Draft 08/22/2022

Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2021

Shasta Regional Transportation Agency

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* and the Transportation Development Act

Board of Directors
Shasta Regional Transportation Agency
Redding, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Shasta Regional Transportation Agency (Agency) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated July 8, 2022. Our report contains two emphasis of matter paragraphs regarding a change in accounting principles and a correction of error.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal controls, described in the accompanying schedule of findings and questioned costs as item 2021-001 and 2021-002 that we consider to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6666 of Title 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or Section 6666 of Title 21 of the California Code of Regulations.

Agency's Response to Finding

The Agency's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs and separate corrective action plan. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Sacramento, California
July 8, 2022

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Directors
Shasta Regional Transportation Agency
Redding, California

Report on Compliance for the Major Federal Program

We have audited the Shasta Regional Transportation Agency's (Agency) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2021. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the Agency's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on the Major Federal Program
In our opinion, the Agency's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-003. Our opinion on the federal program is not modified with respect to this matter.

The Agency's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and the corrective action plan. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities and each major fund of the Agency as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated July 8, 2022, which contained unmodified opinions on those financial statements. Our report contained emphasis of matters relating to a change in accounting principle and a correction of an error. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sacramento, California
Report Date

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S Department of Transportation			
Passed through the California Department of Transportation			
Metropolitan Planning and Research			
Federal Highway Administration - Metropolitan Planning	20.505	74A0821	$ 736,695
Federal Transit Administration - Metropolitan Planning	20.505	74A0821	60,409
Federal Transit Administration - Section 5304	20.505	74A0821	75,401
Total Metropolitan Planning and Research			872,505
Total U.S Department of Transportation			872,505
Total Federal Financial Assistance			$ 872,505

See Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Shasta Regional Transportation Agency (the Agency) under programs of the federal government for the year ended June 30, 2021. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Shasta Regional Transportation Agency, it is not intended to and does not present the financial position, changes in net position or fund balance of the Agency.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the *(identify the basis of accounting)* basis of accounting When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Agency has not elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued on whether the financial statements audtied were prepaid in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

Name of Federal Program	Federal Financial Assistance Listing/CFDA Number
Metropolitan Planning and Research	20.505

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

2021-001 FINANCIAL REPORTING

Criteria:

Management is responsible for taking responsibility for the preparation and fair presentation of the financial statements. Management is responsible for ensuring that all financial records and related information is reliable and properly recorded.

Condition Found:

Material Weakness – Management identified and corrected several misstatements related to the recognition of outstanding deposits that resulted in a prior period adjustment. The total adjustment amount was $853,970. Additionally, we made proposed and management corrected several audit adjustment to ensure that the financial statements are fairly stated:

- Reduce State of Good Repair revenues by $143,820
- Reduce SB 1 revenues by $72,533
- Increase Local Transportation Fund revenues by $223,969
- Decrease State Transit Assistance Fund revenues by $55,518
- Increase compensated absences by $19,483
- Adjust pension amounts by $12,764
- Adjust other post-employment benefit amounts by $80,318

Context:

The Agency's financial statements required a material audit adjustment to comply with generally accepted accounting principles.

***Repeat* Finding from Prior Year(s):**

No.

Effect:

The result of the condition above resulted in a misstatement of governmental activities and the general fund financial statements.

Cause:

Management did not review the accounting treatment for various activities to ensure that the appropriate accounting principles are applied.

Recommendation:

We recommend that the Agency ensure that the financial records of the Agency are complete and accurate prior to the audit process and contain all necessary adjustments.

Views of Responsible Officials and Planned Corrective Actions:

The Agency management agrees with finding. The Agency has updated policies and procedures to ensure appropriate accounting principles are applied. The new procedures were implemented in fiscal year 2021/22.

2021-002 SEGREGATION OF DUTIES

Criteria:

Internal controls should be established to ensure segregation of duties between the initiation and approval functions over journal entries.

Condition Found:

Material Weakness – We identified instances in which journal entries were initiated and approved by the same individual.

Context:

During our audit, we identified that the Chief Fiscal Officer both prepares and approves all journal entries that are entered into the Agency's finance system.

***Repeat* Finding from Prior Year(s):**

No.

Effect:

There is an increased risk of error or fraud if the journal entries are initiated and reviewed by the same individuals.

Cause:

The journal entry process did not have proper segregation of duties.

Recommendation:

We recommend that management implement policies and procedures within the Agency to disallow an individual from creating, approving, and posting the same entry or implement a period review of these journal entries by a separate individual.

Views of Responsible Officials and Planned Corrective Actions:

The Agency management agrees with the finding. The Agency has updated policies and procedures to address the deficiencies in internal controls. The new procedures have been implemented as of April 2022.

Section III – Federal Award Findings and Questioned Costs

2021-003

Program: Metropolitan Planning and Research
CFDA No.: 20.505
Federal Agency: U.S. Department of Transportation
Passed-through: California Department of Transportation
Award Year: 2020-2021
Compliance Requirement: Cash
Type of Finding: *Noncompliance*
Grant Award Number: 74A0821

Criteria:

Title 2 *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) section 200.302(b)(6) and (7) requires that all non-Federal entities to establish written procedures to implement the requirements of 2 CFR section 200.305 (Payment).

Condition Found:

The Agency has not established written procedures to implement the cash management requirements of 2 CFR section 200.305.

Context:

The condition noted above was identified during our procedures related to cash management for the program which is subject to the Uniform Guidance.

Effect:

The Agency has not complied with the specific requirements for written procedures over cash management as described in the Uniform Guidance.

Questioned Costs:

No questioned costs were identified as a result of our procedures.

Cause:

The Agency's procedures did not ensure the required written procedures were developed and implemented in accordance with the Uniform Guidance.

Recommendation:

We recommend that the Agency review its policies and formalize written procedures related to cash management requirements with 2 CFR section 200.305.

Views of Responsible Officials

Management agrees with the finding. See separate corrective action plan.

None reported.