STAFF REPORT

MEETING DATE:	**October 26, 2023**
SUBJECT:	**Accept Financial Statements and Fiscal and Compliance Audit for Fiscal Year 2021/22**
AGENDA ITEM:	**7-5**
STAFF CONTACT:	**Jessica Carlson, Chief Fiscal Officer**

SUMMARY:

Eide Bailly, LLP (Eide Bailly) completed the audits required for Fiscal Year (FY) 2021/22 on October 11, 2023. This completion was significantly delayed, leading to the State Controller's Office (SCO) withholding the State Transit Assistance (STA) regional allocation for the fourth quarter of FY 2022/23. SRTA received an unqualified audit opinion with three non-reportable findings. Two findings (e.g., financial reporting and segregation of duties) first identified in the FY 2020/21 audit, were addressed via board-approved policy changes in April 2023, but were anticipated since changes were enacted in the middle of the fiscal year. The third finding, concerning bank reconciliation, is new and discussed below. Staff recommends the SRTA Board of Directors accept the audit findings, which is required before submission and release of the FY 2022/23 fourth quarter STA allocation to the region.

STAFF RECOMMENDATION:

It is recommended that the board of directors accept the independent audit and financial statements for the fiscal year ending June 30, 2022.

DISCUSSION:

Background – Each year an independent auditor performs a fiscal and compliance audit and reports on the agency's financial statements. Eide Bailly has completed their fiscal and compliance audit of SRTA for the fiscal year ending June 30, 2022. 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.

Delayed Submission and Allocation Withholding - The final audit report was received from Eide Bailly on October 11, 2023. The State Controller's Office (SCO) requires fiscal and compliance audits to be submitted six months after the close of the fiscal year, or December 2022 for this audit. SRTA was granted an extension to March 2023. Many factors contributed to the late submission: the single audit from FY 2020/21 was not completed until September 29, 2022, resulting in a late start on FY 2021/22 financial statement preparation; consultant delays; auditor absences and staffing issues; scheduling conflicts; and internal auditor controls requiring multiple department reviews. This inadvertently caused the audit to be completed way past the contracted deadline. SRTA staff performance was not determined as a reason for the missed deadline.

The significant delay of the audit report resulted in the SCO withholding FY 2022/23 fourth quarter STA payments to the region, in accordance with Transportation Development Act (TDA) regulations. However, SRTA was able to complete promised payments to jurisdictions with unrestricted funds in the STA account held with the County Treasurer from previous budget years. Board approval, and submission, of the FY 2021/22 audit is required before the SCO can release the FY 2022/23 fourth quarter STA allocations.

Audit Findings – The audit has identified material weaknesses, but they are not reportable, and are thus considered minor and can be resolved. The three findings were related to: 1) financial reporting, 2) segregation of duties, and 3) bank reconciliation. A summary of each finding is discussed below.

Financial Reporting (2022-001) – The finding states, "management identified and corrected several misstatements related to the recognition of outstanding deposits that resulted in a prior period adjustment... Management did not review the accounting treatment for various activities to ensure that the appropriate accounting principles are applied." This finding pertains to prior period adjustments made during FY 2021/22, similar to those identified in the FY 2020/21 audit, resulting in a misstatement of the prior year's audited financial statements. Upon review, SRTA management sought clarification on this finding with the consultant. Despite initial confusion around the contracted financial statement preparation, management ultimately concurred with the finding.

Per Fiscal & Policy Committee recommendations, staff took proactive measures to rectify last year's audit finding. SRTA sought the services of a third-party firm but, as the deadline for completing the FY 2021/22 fiscal audit was imminent, an administrative amendment was made with Eide Bailly to have a financial team, separate from the audit team, prepare the FY 2021/22 financial statements. SRTA expected the financial team would balance the accounts, review closing entries, and prepare the financial statements, ensuring their accuracy before submitting them to the audit team. However, a significant challenge arose when SRTA staff expressed concerns related to the finding. Eide Bailly's response was that their role was limited to drafting the financial statements based on the trial balance provided by SRTA, and that they did not handle closing entries, which were central to the finding.

In response to this experience, Staff has initiated efforts to hire a separate Certified Public Accountant (CPA) to assist in preparing future financial statements. The independent CPA will review and reconcile SRTA's financials, manage closing entries, and prepare the financial statements for SRTA management final review before being turned over for audit. This move aims to minimize the potential for errors and provide objective expertise. Eide Bailly will continue to provide annual fiscal and compliance audits for subsequent fiscal years, per our contract. The combination of the independent CPA's expertise and Eide Bailly's audit services will ensure the highest standards of financial reporting, strengthen SRTA's financial reporting processes, and enhance transparency and accuracy.

Segregation of Duties (2022-002) – This item is also carried over from the FY 2020/21 audit. Due to SRTA's small staff size, similar to other small agencies, many financial duties are the exclusive responsibility of the chief fiscal officer (CFO). A few are conducted by the Administrative Associate. Auditors found that agency procedures in place in prior fiscal years increased the potential risk of error and/or fraud when an accounting task was completed from start to finish by the same individual. SRTA updated its procedures mid-year in 2021/22 to address the deficiencies in internal controls to the extent possible. Due to SRTA's small staff, segregation of some financial duties may not be possible in the near-term.

The RFP for a CPA should mitigate some procedural concerns in the interim. 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. Options may include training current staff in accounting practices, separating specific financial duties between the CFO and designated staff that don't require extensive accounting experience, hiring an accounting apprentice, or hiring additional accounting staff to assist with the proper segregation of duties relating to the financial management of the agency.

Bank Reconciliation (2022-003) – Payroll transactions occurring in September 2022 were inadvertently posted to the 2021/22 fiscal year, coupled with a double posting of a State of Good Repair deposit to two bank accounts, resulting in an understatement of the FY 2021/22 cash balance of $29,576. A procedure implemented in April 2023 for monthly bank reconciliations now includes review and approval from the executive director to add another layer of accountability and transparency to the Agency's cash flow processes. Staff expects bank reconciliation to no longer be a concern in subsequent audits.

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

FISCAL AND POLICY COMMITTEE REVIEW:
The Fiscal & Policy Committee met on October 16, 2023, to review and discuss the financial statements and audit findings. The auditor, Eide Bailly, made a presentation and answered committee member's questions. The Fiscal and Policy Committee unanimously concurred with the recommendation.

FISCAL IMPACT:
The findings in the FY 2021/22 audit 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.

The significant delay in the consultant's delivery of the audit report resulted in the SCO withholding FY 2022/23 fourth quarter STA payments to the region, in accordance with TDA regulations. However, SRTA was able to complete promised payments to jurisdictions with unrestricted funds in the STA account held with the County Treasurer and will replenish those funds once the SCO releases the regional payments.

Sean Tiedgen, AICP, Executive Director

Attachments:
A: The Eide Bailly LLP Finalized Governance Letter, dated October 9, 2023.
B: The Audited Financial Statements and Supplementary Information are available online at: https://www.srta.ca.gov/DocumentCenter/View/9139/Financial-Statements-and-Independent-Auditors-Report-June-30-2022

CPAs & BUSINESS ADVISORS

October 9, 2023

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

We have audited the financial statements of the Shasta Regional Transportation Agency (Agency) as of and for the year ended June 30, 2022, and have issued our report thereon dated October 9, 2023. 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 February 10, 2023 our responsibility, as described by professional standards, is to form and express an opinion 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 Agency 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 control deficiencies 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 October 9, 2023.

Planned Scope and Timing of the Audit

Our report was delayed due to issues stemming from the accounting for transactions that had occurred in prior periods as well as allocating resources amongst the funds.

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.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Agency is included in Note 1 to the financial statements. As described in Notes 1 & 13, the Agency has implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases.* Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2021. 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 deferered inflows of resources and deferred outflows of resources and disclosure sare bsaed on actuarial valuations, and
- The net total other post-employment benefits (OPEB) and related deferred inflows of resources and deeferred 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 it is 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 13 to the financial statements describes the effect of the change in accounting principle and correction of an error.

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. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

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. There were no uncorrected misstatements identified as a result of our audit procedures.

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 Agency's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. The Auditor's report includes an emphasis of matter, describing the Agency's adoption of the provisions of GASB Statement No. 87, *Leases,* which has resulted in a restatement of net position as of July 1, 2021. The Auditor's report also included an emphasis of matter regarding the correction of an error in previously issued financial statements.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated October 9, 2023.

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 the Agency, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, 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 the 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.

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	Cash	$ 29,576	
	General Fund	Clearing Account	5,952	
	General Fund	Accrued Vacation		$ 754
	General Fund	Personnel		33,887
	General Fund	Professional Services		887
	**Reverse entry posted to cash in wrong period (should be in FY 24)*			
2	Local Transportation Fund	Transit	112,348	
	Local Transportation Fund	Accounts Payable		112,348
	**Post subsequent disbursements not appropriately accrued.*			
3	General Fund	Accounts receivable	259,544	
	General Fund	Unearned revenues		259,544
	Local Transportation Fund	Accounts receivable	49,513	
	Local Transportation Fund	Unearned revenues		49,513
	**Reverse double entered correction*			
4	Local Transportation Fund	Revenues	1,028,385	
	Local Transportation Fund	Fund balance		1,028,385
	**Move transactions to prior year.*			
5	General Fund	Unearned revenues	650,008	
	General Fund	State of Good Repair		650,008
	Local Transportation Fund	TDA Adminsitration	16,427	
	Local Transportation Fund	Unearned revenues		164,274
	**Post corrections to unearned revenues based on current expenditures.*			
6	General Fund	Due from other governments	2,696,847	
	General Fund	State of good repair		43,439
	General Fund	Exchange funds		2,010,557
	General Fund	Federal transit administration		169,846
	General Fund	Department of transportation		399,049
	General Fund	SB 1 Adapt		70,956
7	Governmental Activities	Deferred outflows of resources - OPEB	7,366	
	Governmental Activities	OPEB expense		7,366
	Governmental Activities	Net pension liability	15,697	
	Governmental Activities	Deferred inflows of resources - pensions	83,817	
	Governmental Activities	Deferred outflows of resources - pensions		56,969
	Governmental Activities	Pension expense		42,545
	**Make corrections to pension numbers based on actuarial valuations and allocations.*			