of indirect costs. Going forward, management will ensure that such charges are properly reported.
City of Huntington Beach (Huntington Beach)	Testing identified \$4,456,129 in MOE expenditures that were reported as direct expenditures, rather than indirect expenditures.	Management will evaluate its reporting methods and adopt measures to ensure MOE expenditures are properly classified in future reports.
	Testing identified \$78,490 in MOE expenditures that were reported as indirect expenditures, rather than direct expenditures.	Management will review its financial reporting processes methodology used to allocate MOE costs and implement procedures to ensure that expenditures are correctly classified in future reports.
	Testing identified \$10,229,622 in indirect MOE expenditures that were not supported by a documented methodology representing a fair and reasonable allocation of costs. After these allocated charges were removed from the MOE expenditures, Huntington Beach continued to meet its MOE benchmark.	
	Huntington Beach uses generic project titles on their Expenditure Report, making it difficult to trace these projects to projects as listed in their Capital Improvement Program (CIP) report.	Management will undertake a comprehensive review of its financial reporting protocols and establish enhanced internal controls to ensure the accurate classification of LFS expenditures in all subsequent financial reports. A journal entry in the amount of \$29,249 has been completed to refund the erroneously charged LFS funds.
	Testing identified \$29,249 in LFS expenditures that were not properly classified or allowable per the Ordinance.	
	Testing identified \$1,466 in LFS expenditures that were reported as indirect expenditures, rather than direct expenditures.	Management will review its financial reporting processes and implement procedures to ensure LFS expenditures are correctly classified in future reports.
City of Laguna Hills	None	
City of La Habra	None	

LFS- AUP Results (continued)

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City	Result	City Management Response
City of Mission Viejo (Mission Viejo)	Testing identified \$368,250 in MOE expenditures that were reported as indirect expenditures, rather than direct expenditures.	Going forward, directly identifiable payroll and contracted services expenditures associated with Measure M2 projects will be reported as direct costs.
	Testing identified \$31,591 in LFS expenditures that were reported as indirect expenditures, rather than direct expenditures.	Going forward, labor costs directly identifiable as street and road project inspection costs will be reported as direct costs.
City of San Clemente (San Clemente)	Testing identified \$1,313,908 in MOE expenditures that were reported as indirect expenditures, rather than direct expenditures.	Management will allocate payroll charges to the appropriate direct cost line items in future expenditure reports.
	San Clemente uses generic project titles on their expenditure report, making it difficult to trace these projects to projects as listed in their CIP report.	Public Works is updating the CIP and, going forward, will include a listing of street projects that are funded by LFS that will also be included on the expenditure report.
	Testing identified \$20,718 in LFS expenditures that were reported as indirect expenditures, rather than direct expenditures.	Management concurs and will allocate payroll charges to the appropriate projects as direct cost line items in future expenditure reports.
City of Seal Beach (Seal Beach)	Testing identified \$124,658 in MOE expenditures that were reported as indirect expenditures, rather than direct expenditures.	Seal Beach met the MOE benchmark and included both direct and indirect costs. However, the indirect costs were allocated without a formal cost allocation plan. Seal Beach will exclude these costs until a written cost allocation plan is in place. Management will also implement procedures to properly report noted expenses going forward.
	Testing identified \$315 in indirect MOE expenditures for employee meals that were deemed unallowable. Testing also identified \$561,449 in indirect MOE expenditures that were not supported by a documented methodology representing a fair and reasonable allocation of costs. As such, these expenditures were removed from the MOE. After these expenditures were removed from the MOE expenditures, Seal Beach continued to meet its MOE benchmark.	

LFS- AUP Results (continued)

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City	Result	City Management Response
City of Westminster (Westminster)	Testing identified \$63,951 in MOE expenditures that were reported as indirect expenditures, rather than direct expenditures.	Management will verify expenditures are properly classified as indirect or direct on the Expenditure report in the current and future years.
	Testing identified five LFS expenditures totaling \$126,791 related to City Street Sweeping, which was not listed as a project in the City's CIP.	Management will update the CIP to include the Citywide Street Steet Sweeping project as a part of the reporting process that will be presented to the Westminster City Council in June 2025.
	Westminster reported \$81,395 in interest on its Expenditure Report, which did not agree to actual interest earned of \$81,401, a variance of \$6. We recomputed interest based on the interest allocation methodology without exception.	The variance of \$6 will be allocated to the Measure M2 Fair Share Fund in the current year.
County of Orange	None	

SMP- AUP Results

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City	Result	City Management Response
City of Buena Park	One of four monthly reports tested was not submitted within 30 days of month end, as required. Late Report	Buena Park acknowledges the finding and has implemented procedures to ensure timely submissions moving forward.
City of Laguna Niguel	None	
City of Laguna Woods (Laguna Woods)	Laguna Woods misreported program expenditures on its Expenditure Report by including both the M2 funded portion and the match portion of expenditures.	Management concurs and will report only the M2 funding portion in the Expenditure Report for fiscal year 2025.
City of San Juan Capistrano (San Juan Capistrano)	San Juan Capistrano misreported program expenditures on its Expenditure Report by including both the M2 funded portion and the match portion of expenditures.	Management concurs with the finding.
City of Mission Viejo (Mission Viejo)	Mission Viejo charged a total of \$22,114, or approximately 11% of total expenditures, in administrative costs, which exceeded the 10% threshold set in Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines.	Exception noted. The number reported in the Measure M2 Report was understated because agency contributions were included as contribution credits. The City initially reported \$196,252, the correct amount should have been \$221,140. To address this issue the City has changed the way the CABCO invoices are processed. CABCO invoices will be processed using the full invoice amount, excluding contribution credits.
	One of four monthly reports tested was not submitted within 30 days of month end, as required.	Staff have been notified that monthly reports need to be submitted within 30 days of month end.



City of Buena Park- AUP Results

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- The City reported total MOE expenditures of \$4,995,502, and Crowe tested \$2,535,809, about 50 percent of these.
- Crowe identified one MOE expenditure of \$21,450 for a water collection software application that was not allowable per the Ordinance; however, after removing the expenditure from total MOE expenditures, the City continued to meet its MOE benchmark.
- Crowe also identified \$607,426 in MOE indirect costs that were misreported as direct costs. We tested \$868,634, or 99 percent of total LFS expenditures of \$878,509, and determined the expenditures were properly classified and in compliance with the Ordinance.
- The City responded that management would implement necessary adjustments to ensure the proper classification of expenditures going forward.

City of Orange- AUP Results

1 of 1

- Crowe LLP tested a sample of MOE expenditures for FY 2023-24, and found the City met the minimum MOE requirement and the shortfall amount identified in the FY 2022-23 AUP. Per the settlement agreement, the City was required to spend \$4,624,214 in MOE, which included the minimum annual MOE plus the \$1,116,649 shortfall identified during the FY 2022-23 AUP.
- The City reported total MOE expenditures of \$5,538,276, and we tested \$2,466,988, approximately 45 percent of those.
- No ineligible or questioned costs were identified.
- Crowe did identify \$376,650 in indirect MOE charges that were misreported as direct, and \$912,031 in direct charges that were misreported as indirect.
- The City acknowledged the misclassification of these charges and agreed to implement procedures to ensure proper classification going forward.

M2 Compliance- Best Practices Observed

- OCTA- M2 compliance: OCTA delayed in disbursing funds to local jurisdictions
- Reimbursement Invoices were sent to OCTA for two projects with an unexecuted amendment extending the funding/period of service in the fiscal year
- One of the cities did not submit its reimbursement request within 180 days
- One City overstated the actual expenditures for the project by \$5.4k
- One of the cities did not calculate the MOE benchmark calculation expenditures correctly
- One of the cities overstated indirect cost by \$1k due to a clerical error \$1k



Required Communications



Required Communications

- Corrected Noncompliance: We did not note **material** corrected noncompliance matters that we brought to the attention of management as a result of our audit procedures.
- Uncorrected Noncompliance: We did not note any **material** uncorrected noncompliance matters that we brought to the attention of management as a result of our audit procedures.

Our values



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Required Communications

We did not note:

- Significant Accounting Policies in Controversial or Emerging Areas
- Significant Unusual Transactions
- Significant Difficulties Encountered during the Audit
- Disagreements with Management
- Consultations with Other Accountants
- Significant Related Party Findings and Issues
- Independence matters

Our values



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Questions?



Thank you

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