STAFF REPORT

MEETING DATE:	**September 22, 2022**
SUBJECT:	**Accept Fiscal Year 2020/21 Fiscal and Compliance Audit, Single Audit, and Financial Statements**
AGENDA ITEM:	**4**
STAFF CONTACT:	**Jessica Carlson, Chief Fiscal Officer**

SUMMARY:

Eide Bailly, LLP has completed the required audits for Fiscal Year (FY) 2020/21. Two findings were found as part of the audits related to financial reporting and segregation of duties. Staff is seeking acceptance of the findings by the SRTA board of directors.

STAFF RECOMMENDATION:

It is recommended that the board of directors accept the independent audit, the Single Audit, and financial statements for the fiscal year ending June 30, 2021.

DISCUSSION:

Background – Each year an independent auditor performs a fiscal and compliance audit and reports on the agency's financial statements. A Single Audit is also completed to ensure compliance with federally funded programs, since SRTA receives Metropolitan Planning and Research (MPR) funding greater than $750,000 annually. This separate audit delivers its own report to the Federal Audit Clearinghouse each year. SRTA has received a draft of the Single Audit and expects no significant changes to be made to the report before it is finalized.

Eide Bailly, LLP has completed their fiscal and compliance audit of SRTA, and the Single Audit of MPR funding, for the fiscal year ending June 30, 2021. SRTA received an unqualified audit opinion, meaning that SRTA's financial condition, position, and operations are:

1. In accordance with generally accepted accounting principles;
2. In compliance with statutory requirements and regulations; and
3. Supported by adequate documentation.

Eide Bailly, LLP completed SRTA's FY 2020/21 Financial Statements.

There were two findings as a result of the audit process: financial reporting and segregation of duties. The audit findings, although material weaknesses, are not reportable, and therefore considered minor and can be resolved.

Financial Reporting – Several audit adjustments were completed to correct and ensure the financial statements were fairly stated. Multiple staff turnovers throughout the fiscal year led to accounting errors that needed to be corrected at year's end. New procedures relating to the recording of deposits and other governmental funding activities were implemented in FY

2021/22, remediating the cause of this finding. For example, former procedures for recording federal funds received would have been a journal entry into the accounting software. This has a high risk of error because journal entries require accounting experience to be done properly. Instead, invoice data entry has been implemented to automate the income recording process. This inevitably results in fewer errors and a consistent recording process across staff of varied accounting experience levels. Consequently, staff expects Financial Reporting to no longer be an issue in subsequent audits.

Segregation of Duties – Due to SRTA's small staff size, many financial duties are the exclusive responsibility of the chief fiscal officer. Auditors have found that the agency procedures in place in FY 2020/21 increased the risk of error and/or fraud when an accounting task was completed from start to finish by the same individual. SRTA has updated its procedures to address the deficiencies in internal controls to the extent possible. The procedure for monthly bank reconciliations, for example, now includes review and written approval from the executive director to add another layer of accountability and transparency to the Agency's cash flow processes.

Due to SRTA's small staff, segregation of some financial duties may not be possible in the near-term. The executive director is reviewing agency activities, policies, and budgets to determine what steps could be taken to fully remediate this finding in future audits. Possible options may include training additional current staff in accounting practices and separating specific financial duties between the CFO and designated staff or hiring additional staff with accounting experience to assist with proper segregation of duties relating to the financial management of the agency.

ALTERNATIVES:
The board of directors may accept the audit report and/or the financial statements with clarifications.

FISCAL AND POLICY COMMITTEE REVIEW:
The auditor met with the Fiscal and Policy Committee to discuss the audits, findings, and recommendations. ///The Fiscal and Policy Committee concurs with the staff recommendation. ///

FISCAL IMPACT:
The findings in the FY 2020/21 audits have no direct impact on agency finances. However, errors in financial reporting, and those made due to internal controls, pose a risk to the agency that may result in under- or over- reporting significant accounts. This could potentially result in costly corrections, penalties, and/or further audits from governing bodies.

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Sean Tiedgen, AICP, Executive Director

Attachments:

A: The Audited Financial Statements and Supplementary Information are available online at: https://www.srta.ca.gov/DocumentCenter/View/5990/Shasta-Regional-Transportation-Agency-Independent-Fiscal-and-Compliance-Audit-and-Financial-Statements-FY-202021

B: The Eide Bailly LLP Finalized Governance Letter, dated July 8, 2022.

C: DRAFT Federal Awards Report (Single Audit) is available online at: https://www.srta.ca.gov/DocumentCenter/View/5991/DRAFT-Federal-Awards-Report_Single-Audit_FY-202021

CPAs & BUSINESS ADVISORS

July 8, 2022

To the Board of Directors
Shasta Regional Transportation Agency
Redding, California

We have audited the financial statements of Shasta Regional Transportation Agency (Agency) as of and for the year ended June 30, 2021 and have issued our report thereon dated July 8, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated October 25, 2021, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated June 30, 2022.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management is responsible to select and use appropriate accounting policies. The significant accounting policies used by the Agency are described in Note I to the financial statements. As described in Note 12, the Agency changed accounting policies related to the measurement period of the net other postemployment benefits liability. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are

- The net pension liability and related deferred inflows of resources and deferred outflows of resources and disclosures are based on actuarial valuations.
- The total other post-employment benefits (OPEB) and related deferred inflows of resources and deferred outflows of resources are based on actuarial valuations.

We evaluated the key factors and assumptions included in the actuarial valuations used to develop the estimates and determined that they were reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Agency's financial statements relate to:

- Note 7 to the financial statements discloses key elements of the Agency's pension plan, administered by the California Public Employees' Retirement System (CalPERS). As disclosed in the footnote, a 1% increase or decrease in the discount rate can have a material effect on the City's net pension liability.
- Note 9 to the financial statements discloses key elements to the Agency's OPEB plan. As disclosed in the footnote, a 1% increase or decrease in either the discount rate or the healthcare cost trend rate can have a material effect on the Agency's net OPEB liability.
- Note 12 to the financial statements describes the effect of the change in accounting principle and correction of an error.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no uncorrected or corrected missstatements identified as a result of our audit procedures.

The attached Schedule of Corrected Misstatements summarizes financial statement misstatements that we identified as a result of our audit procedures and were brought to the attention of, and corrected by, management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated July 8, 2022.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Agency, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Agency's auditors.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Modification of the Auditor's Report

We have included the following emphasis of matter of paragraphs:

Change in Accounting Principle
As discussed in Note 12 to the financial statements, the Agency changed how it accounts for its net other postemployment benefits liability, which has resulted in a restatement to beginning net position as of July 1, 2020.

Error Correction
Also, as discussed in Note 12, the Agency also corrected for an error related to how it classifies unearned revenues and reconciling items for its bank reconciliation process. Our opinions are not modified with respect to these matters.

This report is intended solely for the information and use of the Board of Directors and management of the Agency and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Sacramento, California

Number	Opinion Unit	Account/Description	Debit	Credit
1	General Fund	Unearned revenues	$ 65,684	
	General Fund	Cash and investments		$ 65,684
	Reverse out reconciling items recorded in the bank reconciliation that were double counted.			
2	Local Transportation Fund	Accrued Accounts Receivable	$ 2,788	
	Local Transportation Fund	Deferred Revenue		$ 2,788
	General Fund	Deferred Revenue	$ 311,845	
	General Fund	Accrued Accounts Receivable		$ 311,845
	Reverse out receivables that were double counted as due from other governments.			
3	General Fund	Net OPEB Liability	$ 67,707	
	General Fund	Due from OPEB Trust		$ 67,707
	Reverse out contributions paid to OPEB Trust Plan recorded as a receivable.			
4	Local Transportation Fund	Advance from Loan Fund	$ 746,120	
	Local Transportation Fund	Advances to Suite 101 Fund		$ 746,120
	Eliminate intrafund entries for financial reporting purposes.			
5	General Fund	Interest Expense	$ 9,995	
	General Fund	Accrued Interest		$ 9,995
	Adjust interest expense to match actual payments.			
6	Governmental Activities	Deferred outflows of resources - OPEB	$ 90,244	
	Governmental Activities	OPEB Expense	$ 12,611	
	Governmental Activities	Deferred inflows of resources - OPEB		$ 102,855
	To adjust other postemployment benefit related amounts to match actuarial reports.			
7	Governmental Activities	Pension Expense	$ 12,764	
	Governmental Activities	Net Pension Liability		$ 12,764
	To adjust pension related amounts to match actuarial reports.			
8	General Fund	SB 1	$ 72,533	
	General Fund	Deferred Revenues		$ 72,533
	Reverse out adjustment that was recorded twice.			
9	Local Transportation Fund	Due from other governments	$ 1,918,262	
	Local Transportation Fund	Restricted for LTF		$ 1,694,293
	Local Transportation Fund	Local Transportation Fund		$ 223,969
	Record adjustments related to the timing of sales tax receipts.			
10	State Transit Assistance	State Highway Account	$ 55,518	
	State Transit Assistance	Restricted for STF		$ 55,518
	Record revenues applicable to the prior year.			

Number	Opinion Unit	Account/Description	Debit	Credit
11	General Fund	State of Good Repair	$ 143,820	
	General Fund	Planning and administration		$ 143,820
	Reclassify increase in expenditures as a decrease in revenues.			
12	Governmental Activities	Personnel	$ 19,483	
	Governmental Activities	Compensated Absences		$ 19,483
	Adjust compensated absences to actual liability.			