MEASURE M
TAXPAYERS OVERSIGHT COMMITTEE
AUDIT SUBCOMMITTEE MEETING
AGENDA

Tuesday, February 21, 2012
5:00 p.m. – 6:00 p.m.

Orange County Transportation Authority
600 S. Main Street, Orange, CA
Conference Room 101

Conference room is on the first floor.

1.	Review and approve minutes from January 10, 2012	
2.	TOC Audit Subcommittee Charter	*Janet Sutter*
3.	M2 Agreed Upon Procedures and Environmental Mitigation Program SOW	*Janet Sutter*
4.	Investments Policy Overview	*Rodney Johnson*
5.	M2 Triennial Performance Review	*Tamara Warren*
6.	Quarterly Measure M1 and M2 Revenue and Expenditure Report	*Kenneth Phipps*
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
TAXPAYERS OVERSIGHT COMMITTEE
AUDIT SUBCOMMITTEE MEETING
MINUTES

Orange County Transportation Authority
550 S. Main Street, 600 Building
Orange, CA
Conference Room 506
Tuesday, January 10, 2012
5:00 p.m. – 6:45 p.m.

- TOC members present: Howard Mirowitz, Richard Egan, Jim Kelly, David Sundstrom, Gregory Pate
- OCTA staff present: Kenneth Phipps, Janet Sutter, Alice Rogan, Kia Mortazavi, Tamara Warren, Vicki Austin, Gabriel Tang
- Guests: Shaun Skelly, County of Orange; Kevin Pulliam and Roger Alfaro, Partners, Vavrinek, Trine, Day & Co., LLP

Before getting started, David Sundstrom, TOC Chairman, stated this would be his last Audit Subcommittee (Committee) meeting in 13 years of Committee meetings. David said it has been a pleasure working with great Committee members and fantastic OCTA staff. David further stated he had mentioned to the OCTA Board of Directors on January 9th that working with very high quality and high caliber people has made his job overseeing the TOC easier. David introduced Shaun Skelly who will be stepping in as the Interim Auditor Controller after David officially resigns from the County of Orange on January 31st.

Meeting was called to order at: 5:05pm

Review and approve minutes from October 11, 2011: Committee members approved the minutes from the October 11, 2011, meeting.

External Auditor Communication/Annual Audit Reports: Kevin Pulliam, Partner from Vavrinek, Trine, Day & Co., LLP (VTD) introduced himself and Roger Alfaro, also a Partner with VTD, as overseers of the audit team that performed the annual audits of the Orange County Local Transportation Authority for fiscal year 2010-11. Kevin indicated he would first review the highlights of the reports, indicate where there were significant changes from the prior year, and then pause between reports to answer any detailed questions from Committee members.

Kevin first reviewed the Orange County Local Transportation Authority Annual Financial and Compliance Report. VTD issued an unqualified, or clean, audit opinion, although within the audit opinion there were a couple of *emphasis of matter* (EOM) paragraphs. The first EOM was the adoption of Governmental Accounting Standards Board (GASB) Statement No. 54. The second EOM referred to a prior period adjustment. Kevin then directed the Committee to the Government Auditing Standards Opinion in the back of the report, and indicated there was one finding within that opinion which was specific to the prior period adjustment. Kevin then asked if Committee members had any specific questions regarding the report.

David asked what generated the change in the period of eligibility from 180 to 90 days. Vicki Austin, Section Manager of Accounting and Financial Reporting, answered the change was made so OCTA would know exactly what was going to be received in order to account for it correctly in the financial statements. Jim Kelly asked if *Due from other OCTA funds* and *Due to other governments* on page 10 of the report had been confirmed. Roger answered VTD performed a series of tests to verify those amounts. Jim next asked why would there be unearned revenue. Vicki Austin offered to research a definite answer, but opined that it might be an advance of Proposition 1B funds. Jim then referred to *Interfund Transactions* and administrative services charges on page 25. Jim asked if the allocations between entities and the propriety of the figures was tested or reviewed by VTD. Roger said those transactions would have been subject to overall procedures performed over journal entries. Kevin added VTD would have tested for reasonableness of charges in how they are allocated between the agencies. In reference to page 30, Jim noted the wide range of interest rates. Jim asked if a breakdown of interest averages on what was paid or received could be explained. Kenneth Phipps, Executive Director of Finance and Administration, indicated he would need to refer to detail in the Debt and Investment Report for that information, and offered to provide that to Committee members. Jim next brought up the $400 million in M2 notes referenced within *Short Term Debt* on page 35. Jim asked if VTD had gotten involved in that area in terms of funding, costs associated with the funding, where funds are being invested, and how the program was being managed. Roger answered, yes, from the perspective of the audit, VTD understood there was new debt being issued and sent out confirmations to validate certain amounts with respect to the program.

Howard Mirowitz then indicated he also has questions regarding the report. Howard's first question was regarding an indirect expense allocation listed on page 11, and asked if that is an allocation that OCTA charges to the Orange County Local Transportation Authority (OCLTA). Vicki answered yes. Howard then asked about the 5.8 percent ratio between the expense allocation on page 11 and the expenses on page 14 (not including the Debt Service) which is much higher than the 1 percent limitation. Ken responded the reference to the 1 percent limitation is for administrative salaries and benefits; the total cost allocation includes more than administrative salaries and benefits such as professional services, lease space, and a variety of other different items that are part of the cost allocation but is not subject to the 1 percent limitation. On page 30, the *State of California and Local Agencies* investments have an effective rate of 5 to 6.75 percent, and the maturity is one quarter of a year; Howard asked if this could be expanded upon. Ken replied detailed information regarding this question would also be found in the Debt and Investment Report, which Ken will provide to Committee members. Howard asked if VTD did a 100 percent check of all the investments or exceptions to the investment policy. Roger answered that from the perspective of validating 100 percent, VTD did confirmation of the actual investments and sample testing. Ken offered to have OCTA's Treasurer present a detailed report to the Committee; Janet Sutter, Executive Director of Internal Audit, said she will agendize a presentation by OCTA's Treasurer for the next regular Committee meeting.

Kevin then reviewed the Report on Agreed-Upon Procedures (AUP) Applied to Measure M1, and M2, Status Reports. Agreed-upon procedures were applied to both M1 and M2; VTD found no exceptions for either. Jim suggested copies of this report be provided to the next Committee that is formed to serve as a guide to reading the Measure M quarterly reports.

The next report Kevin reviewed was the OCLTA Independent Accountants' Report on Applying Agreed-Upon Procedures Related to the Article XIII-B Appropriations Limit Calculation (GANN Limit Appropriations). VTD found a small exception, although the result is extremely immaterial.

VTD found no exceptions for the Measure M Agreed-Upon Procedures Report.

The last document Kevin reviewed was the OCTA Management Letter (Management Letter). This document is not an OCLTA document, however management believed Committee members should review this document from a transparency perspective. Kevin said there was a Management Letter comment regarding the investment policy, i.e. an investment line item was listed incorrectly under the wrong caption; this item has since been corrected.

Committee members motioned to accept the reports. The reports were accepted unanimously.

Measure M1 and M2 Status Reports for Fiscal Year 2010-11: Ken first reviewed Schedule 1 of the Measure M1 report for period as of June 30, 2011. Ken said the $1.8 million in sales tax revenue collected exceeded OCTA's estimate. The last project finished within the Freeway Mode in Schedule 3 was the Gateway project with actuals of $1.6 million within the quarter; the State Route 22 project had $7.3 million in expenditures. A great deal of activity remains within the Competitive Mode for Streets and Roads with a little less than $200 million programmed for city projects; this activity will be one of the major efforts for the balance of the Measure M1 period. $11 million was spent on Intersection Improvement projects, $2 million on Traffic Signal Coordination, and approximately $500,000 was spent on TSD projects. One of the largest expenditures for the quarter was $19 million for MPAH Improvements.

Ken next reviewed the September report for Measure M1. Notable in this report is no sales tax revenue recorded for Measure M1; going forward sales tax revenues will be recorded on the Measure M2 report. State Route 22 received external reimbursements in the amount of $3.4 million; Intersection Improvements also received external reimbursements.

Ken told the Committee the Measure M2 report was the first quarterly report compiled; previously only yearly reports were compiled. $61 million in sales tax revenues was received for Measure M2 in the first quarter and $56 million was received in the second quarter. Ken then pointed out enhancements that have been made to the Measure M2 report.

A motion was made to receive and file the expenditure reports; the reports were received unanimously.

Fare Stabilization: Ken informed the Committee that Fare Stabilization is different under Measure M2 than what it was under M1. Measure M1 had a total of $20 million for the life of the measure which was programmed to help subsidize fixed route and ACCESS fares for senior citizens and the disabled. Under Measure M2 one percent of net sales tax revenue will be allocated for Fare Stabilization. When the original program of projects was built, sales tax revenues were estimated to be approximately $350 million; due to the recession the estimate is now $250 million. Compounding this, the age of a senior citizen was redefined from age 65 down to age 60, which would increase the client pool by

42 percent additional riders within the 60 to 64 age range that would be eligible for the subsidy. OCTA anticipated a significant increase of people wanting to buy the senior pass at the beginning of the fiscal year; however OCTA has only seen a nine percent increase as opposed to the anticipated 42 percent surge in sales. OCTA will continue to track this item and report back to the Board.

Repayment of the Orange County Unified Transportation Trust (OCUTT) Fund for Measure M2 Early Action Plan Costs: Ken informed the Committee that in February 2007, OCTA Board of Directors authorized the early action plan along with a funding strategy. The plan was to borrow from OCUTT, then repay with sales tax revenues received from Measure M2. Part of the cost included the one percent administrative salaries in benefits that would be expended to initiate the early action plan. However, the language under M2 is different from M1. M2 has an annual cap of one percent on administrative salaries and benefits, whereas the M1 one percent cap was over the life of the ordinance. As a result, the plan to repay OCUTT is not allowable. Currently there is approximately $250 million revenue eligible for administrative salaries and benefits; almost $4 million in costs will have to be recouped over time. Only in years where the actual annual allocation of administrative salaries and benefits to Measure M is less than one percent, will OCTA be able to repay OCUTT. OCTA will continue to report back to the Board on this item. In the event that OCTA is never able to recoup the funds, OCUTT will ultimately have to absorb the loss.

Internal Audit Plan, First Quarter Update: Janet gave brief highlights of the first quarter update of the Internal Audit Plan to the Committee. Janet acknowledged delay in presenting the update to the Committee due to cancellation of the December meeting. Going forward, Janet offered to transmit the quarterly updates by email after presentation to the Finance and Administration Committee rather than agendize them; the Committee accepted.

Environmental Program Review: Jim informed the Committee he has spoken with, and received input from, Kennard R. Smart, Jr., Esq. of Woodruff, Spradlin & Smart, General Counsel to OCTA, regarding fair market appraisals of property acquired for conservation, and with Director Bates as well. Jim expressed continued uneasiness unless a review of the acquisition of property through the Freeway Mitigation Program is performed, and explained his immediate concerns for this need. Jim first explained the make-up of the Environmental Oversight Committee includes environmentalists and staff whose focus he believes is to acquire as much conservation property as they can with a lack of inherent concern as to how the money is spent. Jim also expressed reservation that Monte Ward, who is running the program, is a consultant and a sole practitioner who has worked in the area for a long time. Jim believes there is a potential for conflict that should be evaluated. Janet pointed out this program was included in the fiscal year 2011-12 Risk Assessment and was ranked medium to high risk, but was not selected for audit. Janet said a review of the Environmental Program could be added to the Fiscal Year 2012-13 Internal Audit Plan. David recommended developing a scope of work for the audit now and starting a review without delay in fiscal year 2012-13. Janet committed to bringing back a proposed scope of work for the Committee's review.

Triennial Performance Assessment: Tamara Warren, Project Manager, M2 Program Office, presented the Committee with a draft scope of work for the second triennial performance assessment (assessment) of Measure M2 for the period July 1, 2009 through June 30, 2012. Tamara identified five main tasks of the assessment and asked Committee members to review the scope of work and provide feedback by January 24th. David requested a Committee meeting be scheduled in February to review the final scope of work. Alice Rogan, Community Relations Officer, mentioned Howard will sit on the selection panel again to maintain consistency with the prior triennial performance audit; Jim will review bids and provide feedback. Approximately $175,000 has been budgeted for the assessment.

Other Matters: None

Public Comments: None

Meeting Adjourned at: 6:45 p.m.

Next meeting scheduled for February 21, 5:00 p.m. CR 101.

TAXPAYER OVERSIGHT COMMITTEE
AUDIT SUBCOMMITTEE

AUDIT CHARTER
February 2012

The Audit Subcommittee (Subcommittee) of the Taxpayer Oversight Committee (TOC) is established to assist the TOC in fulfilling its oversight responsibilities with regard to the Measure M ordinances approved by the voters of Orange County. Specifically, the Subcommittee will have responsibilities in matters related to internal and independent audits of the Measure M programs, projects and financial records.

In providing assistance to the TOC, the Subcommittee will assume the role of an audit committee as provided herein, and recommend action on all audit related matters to the full TOC. Recognizing that the Finance and Administration Committee (Committee) of the Board of Directors of the Orange County Transportation Authority (OCTA or Authority) serves as the Authority's audit committee, with audit oversight of Measure M projects, programs and financial records, the role of the Subcommittee is to augment the Committee's audit oversight as it relates specifically to Measure M projects, programs and financial records.

All members of the Subcommittee will participate in fulfilling these responsibilities. At least one member of the Subcommittee will have financial experience sufficient to provide guidance and assistance to other Subcommittee members on matters related to government accounting, auditing, budgeting and finance.

In fulfilling its audit responsibilities, the Subcommittee will have prompt and unrestricted access to all relevant Authority documents, records and staff. Requests by the Subcommittee for financial or other resources sufficient to fulfill these responsibilities, and beyond that already existing in the Authority's adopted budget, will be directed, through the full TOC, to the Chairman of the Board of the Authority.

Members of the Subcommittee will be independent of the Authority, its contractors, consultants and agents, in both fact and appearance, and will consult with the Chairman of the TOC concerning any circumstances which may compromise their ability to meet this standard. Members of the Subcommittee will comply with all applicable state and federal laws in the performance of their duties under this audit charter.

Responsibilities of the Subcommittee will include, but may not be limited to, the following:

Independent Financial Statements Audits

1. Review with management and the independent financial statement auditors:

   a. The annual financial statements of the Orange County Local Transportation Authority and related footnotes, schedules and unadjusted differences, including the accounting principles used, and significant estimates or judgments made by management.

b. The management letter issued by the independent auditors in relation to their audit of the Authority and all of its legal entities.

c. Any and all other independent audit reports the Subcommittee believes may be relevant to the exercise of its duties.

2. Discuss with the independent financial statement auditors any difficulties encountered during the course of their work, disagreements with management or restrictions or limitations placed upon them.

3. Assist the Authority in the selection, retention or discharge of its independent auditor. This assistance may be provided through:

   a. Participation on the independent auditor procurement selection panel.

   b. In coordination with the full TOC, providing performance feedback regarding the independent auditor to the Authority's Board of Directors and Internal Audit Department.

4. Inquire of the auditor as to their independence, their compliance with Government Auditing Standards, and applicable accounting and auditing guidance issued by the Government Accounting Standards Board, the Financial Accounting Standards Board, the American Institute of Certified Public Accountants and other standard-setting bodies.

Agreed Upon Procedures

1 Review with the independent auditors the results of agreed-upon-procedures performed at the direction of the Subcommittee and/or the Board of Directors of the Authority.

2 Design procedures to provide assurance that Measure M1 and M2 funds are used in compliance with the Ordinance and expenditures are reported accurately.

3 Periodically evaluate the sufficiency and applicability of the procedures.

4 In coordination with the full TOC, provide management and the Authority's Board of Directors with recommendations based on the results of the procedures.

Triennial Performance Audit

1. Participate in the development of the scope of work for the procurement of an independent performance auditor to perform the triennial performance assessment required by Measure M2.

2. Participate in the selection of the independent performance auditor.

3. Review the results of the triennial performance assessment, including management responses. Monitor the implementation of all recommendations.

4. In coordination with the full TOC, provide feedback to OCTA's Board of Directors on the performance of the independent consultant, the adequacy of management's responses and/or the sufficiency of corrective action planned in response to audit recommendations.

Internal Audit and Internal Controls

1. Receive and review the annual internal audit plan and quarterly updates of audit activity.

2. Request and review internal audit reports that have Measure M1 and M2 implications, including management responses and management's planned corrective action.

3. Consider the effectiveness of OCTA's system of internal controls, including controls over financial reporting.

4. Inquire of the Internal Audit Department as to restrictions or limitations placed upon it by management or the Board of Directors.

5. Ensure that the Internal Audit Department is independent, as defined by the Government Accountability Office, and that it operates in compliance with Government Auditing Standards. Review the results of the department's triennial quality assurance (or "peer") review.

6. In coordination with the full TOC, provide OCTA's Board of Directors feedback or recommendations related to audit findings, internal controls or the performance of the internal audit function.

Other

1. Review this Audit Charter annually to assess its adequacy and recommend changes.

2. Provide updates to the TOC on actions taken, communications by, or recommendations made by the Subcommittee.

3. Inquire annually of the Chairman of the Authority's Finance and Administration Committee (Committee) as to any concerns the Committee has with regard to the Authority's internal controls, its internal audit function, its independent auditors, Measure M projects, programs or financial records or other matters and report to the full TOC.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
MEASURE M AGREED-UPON PROCEDURES – PROJECT Q AND U
Year Ended June 30, 2012

Agreed Upon Procedures for Measure M Local Fair Share Eligible Jurisdictions:

1. Obtain the OCLTA Maintenance of Effort (MOE) Calculation Report and identify the required minimum amount to be spent on MOE expenditures by the Eligible Jurisdiction.

2. Document which funds the Eligible Jurisdiction used to track all street and road expenditures and inquire how the Eligible Jurisdiction identifies MOE expenditures in its general ledger.

3. Obtain the detail of MOE expenditures for the fiscal year ended June 30, 2012 and determine whether the Eligible Jurisdiction met the minimum MOE requirement.

4. Haphazardly select a sample of MOE expenditures from the Eligible Jurisdiction's general ledger expenditure detail. For each item selected, perform the following:

   a. Agree 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.

   b. Verify that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

5. Identify whether or not indirect costs were charged as MOE expenditures. If applicable, haphazardly select a sample of charges. Review the amounts charged and review supporting documentation for reasonableness and appropriate methodology.

6. Obtain a listing of Measure M Local Fair Share payments made from OCLTA to the Eligible Jurisdiction and calculate the amount the Eligible Jurisdiction received for the past three fiscal years. Obtain the cash balance of the Eligible Jurisdiction's Measure M Local Fair Share Fund as of June 30, 2012 and determine whether funds were expended within three years of receipt.

7. Document which fund the Eligible Jurisdiction used to track expenditures relating to Measure M Local Fair Share monies in its general ledger and the amount spent during the fiscal year ended June 30, 2012.

8. Obtain the Eligible Jurisdiction's Six-Year Capital Improvement Program (CIP) and haphazardly select a sample of Measure M Local Fair Share expenditures from the Eligible Jurisdiction's general ledger expenditure detail. For each item selected perform the following:

   a. Agree 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 vouchers or other appropriate supporting documentation.

   b. Verify that the expenditures selected in (a) above were related to projects included in the Eligible Jurisdiction's Six-Year CIP and are properly classified as Measure M Local Fair Share projects.

Agreed Upon Procedures for Measure M Local Fair Share Eligible Jurisdictions, Continued:

9. Identify whether or not indirect costs were charged as Measure M Local Fair Share expenditures. If applicable, haphazardly select a sample of charges. Review the amounts charged and reviewed supporting documentation for reasonableness and appropriate mythology.

10. Review the Eligible Jurisdiction's interest allocation methodology to ensure the proper amount of interest was credited to the Measure M Local Fair Share Fund.

11. Review to determine that the Eligible Jurisdiction was found eligible by the OCLTA Board of Directors by reviewing Board minutes and related staff reports.

Agreed Upon Procedures for Measure M Senior Mobility Program - Eligible Jurisdictions:

1. Obtain and read the Cooperative Agreement for the Senior Mobility Program between OCLTA and the Eligible Jurisdiction and determine that the agreement was properly approved and executed.

2. Document which fund(s) the Eligible Jurisdiction used to track expenditures relating to Measure M Senior Mobility Program monies in its general ledger and the amount spent during the fiscal year ended June 30, 2012.

3. Obtain a listing of Measure M Senior Mobility Program payments made from OCLTA to the Eligible Jurisdiction and calculate the amount the Eligible Jurisdiction received for the past three fiscal years. Obtain the cash balance of the Eligible Jurisdiction's Measure M Senior Mobility Program as of June 30, 2012 and determine whether funds were expended within three years of receipt.

4. Review the Eligible Jurisdiction's interest allocation methodology to ensure the proper amount of interest was credited to the Measure M Senior Mobility Program Fund.

5. Verify that the Eligible Jurisdiction satisfied the requirement of twenty percent (20%) matching of the total annual formula allocation.

6. Haphazardly select a sample of Measure M Senior Mobility Program expenditures from the Eligible Jurisdiction's general ledger expenditure detail. For each item selected perform the following:

   a. Agree 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 vouchers or other appropriate supporting documentation.

   b. Verify that the expenditures selected in (a) above are exclusively for Senior Mobility Program and meets requirements outlined in the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

7. Identify whether or not indirect costs were charged as Measure M Senior Mobility Program expenditures. If applicable, haphazardly select a sample of charges. Review the amounts charged and review supporting documentation for reasonableness and appropriate methodology.

8. Determine if the Eligible Jurisdiction contracts with a third party service provider to provide senior transportation service, and perform the following:

   a. Verify that the Contractor was selected using a competitive procurement process.

   b. Review the contract agreement to ensure the inclusion of the term: "Wheelchair accessible vehicles are available and used when requested."

Agreed Upon Procedures for Measure M Senior Mobility Program Eligible Jurisdictions, Continued:

9. Obtain the proof of insurance coverage for the Eligible Jurisdiction's Contractor and perform the following:

    a. Review the insurance coverage to ensure the terms satisfy the requirements established in the Cooperative Agreement.

    b. Verify that the proof of insurance was submitted to OCLTA prior to commencement of any work and within ten (10) calendar days from the effective date of the Cooperative Agreement.

10. Obtain and sample the monthly summary reports, and determine the reports were properly prepared and submitted within fifteen (15) calendar days of month end, in accordance with M2 Project U Senior/Disabled Program Funding and Policy Guidelines and in the Cooperative Agreement between OCLTA and the City.

Agreed Upon Procedures for Measure M Senior Non Emergency Medical Transportation Program (County of Orange):

1. Obtain and read the Cooperative Agreement between OCLTA and the County of Orange and determine that the agreement was properly approved and executed.

2. Document which funds the County used to track expenditures relating to Senior Non Emergency Medical Transportation Program (SNEMT) monies in its general ledger and the amount spent during the fiscal year ended June 30, 2012.

3. Obtain a listing of Measure M SNEMT payments made from OCTA to the County and calculate the amount the County has received for the past three fiscal years. Obtain the cash balance of the County's SNEMT funds as of June 30, 2012 and determine whether funds are expended within three years of receipt.

4. Review the County's interest allocation methodology to ensure the proper amount of interest was credited to the Measure M SNEMT fund.

5. Determine the amount of funds required to be expended by the County for the fiscal year ending June 30, 2012 (e.g. obtain from OCTA the percentage requirement and apply to the annual state allocation of Tobacco Settlement funds for the year under review).

6. Determine that the County spent the required annual amount of Tobacco Settlement funds on the SNEMT program.

7. Haphazardly select a sample of Measure M SNEMT expenditures from the County's general ledger expenditure detail. For each item selected perform the following:

   c. Agree 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 vouchers or other appropriate supporting documentation.

   d. Verify that the expenditures selected in (a) above are exclusively for the SNEMT program and comply with the Measure M2 Project U Senior/Disabled Program Funding Policy guidelines and the cooperative agreement.

8. Identify whether or not indirect costs were charged as Measure M SNEMT expenditures. If applicable, haphazardly select a sample of charges. Review the amounts charged and review supporting documentation for reasonableness and appropriate methodology.

9. Determine if the Eligible Jurisdiction contracts with a third party service provider to provide senior transportation service, and perform the following:

   c. Verify that the Contractor was selected using a competitive procurement process.

   d. Review the contract agreement to ensure the inclusion of the term: "Wheelchair accessible vehicles are available and used when requested."

Agreed Upon Procedures for Measure M Senior Non Emergency Medical Transportation Program (County of Orange):

10. Obtain the proof of insurance coverage for the Eligible Jurisdiction's Contractor and perform the following:

    c. Review the insurance coverage to ensure the terms satisfy the requirements established in the Cooperative Agreement.

    d. Verify that the proof of insurance was submitted to OCLTA prior to commencement of any work and within ten (10) calendar days from the effective date of the Cooperative Agreement.

11. Obtain the quarterly summary reports and determine the reports were properly prepared and submitted within forty-five (45) days of the end of each quarter as required by the Cooperative Agreement between OCLTA and the County.

12. Inquire of the County whether they prioritized trips provided under the SNEMT program. If so, determine whether actual expenditures exceeded available program funding and whether OCLTA was notified as required by the Cooperative Agreement between OCLTA and the County of Orange.

Environmental Mitigation Program Review:

1. Review the M2 Ordinance, the Master Environmental Mitigation and Resource Protection Plan and Agreement, and service contracts related to the environmental program. Examine consultant contracts to ensure adequate safeguards are in place to avoid/identify conflicts of interest and that services were procured in compliance with OCTA policies and procedures. Provide brief overview of program objectives and operations.
2. Interview personnel responsible for program execution and oversight and document procedures in place for administration of the program and oversight controls. Test as appropriate to determine controls are operating as intended.
3. Interview the Chairman of the Finance and Administration Committee regarding program intent and approach.
4. Review procedures for procurement, property appraisal and acquisition, and property maintenance to determine they are consistent with the M2 Ordinance, Board approved processes and applicable OCTA policies and procedures.
5. Review scope of work provided for appraisal services and CTO's issued for specific appraisals to ensure consultants were required to comply with appropriate standards and practices.
6. For a sample of 3 acquisitions:
    - Review the appraisal and identify whether the documentation indicates that it was conducted in accordance with the required standards and practices.
    - Review the secondary, "review appraisal" and its findings.
    - Review negotiation documentation and final price negotiated and determine compliance with Board approved process and limits.
7. Select a sample of expenditures from the general ledger detail and test to ensure expenditures are properly supported and in compliance with the Ordinance and OCTA policies and procedures.

Orange County Transportation Authority

2012 Annual Investment Policy

January 9, 2012

I. PURPOSE

This Annual Investment Policy sets forth the investment guidelines for all funds of the Orange County Transportation Authority (OCTA) invested on and after January 9, 2012. The objective of this Annual Investment Policy is to ensure OCTA's funds are prudently invested to preserve capital, provide necessary liquidity and to achieve a market-average rate of return through economic cycles.

Investments may only be made as authorized by this Annual Investment Policy. The OCTA Annual Investment Policy conforms to the California Government Code (the Code) as well as customary standards of prudent investment management. Irrespective of these policy provisions, should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered immediately incorporated into the Annual Investment Policy and adhered to.

II. OBJECTIVES

1. **Safety of Principal --** Safety of principal is the foremost objective of the OCTA. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of the securities.

2. **Liquidity --** Liquidity is the second most important objective of the OCTA. It is important that the portfolio contain investments for which there is an active secondary market and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing rates.

3. **Total Return --** The OCTA's portfolio shall be designed to attain a market-average rate of return through economic cycles.

4. **Diversification –** Finally, the OCTA shall diversify its portfolio(s) to avoid incurring unreasonable market risks.

III. COMPLIANCE

The OCTA has provided each of its portfolio managers with a copy of this Annual Investment Policy as a part of their contract and expects its portfolio managers to invest each portfolio they manage for OCTA in accordance with the provisions of the Annual Investment Policy. However, bond proceeds may be invested in approved short-term investments without regard to diversification limits for a period of three months after their initial deposit and three months before the bond proceeds portfolio final drawdown. Investment activity during the implementation and dissolution of the bond proceeds investment portfolio strategy shall be reported to the Finance & Administration Committee monthly and included in the quarterly Debt and Investment report to the Board of Directors.

The OCTA Treasurer is responsible for verifying each portfolio manager’s compliance as well as OCTA’s entire portfolio’s compliance with the provisions of the Annual Investment Policy.

If OCTA’s Treasurer, in his sole discretion, finds that a portfolio manager has made an investment that does not comply with the provisions of the Annual Investment Policy, the Treasurer shall immediately notify the portfolio manager of the compliance violation. At that point, the portfolio manager is on probation for a period of one year. The second time a violation occurs while the portfolio manager is on probation, the Finance and Administration Committee shall review the error and may request that the portfolio manager responsible for the compliance violation meet with the Chair of the Finance and Administration Committee and the Treasurer as soon as practical at which time it will be decided whether the Board of Directors will be notified of the violation.

If OCTA’s Treasurer finds that the portfolio manager has made a third investment while on probation that does not comply with the provisions of the Annual Investment Policy, the Treasurer shall notify the Board of Directors of the compliance violations, and the Board, thereafter may terminate the contract with the portfolio manager.

IV. PRUDENCE

OCTA’s Board of Directors or persons authorized to make investment decisions on behalf of OCTA are trustees and fiduciaries subject to the prudent investor standard.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard as defined in the Code below and shall be applied in the context of managing an overall portfolio. OCTA’s investment professionals acting in accordance with written procedures and the Annual Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control developments.

<u>The Prudent Investor Standard:</u> When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of OCTA, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

V. DELEGATION OF AUTHORITY

Authority to manage OCTA's investment program is derived from an order of the Board of Directors. Management responsibility for the investment program is hereby delegated to OCTA's Treasurer pursuant to Section 53607 of the Code. On an annual basis, the Board of Directors is required to renew the authority of OCTA’s Treasurer to invest or reinvest OCTA funds. The Treasurer is hereby authorized to delegate his authority as he determines to be appropriate. No person may engage in an investment transaction except as provided under the terms of this Annual Investment Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all actions undertaken and shall establish a system of controls to regulate the activities of subordinate professionals.

The Treasurer shall develop administrative procedures and internal control, consistent with this Investment Policy, for the operation of OCTA's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of OCTA.

VI. ETHICS AND CONFLICTS OF INTEREST

OCTA's officers and employees involved in the investment process shall not participate in personal business activity that conflicts with the proper execution of OCTA's investment program, or which impairs their ability to make impartial investment decisions. OCTA's investment professionals and Treasury/Toll Roads Department employees are not permitted to have any material financial interests in financial institutions that conduct business with OCTA, and they are not permitted to have any personal financial/investment holdings that have a material effect on the performance of OCTA's investments.

VII. RESPONSIBILITIES

The Finance and Administration Committee of the OCTA Board of Directors, subject to the approval of the OCTA Board of Directors, is responsible for establishing the Annual Investment Policy and ensuring investments are made in compliance with this Annual Investment Policy. This Annual Investment Policy shall be reviewed annually by the Board of Directors at a public meeting.

The Treasurer is responsible for making investments and for compliance with this policy pursuant to the delegation of authority to invest funds or to sell or exchange securities and shall make a quarterly report to the Board of Directors in accordance with Section 53646 (b) of the Code. Under Section 53646 (b) the Code states that the Treasurer may make a quarterly report to the Board of Directors. OCTA policy is to provide a monthly report to the Finance and Administration Committee and provide copies to the Board of Directors. In addition, the Treasurer will prepare a quarterly report to the Board of Directors.

The Treasurer is responsible for establishing a procedural manual for OCTA's investment program and for having an annual independent audit performed on OCTA's investments.

VIII. FINANCIAL BENCHMARKS

In order to establish a basis for evaluating investment results, the Authority uses nationally recognized fixed income security performance benchmarks to evaluate return on investments. The Merrill Lynch 1-3 year Treasury Index benchmark is used for OCTA's short-term portfolios, the Merrill Lynch 1-5 year Treasury Index benchmark is used for the extended fund, while a customized performance benchmark may be used for the bond proceeds portfolios.

IX. BOND PROCEEDS INVESTMENTS

Bond proceeds from OCTA's capital project financing programs are to be invested in accordance with the provisions of their specific indenture and are further limited by the maturity and diversification guidelines of this Annual Investment Policy. Debt service reserve funds of bond proceeds are to be invested in accordance with the maturity provision of their specific indenture.

X. INVESTMENT AGREEMENTS – BOND PROCEEDS

Investment agreements must be approved and signed by OCTA's Treasurer. Investment agreements are permitted with any bank, insurance company or broker/dealer, or any corporation if:

A. At the time of such investment,

- such bank has an unsecured, uninsured and unguaranteed obligation rated long-term Aa2 or better by Moody's and AA or better by Standard & Poor's, or
- such insurance company or corporation has an unsecured, uninsured and unguaranteed claims paying ability rated long-term Aaa by Moody's and AAA by Standard & Poor's, or
- such bank or broker/dealer has an unsecured, uninsured and unguaranteed obligation rated long-term A2 or better by Moody's and A or better by Standard & Poor's (and with respect to such broker/dealer rated short-term P-1 by Moody's and A-1 by Standard & Poor's); provided, that such broker/dealer or A2/A rated bank also collateralize the obligation under the investing agreement with U.S. Treasuries, Government National Mortgage Association securities, Federal National Mortgage Association securities or Federal Home Loan Mortgage Association securities meeting the following requirements:

    1. the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and

    2. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and

    3. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.

B. The agreement shall include a provision to the effect that if any rating of any such bank, insurance, broker-dealer or corporation is downgraded below a minimum rating to be established at the time the agreement is executed, OCTA shall have the right to terminate such agreement.

XI. PERMITTED INVESTMENTS FOR NON-BOND PROCEEDS:

Maturity and Term

All investments, unless otherwise specified, are subject to a maximum stated term of five years. Maturity shall mean the stated final maturity or the mandatory redemption date of the security, or the unconditional put option date if the security contains such a provision. Term or tenure shall mean the remaining time to maturity from the settlement date.

The Board of Directors must grant express written authority to make an investment or to establish an investment program of a longer term.

Eligible Instruments and Quality

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of this Annual Investment Policy. If an eligible security already contained in the Authority's portfolio is subsequently placed on "Negative Credit Watch" by any of the three Nationally Recognized Statistical Rating Organizations (NRSROs), then the security will be handled under the provisions of Rating Downgrades.

1) OCTA Notes and Bonds

Notes and bonds issued by OCTA, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate.

2) U.S. Treasuries

Direct obligations of the United States of America and securities which are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States of America.

U.S. Treasury coupon and principal STRIPS (Separate Trading of Registered Interest and Principal of Securities) and TIPS (Treasury Inflation Protected Securities) are permitted investments pursuant to the Annual Investment Policy.

3) Federal Instrumentality Securities (Government Sponsored Enterprises)

Debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement issued by the following:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
- Federal National Mortgage Association (FNMA or Fannie Mae)
- Federal Farm Credit Bank (FFCB)
- Federal Agricultural Mortgage Corporation (Farmer Mac)

4) Federal Agencies

Mortgage-backed securities and debentures with a final maturity not exceeding five years from the date of trade settlement issued by the following:

- Government National Mortgage Association (GNMA or Ginnie Mae)
- Small Business Administration (SBA)
- Export-Import Bank of the United States (EXIMBANK)
- Maritime Administration
- Washington Metro Area Transit
- U.S. Department of Housing & Urban Development
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)

Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.

5) State of California and Local Agency Obligations

Registered state warrants, treasury notes or bonds of the State of California and bonds, notes, warrants or other evidences of indebtedness of any local agency, other than OCTA, of the State, including bonds payable solely out of revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency or authority of the State or local agency. Such obligations must be issued by an entity whose general obligation debt is rated at least A-1 or better by two of the three NRSROs for short-term obligations, or A or the equivalent for long-term debt.

OCTA may also purchase defeased state and local obligations as long as the obligations have been legally defeased with U.S. Treasury securities and such obligations mature or otherwise terminate within five years of the date of purchase.

Public agency bonds issued for private purposes (industrial development bonds) are specifically excluded as allowable investments.

6) Bankers Acceptances

Bankers acceptances which:

A. are eligible for purchase by the Federal Reserve System, and

B. are rated by at least two of the NRSROswith at least A-1 or the equivalent for short-term deposits, and
C. may not exceed the 5 percent limit on any one commercial bank.

Maximum Term: 180 days (Code)

7) Commercial Paper

Commercial Paper must :

A. be rated least A-1 or the equivalent by two of the three NRSRO's

B. be issued by corporations rated at least A- or the equivalent rating by a NRSRO for issuer's debt, other than commercial paper, and

C. be issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars ($500,000,000), and

D. not represent more than 10 percent of the outstanding paper of the issuing corporation.

Maximum Term: 180 days (Code 270 days)

8) Negotiable Certificates of Deposit

Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or state or federal association or by a state licensed branch of a foreign bank, which have been rated by at least two of the NRSRO's with at least A-1 or the equivalent for short-term deposits.

Maximum Term: 270 days

9) Repurchase Agreements

Repurchase agreements collateralized by U.S. Treasuries or Agency securities as defined in the Annual Investment Policy with any registered broker-dealer subject to the Securities Investors Protection Act or any commercial banks insured by the FDIC so long as at the time of the investment such dealer (or its parent) has an uninsured, unsecured and unguaranteed obligation rated P-1 short-term or A2 long-term or better by Moody's, and A-1 short-term or A long-term or better by Standard & Poor's, provided:

A. a Public Securities Association (PSA) master repurchase agreement and a tri-party agreement, if applicable, representing a custodial undertaking in connection with a master repurchase agreement, which governs the transaction and has been signed by OCTA; and

B. the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and

C. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and

D. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.

Maximum Term: 30 days (Code 1 year)

Reverse repurchase agreements are not permitted unless used as a permitted investment in the Local Agency Investment Fund

10) Medium Term Maturity Corporate Securities

Corporate securities which:

A. are rated A- or better by two of the three NRSRO's.

B. are issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

C. may not represent more than ten percent (10%) of the issue in the case of a specific public offering. This limitation does not apply to debt that is "continuously offered" in a mode similar to commercial paper, i.e. medium term notes ("MTNs"). Under no circumstance can any one corporate issuer represent more than 5percent of the portfolio.

Maximum Term: Five (5) years. (Code)

11) Money Market Funds

Shares of beneficial interest issued by diversified management companies (commonly called money market funds) which:

A. are rated AAA (or the equivalent highest ranking) by two of the three NRSRO's.

B. may not represent more than 10 percent of the money market fund's assets.

12) Other Mutual Funds

Shares of beneficial interest issued by diversified management companies (commonly called mutual funds) which:

A. are rated AAA (or the equivalent highest ranking) by two of the three NRSRO's.

B. may not represent more than 10 percent of the fund's or pool's assets.

13) Mortgage or Asset-backed Securities

Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond which:

A. is rated AAA or the equivalent (Code AA) by a NRSRO, and

B. is issued by an issuer having at least an A or equivalent rating by a NRSRO for its long-term debt.

Maximum Term: Five year stated final maturity. (Code)

14) State of California Local Agency Investment Fund (LAIF)

LAIF is a pooled fund managed by the State Treasurer referred to in Section 16429.1 of the Code. All securities are purchased under the authority of the Code Section 16430 and 16480.4.

15) Orange County Treasury Investment Pool (OCIP)

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities and is based on the investment guidelines detailed in the Code section 53601.7, which parallels Rule 2a-7. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635.

16) California Asset Management Program (CAMP)

CAMP is a program for the investment of bond and certificates of participation proceeds only. CAMP investments must be rated AA or better by two of the three NRSRO's.

17) Variable and Floating Rate Securities

Variable and floating rate securities are restricted to investments in securities with a final maturity of not to exceed five years as described above, must utilize traditional money market reset indices such as U. S. Treasury bills, Federal Funds, commercial paper or LIBOR (London Interbank Offered Rate), and must meet all minimum credit requirements previously detailed in the Annual Investment Policy. Investments in floating rate securities whose reset is calculated using more than one of the above indices are not permitted, i.e. dual index notes.

18) Bank Deposits

Bank deposits in California banks which have a minimum short-term rating of A-1 by Standard and Poor's and a minimum short-term rating of P-1 by Moody's. The Treasurer shall draft and execute a contract describing provisions for bank deposits.

19) Derivatives

Derivatives are to be used as a tool for bonafide hedging investments only where deemed appropriate. Derivatives shall not be used for the purpose of interest rate speculation.

Derivative products in any of the eligible investment categories listed above may be permitted. The Treasurer has the sole responsibility for determining which prospective investments are derivatives. Each prospective investment in a derivative product must be documented by the Treasurer as to the purpose and specific financial risk being hedged. Each such investment must be approved by the Finance and Administration Committee prior to entering into such investment.

No investments shall be permitted that have the possibility of returning a zero or negative yield if held to maturity. In addition, the investment in inverse floaters, range notes, strips derived from mortgage obligations, step-up notes and dual index notes are not permitted investments.

Rating Downgrades

OCTA may from time to time be invested in a security whose rating is down-graded below the quality criteria permitted by this Annual Investment Policy.

Any security held as an investment whose rating falls below the investment guidelines or whose rating is put on notice for possible downgrade shall be immediately reviewed by the Treasurer for action, and notification shall be made to the Board of Directors in writing as soon as practical and/or included in the monthly Orange County Transportation Authority Investment and Debt Programs report. The decision to retain the security until maturity, sell (or put) the security, or other action shall be approved by the Treasurer.

Diversification Guidelines

Diversification limits ensure the portfolio is not unduly concentrated in the securities of one type, industry, or entity, thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

Instruments	At All Times Maximum % Portfolio
1) OCTA Note and Bonds	25%
2) U.S. Treasuries (including U.S. Treasury STRIPS & TIPS)	100%
3) Federal Instrumentality Securities	100%
4) Federal Agencies	100%
5) State of California and Local Agencies	25%
6) Bankers Acceptances	30% (Code 40%)
7) Commercial Paper	25% (Code)
8) Negotiable CDs	30% (Code)
9) Repurchase Agreements	75%
10) Medium Term Maturity Corporate Securities	30% (Code)
11) Money Market Funds and 12) Other Mutual Funds (in total)	20% (Code)
13) Mortgage and Asset-backed Securities	20% (Code)
14) LAIF	$40mm maximum per entity
15) OCIP	$40mm maximum per entity
16) CAMP	10%
17) Variable and Floating Rate Securities	30%
18) Bank Deposits	5%
19) Derivatives (hedging transactions only) and subject to prior approval	5%
20) Investment Agreements pursuant to indenture	100%

Outside portfolio managers must review the portfolios they manage (including bond proceeds portfolios once established) to ensure compliance with OCTA's diversification guidelines on an ongoing basis.

Issuer/Counter-Party Diversification Guidelines For All Securities Except Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and 91 Express Lanes Debt

Any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities. 5%

Issuer/Counter-Party Diversification Guidelines For Federal Agencies, Federal Instrumentalities and Repurchase Agreements

Any one Federal Agency or **Federal Instrumentalities** 35%

Any one repurchase agreement counter-party name

If maturity/term is $\leq$ 7 days	50%
If maturity/term is $>$ 7 days	35%

Issuer/Counter-Party Diversification Guidelines For OCTA's 91 Express Lanes Debt

The Authority can purchase all or a portion of the Orange County Transportation Authority's Toll Road Revenue Refunding Bonds (91 Express Lanes) Series B Bonds maturing December 15, 2030 providing the purchase does not exceed 25% of the Maximum Portfolio.

XII SECURITIES SAFE KEEPING

All security transactions, including collateral for repurchase agreements, entered into by OCTA shall be conducted on a delivery-versus-payment basis. Securities shall be held by a third party custodian designated by the Treasurer, evidenced by safe keeping receipts and in compliance with Code Section 53608.

XIII. BROKER DEALERS

The Treasurer, and investment professionals authorized by the Treasurer, may buy securities from a list of broker dealers and financial institutions that will be periodically reviewed.

Outside portfolio managers must certify that they will purchase securities from broker/dealers (other than themselves) or financial institutions in compliance with this Annual Investment Policy.

XIV. ANNUAL INVESTMENT POLICY REVIEW

This Annual Investment Policy shall be reviewed annually by the Finance and Administration Committee of the OCTA Board of Directors to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends.

XV. DEFINITION OF TERMS

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

AGENCY SECURITIES: (See U.S. Government Agency Securities)

ASK PRICE: (Offer Price) The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized or backed by receivables such as automobile loans and credit card receivables. The assets are transferred or sold by the company to a Special Purpose Vehicle and held in trust. The SPV or trust will issue debt collateralized by the receivables.

BANKERS ACCEPTANCES (BAs): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BASIS POINT: When a yield is expressed as 5.12%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains an electronic record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment.

CALLABLE BONDS: A bond issue which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a security.

CERTIFICATES OF DEPOSIT (NEGOTIABLE CDs): A negotiable (marketable or transferable) receipt for a time deposit at a bank or other financial institution for a fixed time and interest rate.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits in an Investment Agreement.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities usually at a discount. Commercial paper is negotiable, although it is typically held to maturity. The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.

COUPON: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as “interest rate.”

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of assets in the name of the depositor.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE SECURITY: Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principal designed to spread the risk in a portfolio by dividing investments by sector, maturity and quality rating.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size or book-value of that investment.

DURATION: A measure of the timing of cash flows, such as the interest payments and principal repayment, to be received from a given fixed-income security.

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee within the Federal Reserve System that makes short-term monetary policy for the Fed. The committee decides either to sell securities to reduce the money supply, or to buy government securities to increase the money supply. Decisions made at FOMC meetings will cause interest rates to either rise or fall.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 2 Federal Reserve banks and about 6,000 member banks.

FITCH Ratings referred to as Fitch: (See Nationally Recognized Statistical Rating Organizations)

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTEREST RATE RISK: The risk associated with declines or rises in interest rates, which causes the market price of a fixed-income security to increase or decrease in value.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

MARK-TO-MARKET: The process by where the value of a security is adjusted to reflect current market conditions.

MARKET RISK: The risk that the value of a security will rise or decline as a result in changes in market conditions.

MARKET VALUE: The current market price of a security.

MATURITY: The date that the principal or stated value of an investment becomes due and payable.

MEDIUM TERM MATURITY CORPORATE SECURITIES: Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC. referred to as Moody's: (See Nationally Recognized Statistical Rating Organizations)

MORTGAGE-BACKED SECURITY: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the individual real estate assets are used to pay interest and principal on the bonds.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS (NRSRO's): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc. and Fitch Ratings.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling the fund's assets which includes securities, cash and accrued earnings, then subtracting this from the fund's liabilities and dividing by the total number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NON-CALLABLE: Bond that is exempt from any kind of redemption for a stated time period.

OCTA BONDS: Bonds, notes, warrants, or other evidences of indebtedness.

OFFER PRICE: An indicated price at which market participants are willing to sell a security.

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an investor.

PREMIUM: The amount by which the price paid for a security exceeds the security's par value.

PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PURCHASE DATE: See (Trade Date)

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

REPURCHASE AGREEMENTS (REPOS): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, with the difference between the purchase price and sales price determining the earnings.

SAFEKEEPING: Holding of assets (e.g. securities) by a financial institution.

SECURITES & EXCHANCE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SPECIAL PURPOSE VEHICLE (SPV): A trust or similar structure created specifically to purchase securities and reprofile cash flows and/or credit risk. Mortgage or Asset-backed securities may be issued out of the SPV and secured by the collateral transferred from the corporation.

STANDARD & POOR'S CORPORATION referred to as Standard and Poor's or S & P: (See Nationally Recognized Statistical Rating Organizations)

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U.S. GOVERNMENT AGENCY SECURITIES or FEDERAL AGENCIES AND U.S. FEDERAL INSTRUMENTALITIES: U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). Often simply referred to as "Agencies", they include:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
- Federal National Mortgage Association (FNMA or Fannie Mae)
- Federal Farm Credit Bank (FFCB)
- Federal Agricultural Mortgage Corporation (Farmer Mac)
- Government National Mortgage Association (GNMA or Ginnie Mae)
- Small Business Administration (SBA)
- Export-Import Bank of the United States
- Maritime Administration
- Washington Metro Area Transit
- U.S. Department of Housing & Urban Development
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)

Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. The Treasury issues both discounted securities and fixed coupon notes and bonds.

> **Treasury bills:** non-interest bearing discount securities of the U.S. Treasury with maturities under one year.
>
> **Treasury notes:** interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from the date of issue.
>
> **Treasury bond:** interest-bearing obligations issued by the U.S. Treasury with maturities ranging from ten to thirty years from the date of issue.
>
> **Treasury STRIPS:** U.S. Treasury securities that have been separated into their component parts of principal and interest payments and recorded as such in the Federal Reserve book entry record-keeping system.
>
> **Treasury TIPS:** U.S. Treasury securities whose principal increases at the same rate as the Consumer Price Index. The interest payment is then calculated from the inflated principal and repaid at maturity.

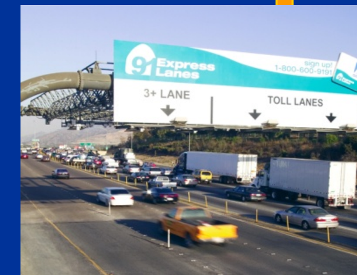
VARIABLE AND FLOATING RATE SECURITIES: Variable and floating rate securities are appropriate investments when used to enhance yield and reduce risk. They should have the same stability, liquidity and quality as traditional money market securities.

For the purposes of this Annual Investment Policy, a Variable Rate Security, where the variable rate of interest is readjusted no less frequently than every 762 calendar days, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest. A Floating Rate Security shall be deemed to have a remaining maturity of one day.

VOLITILITY: The degree of fluctuation in the price and valuation of securities.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the securities current price.

ZERO COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.



Investment Policy Overview

February 21, 2012

Investing Public Funds

- Governed by California Law
  - Government Code Section 53601
- Investment Policy
  - Agency specific
  - Risk Tolerance of the Board
  - Appropriate for cash flow demands of agency

OCTA

Investment Policy Content

- Purpose
  - Sets guidelines for all OCTA funds invested
- Objectives
  - Safety of Principal, Liquidity, Total Return, Diversification
- Compliance
  - Establishes policy as part of portfolio manager contract
- Delegation of Authority
  - The Board of Directors renews the authority for the Treasurer to invest funds
- Permitted Investments
  - Identifies specific investments types & terms allowable by portfolio

Annual Update

- Treasury Department coordinates policy updates
  - Solicits input from partners
- Investment Managers
  - Provide market expertise
- Sperry Capital – Financial Advisor
- California Debt and Investment Advisory Commission (CDIAC)
  - Legislative updates

OCTA

Board Approval

- Strategic internal discussions
  - Risk, reward, relevance
- Submit staff report to Finance and Administration Committee and Board of Directors
  - Black-line and final drafts
- Revised Policy to Portfolio Managers
  - Acknowledge receipt of updates

OCTA

Ongoing Monitoring

- Treasury Department review
  - Review portfolios daily
  - Monthly & quarterly reporting on compliance to Policy
- CDIAC
  - Continue to monitor for updates and legislative changes
- Fixed income markets
  - Financial advisor & portfolio managers
- Internal & External Auditors

OCTA

CAFR Example

State of California & Local Agencies

Issuer	**Fair Value**	**Coupon**	**YTM**	**Maturity**	**Wtd. Avg. Maturity**
S.F. Bay RTD	$ 361,323	6.75%	0.00%	7/1/2011	0
California State	$ 261,976	5.00%	0.28%	11/1/2018	0.306
L.A. MTA	$ 5,000	0.00%	0.00%	7/1/2031	0
Irvine Ranch Water	$ 1,039,669	8.18%	0.71%	3/15/2014	0.178
	$ 1,667,968				

TRIENNIAL PERFORMANCE ASSESSMENT
SCOPE OF WORK
February 10, 2012

BACKGROUND

On November 7, 2006, Orange County voters approved the Renewed Measure M Transportation Investment Plan (M2), a measure authorizing collection of a one-half cent sales tax over 30 years to fund transportation improvements.

Collection of sales tax revenues under M2 began on April 1, 2011. M2 was preceded by a similar measure known as M1 that went into effect in April 1991 and expired on March 31, 2011.

Ordinance No. 3, which defines and regulates how the M2 sales tax proceeds can be spent, was approved by the Orange County Transportation Authority (OCTA) Board of Directors on July 24, 2006. Ordinance 3 includes the M2 Plan, which describes four categories of project and program improvements to be funded: Freeways, Streets and Roads, Transit, and Environmental Cleanup. OCTA administers the various provisions of the Ordinance and M2 plan ranging from receiving the revenues to allocation of funds and implementation of the projects and programs as appropriate.

Although collection of sales tax under M2 did not start until April 2011, the OCTA started work on M2 in 2007 by adopting an Early Action Plan, using debt financing secured by the anticipated sales tax revenue stream. The projects undertaken include all four categories of improvements outlined above (Freeways, Streets and Roads, Transit and Environmental Cleanup).

The M2 Ordinance includes a range of "Taxpayer Safeguards and Audits." The safeguards and audits include a requirement for a Taxpayers Oversight Committee (TOC) as well as a triennial performance assessment among other things. A copy of Ordinance No. 3 is included as an attachment to this Scope of Work.

The first triennial performance assessment, covering the period November 8, 2006 through June 30, 2009, was completed in October 2010. The review resulted in several findings that were subsequently addressed. This performance assessment will cover the period between July 1, 2009 and June 30, 2012.

OCTA has established a Program Management Office (PMO) to oversee the implementation of M2. The PMO, a part of the OCTA's Planning Division, is focusing on overall program management, compliance with the Ordinance, fiscal responsibility, transparency, and safeguards. The PMO's role is primarily oversight rather than direct management. It monitors progress on projects and programs and ensures compliance with ordinance requirements and other aspects of M2. The

PMO facilitates coordination among OCTA divisions, provides guidance to ensure and support transparency, reporting requirements, and coordinates other aspects of M2. Reporting includes, quarterly status reports to the Board of Directors, annual reports on revenues spent and progress in implementing M2, triennial performance assessments, and ten-year comprehensive reviews.

Management of financial aspects and individual M2 projects and programs (facilities and services) is carried out by operating units. The PMO monitors and reports on the projects and programs. The PMO has also developed a document management process for tracking M2-related decisions and activities. The PMO Manager will be the project manager for this Triennial Performance Assessment.

Purpose of the Assessment

Ordinance No. 3 includes the following provision: "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."

The purpose of the triennial performance assessment is to evaluate OCTA's performance on a range of activities covering planning, management, and delivery of M2 program. The assessment is intended to be both retrospective and prospective. It will assist OCTA in improving the current process and practices in place and ensure the necessary tools are in place to successfully implement the plan over the life of the program. The assessment should focus on the most relevant matters related to OCTA's efficiency, effectiveness, economy, and program results in delivering M2. Compliance with individual aspects of Ordinance No. 3 is also an element of the assessment, and the OCTA expects the Contractor to provide a sound, overall assessment in this regard to strengthen OCTA efforts as it continues forward with the implementation of M2.

This scope of work is for a performance assessment, as opposed to a fiscal audit. Audits of the Orange County Local Transportation Authority (agency within OCTA that is legislatively designated to administer M2) financial statements and reviews of M2 financial status reports are conducted as part of OCTA's annual financial and compliance audits. In addition, the OCTA's Internal Audit Department carries out, either directly or through independent contractors, various M2 audits. These audits cover reviews of individual projects and/or programs and local agencies' compliance with expenditure requirements set forth in the Ordinance.

Contractor Qualifications

Ideally the contractor hired would have a strong background and understanding in transportation planning and program/construction management. The consultant should provide qualified staff with experience in the following areas:

- Project development activities, assessing transportation programs, and evaluating best practices
- Collecting data, conducting management interviews, assessing operations and an understanding of organizational structures
- Analyzing information and producing recommendations to improve key areas of performance

Assessment Objectives

The performance assessment objectives listed below are an important component of the assessment:

- Evaluate the status of the findings from the first triennial performance assessment and effectiveness of changes implemented
- Assess the performance of the agency on the efficient delivery of Measure M2 projects and programs
- Identify and evaluate any potential barriers to success and opportunities for process improvements

A. SCOPE

The scope of work for this project includes a Measure M2 performance assessment of the OCTA for the period of July 1, 2009 through June 30, 2012. Summarized in tasks one through five are areas OCTA has identified as highly important to its performance and to which it directs the Contractor's attention. As an independent assessor, the Contractor may choose other areas, but the OCTA expects the Contractor to review the following:

Task 1: Project Delivery

Evaluate OCTA's effectiveness and efficiency in developing and implementing the projects and programs described in M2. Questions might include:

a) Is overall progress to date in implementing M2 reasonable? Is sufficient progress being made to support full completion of the Plan within the 30-year M2 period?

b) Was there a set of reasonable principles in place for determining what projects to include in the CAP [(1)]?

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1) The Capital Action Plan document includes a description of how priority M2 projects will be implemented in the early years of the M2 program.

c) Did OCTA follow the set of principles and have early delivery objectives been accomplished?

d) Are there appropriate systems in place to monitor, assess, control and report on CAP progress?

Task 2: Program Management / Responsiveness

Evaluate the OCTA's approach to program management. Questions might include:

a) Assess the OCTA's response to the findings in the 2006-2009 Triennial Performance Assessment. Were the findings adequately addressed? Are there any remaining follow-ups or carryover items?

b) Are there effective mechanisms in place to ensure interdivisional coordination in planning and implementing projects/programs?

c) Does OCTA have a reasonable approach to implementing the M2 requirement to limit administrative costs to one percent of total tax revenues and address the related issues and challenges?

d) Does the PMO function have clear definition of roles and responsibilities? Are these roles and responsibilities sufficiently defined to ensure effective and efficient delivery of the program, and are the roles and responsibilities consistent with peer agency approaches to this type of a function? Are adequate resources available to the function to carry out these responsibilities?

e) Have program and project management systems (e.g. Primavera) been effectively implemented and are they being effectively used for program and project management control?

f) Is the M2 related organizational structure within OCTA provide for efficient delivery of M2 programs and projects?

g) Does the OCTA have adequate policies and procedures for contract management and construction management?

Task 3: Compliance

Evaluate the extent of compliance with the Ordinance including Attachments A, B, and C to the Ordinance. Questions might include:

a) Are the methods and procedures used to report on compliance with the Ordinance adequate?

b) OCTA has developed a matrix itemizing all requirements set forth in the Ordinance and Plan to monitor compliance. Is the tool sufficient or are there improvements that can be made to improve compliance tracking?

c) Does the OCTA have an effective and efficient approach to determine local agency eligibility as required in the Ordinance?

d) Has the OCTA followed its adopted procurement requirements in awarding M2-related contracts?

Task 4: Fiscal Responsibility

Evaluate the extent to which the OCTA is economical in structuring the approach to project and program delivery. Questions might include:

a) Is the OCTA's technical project selection process for awarding M2 grants to streets and roads and environmental projects effective?

b) Is the OCTA's payment process for grant funding disbursement under the M2 Streets and Roads programs appropriate and efficient?

c) Is the OCTA process to monitor timely use of grants to local agencies effective?

d) Is the local agency expenditure reporting process and format appropriate?

e) Is the OCTA's use of M2 funds, specifically in the development and use of other available funding sources to supplement sales tax revenues, efficient?

f) Evaluate the OCTA's policies and practices in investing M2 funds. Do fund investment policies and practices reflect a sound balance of security, return, and cash flow needs?

g) Evaluate the OCTA's use of financing to fund M2 projects. Are the financing costs and fees paid reasonable? Was the structure of the financing appropriate based on the funding requirements?

h) Has OCTA effectively established countermeasures to address the shortfall in anticipated sales tax collections? Was borrowing money to accelerate projects in order to take advantage of currently favorable bidding conditions appropriate?

i) Evaluate the OCTA's long term financial planning process through the Comprehensive Business Plan development. Is the process an effective way of determine and plan for the M2 cash flow needs?

Task 5: Transparency and Accountability

Evaluate how fully, intelligibly, and otherwise appropriately the OCTA reports on M2 matters to the Board of Directors, the TOC, the general public, and other stakeholders. Questions might include

a) Evaluate the OCTA's public outreach approach. Does OCTA effectively inform the public about M2 programs and projects?

b) Does the OCTA involve appropriate user groups and communities affected by M2 programs and projects in planning and decision-making?

c) Does the OCTA make good use of its website, e-mail, social media, and traditional methods (e.g., press releases and direct mail) to inform and involve the public?

d) Has the Taxpayers Oversight Committee that was created as a requirement of the Ordinance functioned as envisioned and in conformance with the established policies and procedures?

B. MATERIALS AND DOCUMENTATION

To assist in the assessment the contractor should review existing materials and documentation including but not limited to, the following:

a) Orange County Local Transportation Authority Ordinance No. 3

b) Early Action/Capital Action Plan

c) M2 Ordinance No. 3 Matrix

d) Measure M Website/Dashboards

e) Agenda's for OCTA Board of Director meetings, Taxpayer Oversight Committee and environmental committees

f) Program guidelines and schedule documents

g) Financial planning documents

h) M2 Annual and Quarterly Reports

i) M2 Triennial Performance Assessment - 2006 through 2009

j) Freeway Plan

C. DELIVERABLES AND SCHEDULE

Conduct Tasks 1 through 5 and submit the following deliverables within the number of days after contract execution or at the intervals specified below:

1. Overall, complete the project within 150 calendar days from notice to proceed, not counting any attendance at the meetings outlined in Task 9 below.

2. Commence work within 5 days of notice to proceed by conducting a kick-off meeting with OCTA's project manager (PM). The meeting will include a review and refinement if necessary of the consultants work plan, assessment objectives and best approach for achieving goals.

3. Thereafter, conduct progress meetings (every two weeks) with the PM to:

    a. Discuss status of activities outlined in the scope of work described above and any significant issues that have come to Contractor's attention
    b. Identify any Contractor needs for documentation and information
    c. Describe progress against work plan and schedule
    d. Summarize budget status, i.e., approximate budget expended to date, amount billed to date plus additional amounts expended since the last bill was submitted.

4. Conduct one-on-one meetings with Division representatives to seek information and documentation to assist in accomplishing the tasks outlined in the Scope of Work.

5. Submit bi-weekly status reports covering the items described above in outline form at least 24 hours prior to the scheduled progress meeting.

6. Submit an initial set of findings in outline format within 100 days. This should include findings to date on all matters described in the scope of work above and any additional matters the Contractor anticipates at this point might be included in the final report. The Contractor should also include an explanation to why they came to their conclusions. Contractor and PM will meet to discuss these initial findings at a regularly scheduled progress meeting or a specially scheduled one.

7. Attend and present interim updates at up to four formal Committee/Board meetings on progress of activities.

8. Submit a full draft final report (in word format) within 130 days including 10 copies and one electronic copy. Meet to discuss the draft report with the PM.

9. Submit the final report within 150 days (or within 20 days after receiving staff comments on draft) including 40 final copies and an electronic copy created in Microsoft Word.

10. If requested after submission of the final report, attend six formal Committee/Board meetings. This may require summarizing the information in a PowerPoint presentation. Contractor may be asked to make a formal presentation of the final report to the Committees/Board and respond to questions.

Schedule 1

Measure M1
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of December 31, 2011

($ in thousands)	Quarter Ended Dec 31, 2011	Year to Date Dec 31, 2011 *(A)*	Period from Inception through Dec 31, 2011 *(B)*
Revenues:			
Sales taxes	$ -	$ -	$ 4,003,972
Other agencies share of Measure M1 costs:			
Project related	15,424	20,457	479,361
Non-project related	1	3	617
Interest:			
Operating:			
Project related	-	-	1,052
Non-project related	1,941	3,925	266,294
Bond proceeds	-	-	136,067
Debt service	-	-	82,054
Commercial paper	-	-	6,072
Orange County bankruptcy recovery	-	-	42,268
Capital grants	-	-	156,434
Right-of-way leases	68	179	5,761
Proceeds on sale of assets held for resale	-	-	24,575
Miscellaneous:			
Project related	-	-	26
Non-project related	-	-	775
Total revenues	17,434	24,564	5,205,328
Expenditures:			
Supplies and services:			
State Board of Equalization (SBOE) fees	-	-	56,883
Professional services:			
Project related	896	1,000	199,486
Non-project related	(329)	272	34,324
Administration costs:			
Project related	351	658	21,692
Non-project related	1,562	3,168	94,635
Orange County bankruptcy loss	-	-	78,618
Other:			
Project related	32	58	1,865
Non-project related	2	2	15,946
Payments to local agencies:			
Turnback	-	-	594,009
Other	2,371	6,611	807,514
Capital outlay	5,189	7,883	2,060,780
Debt service:			
Principal payments on long-term debt	-	-	1,003,955
Interest on long-term debt and commercial paper	-	-	561,842
Total expenditures	10,074	19,652	5,531,549
Excess (deficiency) of revenues over (under) expenditures	7,360	4,912	(326,221)
Other financing sources (uses):			
Transfers out:			
Project related	-	(363)	(383,264)
Non-project related	-	-	(5,116)
Transfers in:			
Project related	-	-	1,829
Bond proceeds	-	-	1,169,999
Advance refunding escrow	-	-	(931)
Payment to refunded bond escrow agent	-	-	(152,930)
Total other financing sources (uses)	-	(363)	629,587
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	$ 7,360	$ 4,549	$ 303,366

Schedule 2

Measure M1
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of December 31, 2011

($ in thousands)	Quarter Ended Dec 31, 2011 (actual)	Year Ended Dec 31, 2011 (actual)	Period from Inception through Dec 31, 2011 (actual)	Period from January 1, 2012 forward (forecast)	Total
		(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:					
Sales taxes	$ -	$ -	$ 4,003,972	$ -	$ 4,003,972
Other agencies share of Measure M1 costs	1	3	617	-	617
Operating interest	1,941	3,925	266,294	2,405	268,699
Orange County bankruptcy recovery	-	-	20,683	-	20,683
Miscellaneous, non-project related	-	-	775	-	775
Total tax revenues	1,942	3,928	4,292,341	2,405	4,294,746
Administrative expenditures:					
SBOE fees	-	-	56,883	-	56,883
Professional services, non-project related	(329)	272	25,463	-	25,463
Administration costs, non-project related	1,562	3,168	94,635	974	95,609
Operating transfer out, non-project related	-	-	5,116	-	5,116
Orange County bankruptcy loss	-	-	29,792	-	29,792
Other, non-project related	2	2	6,846	-	6,846
Total administrative expenditures	1,235	3,442	218,735	974	219,709
Net tax revenues	$ 707	$ 486	$ 4,073,606	$ 1,430	$ 4,075,036

		(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:					
Proceeds from issuance of bonds	$ -	$ -	$ 1,169,999	$ -	$ 1,169,999
Interest revenue from bond proceeds	-	-	136,067	-	136,067
Interest revenue from debt service funds	-	-	82,054	-	82,054
Interest revenue from commercial paper	-	-	6,072	-	6,072
Orange County bankruptcy recovery	-	-	21,585	-	21,585
Total bond revenues	-	-	1,415,777	-	1,415,777
Financing expenditures and uses:					
Professional services, non-project related	-	-	8,861	-	8,861
Payment to refunded bond escrow	-	-	153,861	-	153,861
Bond debt principal	-	-	1,003,955	-	1,003,955
Bond debt interest expense	-	-	561,842	-	561,842
Orange County bankruptcy loss	-	-	48,826	-	48,826
Other, non-project related	-	-	9,100	-	9,100
Total financing expenditures and uses	-	-	1,786,445	-	1,786,445
Net bond revenues (debt service)	$ -	$ -	$ (370,668)	$ -	$ (370,668)

Schedule 3

Measure M1
Schedule of Revenues and Expenditures Summary
as of December 31, 2011

Project Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Dec 31, 2011	Reimbursements through Dec 31, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Freeways (43%)										
I-5 between I-405 (San Diego Fwy) and I-605 (San Gabriel Fwy)	$ 982,247	$ 982,591	$ 810,010	$ 789,022	$ 193,569	$ 20,988	$ 871,679	$ 85,619	$ 786,060	97.0%
I-5 between I-5/I-405 Interchange and San Clemente	68,744	68,768	57,836	59,936	8,832	(2,100)	70,294	10,358	59,936	103.6%
I-5/I-405 Interchange	87,252	87,283	72,802	73,075	14,208	(273)	98,157	25,082	73,075	100.4%
SR-55 (Costa Mesa Fwy) between I-5 and SR-91 (Riverside Fwy)	58,168	58,188	44,511	49,349	8,839	(4,838)	55,514	6,172	49,342	110.9%
SR-57 (Orange Fwy) between I-5 and Lambert Road	29,084	29,094	24,128	22,758	6,336	1,370	25,617	2,859	22,758	94.3%
SR-91 (Riverside Fwy) between Riverside Co. line & Los Angeles Co. line	125,590	125,634	116,136	105,389	20,245	10,747	123,995	18,606	105,389	90.7%
SR-22 (Garden Grove Fwy) between SR-55 and Valley View St.	400,566	400,707	313,297	310,943	89,764	2,354	632,777	327,429	305,348	97.5%
Subtotal Projects	1,751,651	1,752,265	1,438,720	1,410,472	341,793	28,248	1,878,033	476,125	1,401,908	
Net (Bond Revenue)/Debt Service			311,917	311,917	(311,917)	-	311,917		311,917	
Total Freeways	$ 1,751,651	$ 1,752,265	$ 1,750,637	$ 1,722,389	$ 29,876	$ 28,248	$ 2,189,950	$ 476,125	$ 1,713,825	
%				42.6%					45.5%	
Regional Street and Road Projects (11%)										
Smart Streets	$ 153,633	$ 153,687	$ 151,278	$ 151,278	$ 2,409	$ -	$ 155,127	$ 11,739	$ 143,388	94.8%
Regionally Significant Interchanges	89,619	89,651	89,651	89,651	-	-	67,803	146	67,657	75.5%
Intersection Improvement Program	128,028	128,073	128,073	128,073	-	-	105,517	1,506	104,011	81.2%
Traffic Signal Coordination	64,014	64,036	64,036	64,036	-	-	63,127	1,554	61,573	96.2%
Transportation Systems Management and Transportation Demand Management	12,803	12,807	12,807	12,807	-	-	8,934	149	8,785	68.6%
Subtotal Projects	448,097	448,254	445,845	445,845	2,409	-	400,508	15,094	385,414	
Net (Bond Revenue)/Debt Service			2,409	2,409	(2,409)	-	2,409		2,409	
Total Regional Street and Road Projects	$ 448,097	$ 448,254	$ 448,254	$ 448,254	$ -	$ -	$ 402,917	$ 15,094	$ 387,823	
%				11.1%					10.3%	

Measure M1
Schedule of Revenues and Expenditures Summary
as of December 31, 2011

Project Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Dec 31, 2011	Reimbursements through Dec 31, 2011	Net Project Cost	Percent of Budget Expended
(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
($ in thousands)										
Local Street and Road Projects (21%)										
Master Plan of Arterial Highway Improvements	$ 160,711	$ 160,803	$ 160,803	$ 160,803	$ -	$ -	$ 132,989	$ 99	$ 132,890	82.6%
Streets and Roads Maintenance and Road Improvements	594,746	594,955	594,955	594,955	-	-	594,025	-	594,025	99.8%
Growth Management Area Improvements	100,000	100,000	100,000	100,000	-	-	94,760	431	94,329	94.3%
Subtotal Projects	855,457	855,758	855,758	855,758	-	-	821,774	530	821,244	
Net (Bond Revenue)/Debt Service							-		-	
Total Local Street and Road Projects	$ 855,457	$ 855,758	$ 855,758	$ 855,758	$ -	$ -	$ 821,774	$ 530	$ 821,244	
%				21.2%					21.8%	
Transit Projects (25%)										
Pacific Electric Right-of-Way	$ 19,711	$ 19,718	$ 15,000	$ 14,000	$ 5,718	$ 1,000	$ 17,108	$ 3,062	$ 14,046	93.6%
Commuter Rail	367,649	367,786	352,567	361,104	6,682	(8,537)	411,438	60,805	350,633	99.5%
High-Technology Advanced Rail Transit	446,783	446,939	428,469	440,688	6,251	(12,219)	357,073	76,657	280,416	65.4%
Elderly and Handicapped Fare Stabilization	20,000	20,000	20,000	20,000	-	-	20,000	-	20,000	100.0%
Transitways	164,258	164,316	146,381	126,625	37,691	19,756	162,676	36,765	125,911	86.0%
Subtotal Projects	1,018,401	1,018,759	962,417	962,417	56,342	-	968,295	177,289	791,006	
Net (Bond Revenue)/Debt Service			56,342	56,342	(56,342)	-	56,342		56,342	
Total Transit Projects	$ 1,018,401	$ 1,018,759	$ 1,018,759	$ 1,018,759	$ -	$ -	$ 1,024,637	$ 177,289	$ 847,348	
%				25.2%					22.5%	
Total Measure M1 Program	$ 4,073,606	$ 4,075,036	$ 4,073,408	$ 4,045,160	$ 29,876	$ 28,248	$ 4,439,278	$ 669,038	$ 3,770,240	

Schedule 1

Measure M2
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of December 31, 2011
(Unaudited)

($ in thousands)	Quarter Ended Dec 31, 2011	Year to Date Dec 31, 2011 *(A)*	Period from Inception to Dec 31, 2011 *(B)*
Revenues:			
Sales taxes	$ 66,463	$ 122,660	$ 183,781
Other agencies share of Measure M2 costs:			
Project related	22,252	22,955	37,115
Interest:			
Operating:			
Non-project related	66	19	(44)
Bond proceeds	13	4,175	6,422
Debt service	1	3	10
Commercial paper	-	-	393
Right-of-way leases	101	130	130
Miscellaneous	69	74	74
Total revenues	88,965	150,016	227,881
Expenditures:			
Supplies and services:			
State Board of Equalization (SBOE) fees	635	1,271	1,907
Professional services:			
Project related	8,517	8,709	99,333
Non-project related	23	138	4,616
Administration costs:			
Project related	1,204	2,162	10,376
Non-project related	994	2,235	13,840
Other:			
Project related	212	217	372
Non-project related	6	4	3,267
Payments to local agencies:			
Project related	14,406	20,519	86,793
Non-project related	-	-	-
Capital outlay:			
Project related	15,900	25,559	74,970
Non-project related	5	5	31
Debt service:			
Interest on long-term debt and commercial paper	(1)	11,262	15,951
Total expenditures	41,901	72,081	311,456
Excess (deficiency) of revenues over (under) expenditures	47,064	77,935	(83,575)
Other financing sources (uses):			
Transfers out:			
Project related	(422)	(817)	(1,194)
Transfers in:			
Project related	11,997	1,955	25,654
Bond proceeds	-	-	358,593
Total other financing sources (uses)	11,575	1,138	383,053
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	$ 58,639	$ 79,073	$ 299,478

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Schedule 2

Measure M2
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of December 31, 2011
(Unaudited)

($ in thousands)	Quarter Ended Dec 31, 2011 (actual)	Year Ended Dec 31, 2011 (actual)	Period from Inception through Dec 31, 2011 (actual)	Period from January 1, 2012 through March 31, 2041 (forecast)	Total
		(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:					
Sales taxes	$ 66,463	$ 122,660	$ 183,781	$ 15,341,126	$ 15,524,907
Operating interest	66	19	(44)	364,931	364,887
Subtotal	66,529	122,679	183,737	15,706,058	15,889,795
Miscellaneous	69	74	74	-	74
Total tax revenues	66,598	122,753	183,811	15,706,058	15,889,869
Administrative expenditures:					
SBOE fees	635	1,271	1,907	230,209	232,116
Professional services, non-project related	(4)	96	1,913	104,303	106,216
Administration costs, non-project related	994	2,235	13,840	146,507	160,347
Operating transfer out, non-project related	-	-	-	21,474	21,474
Other, non-project related	6	4	3,267	27,610	30,877
Capital outlay, non-project related	5	5	31	-	31
Environmental cleanup	347	478	2,060	314,121	316,181
	1,983	4,089	23,018	844,223	867,241
Net tax revenues	$ 64,615	$ 118,664	$ 160,793	$ 14,861,834	$ 15,022,627
		(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:					
Proceeds from issuance of bonds	$ -	$ -	$ 358,593	$ 740,000	$ 1,098,593
Interest revenue from bond proceeds	13	4,175	6,422	54,700	61,122
Interest revenue from debt service funds	1	3	10	36,181	36,191
Interest revenue from commercial paper	-	-	393	-	393
Total bond revenues	14	4,178	365,418	830,881	1,196,299
Financing expenditures and uses:					
Professional services, non-project related	27	42	2,703	-	2,703
Bond debt principal	-	-	-	1,092,570	1,092,570
Bond debt and other interest expense	(1)	11,262	15,951	1,009,859	1,025,810
Total financing expenditures and uses	26	11,304	18,654	2,102,429	2,121,083
Net bond revenues (debt service)	$ (12)	$ (7,126)	$ 346,764	$ (1,271,548)	$ (924,784)

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Schedule 3

Measure M2
Schedule of Revenues and Expenditures Summary
as of December 31, 2011
(Unaudited)

Project	Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Dec 31, 2011	Reimbursements through Dec 31, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	($ in thousands)										
	Freeways (43% of Net Tax Revenues)										
A	I-5 Santa Ana Freeway Interchange Improvements	$ 6,338	$ 592,118	$ 592,098	$ 592,098	$ 20	$ -	$ 256	$ -	$ 256	0.0%
B,C,D	I-5 Santa Ana/San Diego Freeway Improvements	15,981	1,493,094	1,320,282	1,320,282	172,812	-	11,755	36	11,719	0.9%
E	SR-22 Garden Grove Freeway Access Improvements	1,618	151,179	151,178	151,178	1	-	3	-	3	0.0%
F	SR-55 Costa Mesa Freeway Improvements	4,935	461,097	460,759	460,759	338	-	1,325	-	1,325	0.3%
G	SR-57 Orange Freeway Improvements	3,489	325,964	308,064	308,064	17,900	-	25,905	2,515	23,390	7.6%
H,I,J	SR-91 Riverside Freeway Improvements	19,977	1,866,401	1,862,991	1,862,991	3,410	-	14,865	5,306	9,559	0.5%
K,L	I-405 San Diego Freeway Improvements	11,053	1,032,660	610,674	610,674	421,986	-	12,435	590	11,845	1.9%
M	I-605 Freeway Access Improvements	270	25,197	25,197	25,197	-	-	-	-	-	0.0%
N	All Freeway Service Patrol	2,023	188,974	188,974	188,974	-	-	-	-	-	0.0%
	Freeway Mitigation	3,458	323,046	278,880	278,880	44,166	-	26,426	-	26,426	9.5%
	Subtotal Projects	69,142	6,459,730	5,799,097	5,799,097	660,633	-	92,970	8,447	84,523	
	Net (Bond Revenue)/Debt Service	-	-	660,633	660,633	(660,633)	-	5,203	-	5,203	
	Total Freeways	$ 69,142	$ 6,459,730	$ 6,459,730	$ 6,459,730	$ -	$ -	$ 98,173	$ 8,447	$ 89,726	
	%				43.0%					40.8%	
	Street and Roads Projects (32% of Net Tax Revenues)										
O	Regional Capacity Program	$ 16,080	$ 1,502,281	$ 1,366,320	$ 1,366,320	$ 135,961	$ -	$ 69,610	$ 12,622	$ 56,988	4.2%
P	Regional Traffic Signal Synchronization Program	6,431	600,886	600,739	600,739	147	-	469	-	469	0.1%
Q	Local Fair Share Program	28,943	2,704,073	2,704,073	2,704,073	-	-	15,391	-	15,391	0.6%
	Subtotal Projects	51,454	4,807,240	4,671,132	4,671,132	136,108	-	85,470	12,622	72,848	
	Net (Bond Revenue)/Debt Service	-	-	136,108	136,108	(136,108)	-	3,537	-	3,537	
	Total Street and Roads Projects	$ 51,454	$ 4,807,240	$ 4,807,240	$ 4,807,240	$ -	$ -	$ 89,007	$ 12,622	$ 76,385	
	%				32.0%					34.8%	

Measure M2
Schedule of Revenues and Expenditures Summary
as of December 31, 2011
(Unaudited)

Project	Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Dec 31, 2011	Reimbursements through Dec 31, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H)*	*(I)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	($ in thousands)										
	Transit Projects (25% of Net Tax Revenues)										
R	High Frequency Metrolink Service	$ 14,394	$ 1,344,848	$ 1,293,265	$ 1,293,265	$ 51,583	$ -	$ 89,885	$ 41,830	$ 48,055	3.7%
S	Transit Extensions to Metrolink	14,194	1,326,150	1,317,796	1,317,796	8,354	-	75	-	75	0.0%
T	Metrolink Gateways	3,216	300,506	233,735	233,735	66,771	-	2	-	2	0.0%
U	Expand Mobility Choices for Seniors and Persons with Disabilities	4,823	450,626	450,626	450,626	-	-	2,576	-	2,576	0.6%
V	Community Based Transit/Circulators	3,215	300,373	300,373	300,373			-	-	-	0.0%
W	Safe Transit Stops	355	33,154	33,154	33,154	-	-	-	-	-	0.0%
	Subtotal Projects	40,197	3,755,657	3,628,949	3,628,949	126,708	-	92,538	41,830	50,708	
	Net (Bond Revenue)/Debt Service	-	-	126,708	126,708	(126,708)	-	2,963	-	2,963	
	Total Transit Projects	$ 40,197	$ 3,755,657	$ 3,755,657	$ 3,755,657	$ -	$ -	$ 95,501	$ 41,830	$ 53,671	
	%				25.0%					24.4%	
	Measure M2 Program	$ 160,793	$ 15,022,627	$ 15,022,627	$ 15,022,627	$ -	$ -	$ 282,681	$ 62,899	$ 219,782	

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Schedule 3

Measure M2
Schedule of Revenues and Expenditures Summary
as of December 31, 2011
(Unaudited)

Project	Description	Revenues Program to date Actual	Total Revenues	Project Budget	Estimate at Completion	Variance Total Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Dec 31, 2011	Reimbursements through Dec 31, 2011	Net Project Cost	Percent of Budget Expended
	(G)	*(H.1)*	*(I.1)*	*(J)*	*(K)*	*(L)*	*(M)*	*(N)*	*(O)*	*(P)*	*(Q)*
	($ in thousands)										
	Environmental Cleanup (2% of Revenues)										
X	Clean Up Highway and Street Runoff that Pollutes Beaches	$ 3,676	$ 317,797	$ 316,462	$ 316,462	$ 1,335	$ -	$ 2,060	$ -	$ 2,060	0.7%
	Net (Bond Revenue)/Debt Service	-	-	1,335	1,335	(1,335)	-	127	-	127	
	Total Environmental Cleanup	$ 3,676	$ 317,797	$ 317,797	$ 317,797	$ -	$ -	$ 2,187	$ -	$ 2,187	
	%				2.0%					1.2%	
	Taxpayer Safeguards and Audits										
	Collect Sales Taxes (1.5% of Sales Taxes)	$ 2,757	$ 232,874	$ 232,874	$ 232,874	$ -	$ -	$ 1,907	$ -	$ 1,907	0.8%
	%				1.5%					1.0%	
	Oversight and Annual Audits (1% of Revenues)	$ 1,838	$ 158,899	$ 158,899	$ 158,899	$ -	$ -	$ 5,298	$ 4,333	$ 965	0.6%
	%				1.0%					0.5%	