

Management
Orange County Transportation Authority
Orange, California

Management of the Orange County Transportation Authority,

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority ("OCTA") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered OCTA's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain matters that we are required to or wish to communicate to you. Matters communicated in this letter are classified as follows.

- Deficiency – A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.
- Significant deficiency – A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- Material weakness – A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

This communication is intended solely for the information and use of the Board of Directors, management, and others within the organization, and governmental granting agencies and is not intended to be and should not be used by anyone other than these specified parties.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the OCTA's internal control over financial reporting or on compliance. This letter is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OCTA's internal control over financial reporting and compliance. Accordingly, this letter is not suitable for any other purpose.

OCTA's written response to the deficiencies identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



Crowe LLP

Costa Mesa, California
November 16, 2020

2020-001 Accounting for Contingencies

Classification:

Deficiency

Applicable Fund:

91 Express Lanes

Observation:

During our review over contingencies, we noted that OCTA had reached a legal settlement in April 2020. However, management did not initially perform an analysis of the legal settlement impact on the financial statements.

Impact:

Based on generally accepted accounting principles, the legal settlement met the criteria to estimate and recognize related amounts in the June 30, 2020 financial statements. As a result, management recorded an increase in accounts payable and nonoperating expense in the amount of \$1,000,000, a decrease in accounts payable and professional services expense by \$1,250,200, and a decrease in accounts receivable and charges for services by \$3,572,000.

Recommendation:

We recommend that management establish a process for evaluating potential litigation and other related matters with general counsel prior to closing the fiscal year to ensure that any matters meeting the loss contingency criteria in GASB Statement No. 62 are disclosed or recognized in the financial statements timely.

Management Response:

Management concurs with this recommendation. The Accounting and Financial Reporting Department will improve our current review process related to the recording of contingent liabilities by performing this review early in the year-end process to ensure the timely recording of contingent liabilities.

(Continued)

2020-002 Timely Accounting for Capital Assets

Classification:

Deficiency

Applicable Fund:

Local Transportation Authority (LTA)

Governmental Activities

Observation:

Management identified a property acquisition that was recorded within the LTA fund financial statements when title had been transferred to OCTA on April 8, 2019. However, management did not record the impact of the property acquisition in the June 30, 2019 government wide financial statements.

Impact:

While capital assets on the government wide financial statements were understated by \$7,105,000 in the June 30, 2019 financial statements, management corrected the error in the current year.

Recommendation:

We recommend that management implement a procedure to track and monitor property acquisitions at least annually to ensure that any acquisitions meeting the criteria for capitalization are timely recorded in the financial statements. This procedure should include collaboration between the Real Property and Accounting and Financial Reporting departments.

Management Response:

Management concurs with this recommendation. The Accounting and Financial Reporting Department and the Real Property Department will work together to improve our internal controls related to the recording of capital assets. These improvements will include regular meetings to ensure information is communicated between departments and a certification process to ensure both departments agree with the transactions that were recorded in the current fiscal year.

(Continued)

2020-003 Classification of Fuel Tax Credit Revenue

Classification:

Deficiency

Applicable Fund:

Orange County Transit District (OCTD)

Observation:

During our review over grant revenue, we noted an IRS Fuel Tax Credit refund was incorrectly classified as federal grant revenue. As the tax credit is unrelated to federal grant revenue, it would be more appropriately classified as miscellaneous revenue.

Impact:

Revenue for federal grant revenue was overstated and miscellaneous revenue was understated by \$5,849,639. The auditors proposed and management reflected an adjustment to correct the classification. There was no impact on net position as a result of the adjustment.

Recommendation:

As OCTD periodically receives fuel tax credits, we recommend that management add a year-end closing procedure to track such nonrecurring transactions to ensure that they are classified properly in the financial statements.

Management Response:

Management concurs with this recommendation. The Accounting and Financial Reporting Department in coordination with the Revenue Department will develop a procedure to ensure nonrecurring revenues are evaluated and recorded properly and timely. This procedure will include regular meetings and timely communication between both departments.

(Continued)

2020-004 Management Review over Service Organization Controls (SOC) Report

Classification:

Deficiency

Applicable Fund:

Workers' Compensation

Observation:

Reports on controls at a service organization (SOC reports) are intended to meet the needs of entities who use service organizations in evaluating the effect of the service organization's internal controls on the user entity. OCTA uses Intercare as the third-party administrator of the workers' compensation program. While management requested and obtained the SOC report from Intercare and reviewed the SOC report opinion, there was no documentation that the review had been performed.

Impact:

Lack of a formal, documented review of the SOC report may lead to unidentified internal control gaps at a service organization.

Recommendation:

We recommend that management implement procedures to review the SOC report and document management's assessment of relevant internal control findings, their potential impact and complementary user entity controls.

Management Response:

Management concurs with the recommendation and will implement procedures to review the SOC report and document management's assessment of relevant internal control findings, their potential impact and complementary user entity controls.

(Continued)

2020-005 Management Review of Accruals

Classification:

Deficiency

Applicable Fund:

General Capital Project

Observation:

We identified construction payments relating partially to June 2020 and July 2020 in our accounts payable testing procedures. Upon examining management's accrual entries for fiscal year 2020, we determined that no amount was estimated or accrued relating to the portion of the invoice relating to fiscal year 2020.

Impact:

Liabilities and expenditures were understated by \$360,000, representing the portion of the invoice that was attributed to fiscal year 2020.

Recommendation:

For invoices that span between two fiscal years, we recommend that management implement a process to estimate the portion of the invoice relating to the current fiscal period by working with the vendor to determine actual amounts incurred through period end.

Management Response:

The Accounting and Financial Reporting Department will improve our current accrual process to ensure accruals are done properly and timely. This improvement will include communication to all departments related to the requirement to evaluate invoices that include more than one fiscal year to accrue amounts properly and timely.