# STAFF REPORT

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| **MEETING DATE:** | **September 26, 2024** |
| **SUBJECT:** | **Approve Fiscal Year 2022/23 Fiscal and Compliance Audit of the Financial Statements and the Single Audit of Federal Awards Reports** |
| **AGENDA ITEM:** | **7-7** |
| **STAFF CONTACT:** | **Jessica Carlson, Chief Fiscal Officer** |


**SUMMARY:**

Eide Bailly, LLP (Eide Bailly) completed the audits required for Fiscal Year (FY) 2022/23 on September 19, 2024. 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 2023/24. SRTA received an unmodified audit opinion with four non-reportable findings. Three findings, first identified in audits from previous fiscal years, were addressed further this past year with added finance job classifications and participation in the accounting apprenticeship program with Shasta College. The fourth finding is a minor finding of significant deficiency, not a material weakness, and both audit reports have unmodified auditor opinions. Staff recommends the SRTA Board of Directors review the reports and approve the audit findings, which is required before submission and release of the FY 2023/24 fourth quarter STA allocation to the region.


**STAFF RECOMMENDATION:**

It is recommended that the board of directors approve the following two reports for the fiscal year ending June 30, 2023:

1. Independent fiscal and compliance audit of the financial statements; and
2. Single audit of federal awards.

**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 required when expenditures of federal awards is greater than $750,000 during the fiscal year. Eide Bailly has completed both the fiscal and compliance audit and a single audit of federal awards for the fiscal year ending June 30, 2023. SRTA received an unmodified 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 audit reports were received from Eide Bailly on August 23, and September 19, 2024. The SCO requires fiscal and compliance audits to be submitted six months after the close of the fiscal year, or December 2023 for this audit. SRTA was granted an extension to March 2024. The Federal Audit Clearinghouse requires single audits to be submitted by March 31 of the following year. Several factors contributed to the late submission: the fiscal and compliance audit from

FY 2021/22 was not completed until October 2023, resulting in a late start on FY 2022/23 financial statement preparation; consultant delays; scheduling conflicts; and internal auditor controls requiring multiple department reviews. This inadvertently caused the audits to be completed after the contracted deadline. SRTA staff is working with the consultant to make adjustments in order to bring the agency into compliance with future audit submittal deadlines.

The significant delay of the audit report resulted in the SCO withholding FY 2023/24 fourth quarter STA payments to the region, in accordance with Transportation Development Act (TDA) regulations. However, SRTA completed promised payments to jurisdictions using unrestricted funds in the STA account held with the County Treasurer from previous budget years. Board approval, and submission, of the FY 2022/23 audits is required before the SCO can release the FY 2023/24 fourth quarter STA allocations.

**Compliance Audit Findings –** The compliance audit identified material weaknesses that are not reportable, 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 and are all repeated findings from the previous fiscal year. A summary of each finding is discussed below.

**Financial Reporting (2023-001) –** The finding states, "management identified and corrected several misstatements related to the recognition of unearned revenues that resulted in a prior period adjustment... Management did not review the accounting treatment for specific funding sources to ensure that the appropriate accounting principles are applied." This finding pertains to prior period adjustments made during FY 2022/23, similar to those identified in the FY 2020/21 and FY 2021/22 audits, resulting in a misstatement of the prior year's audited financial statements. Upon review, SRTA management determined that the prior period adjustments completed by SRTA staff were necessary to reconcile funding programs that had delayed close-outs due to staff turnover and shortage.

Per Fiscal & Policy Committee recommendations, staff initiated efforts to hire an independent Certified Public Accountant (CPA) to assist in preparing future financial statements which SRTA management would review before being turned over for audit. This would minimize the potential for errors and provide objective expertise. Unfortunately, the Request for Proposals was solicited two separate times, the first having no response, and the second having only one response that was considerably over the projected budget. SRTA has not procured a CPA at the time of this report. Staff intends to solicit proposals for a third time with a more refined scope of work and revised budget before the end of the calendar year.

Staff is exploring financial reporting options, including accounting software solutions available through independent CPA firms, that could smooth out deficiencies with workflow timelines, increase collaboration between planning and finance staff, and automate grant program and financial statements reporting processes. The intention is to reduce the burden of staff time needed in this required and detailed process. 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 (2023-002) –** This item carried over from the FY 2020/21 and FY 2021/22 audits. 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 executive assistant. Auditors found that agency procedures in place in prior fiscal years were insufficient to eliminate the risk of error and/or fraud when an accounting task was completed from start to finish by the same individual. SRTA updated some of the related procedures to address the deficiencies in internal controls to the extent possible. However, due to SRTA's small staff, the near-term segregation of all financial duties may not be possible.

The executive director reviewed agency activities, policies, and budgets to identify steps that could be taken to remediate this finding in future audits. In May 2024, an accounting clerk apprentice was hired for an 18-month program to learn accounting skills under the direct supervision of the CFO, while completing some of the more basic finance tasks that could temporarily alleviate some of the segregation of duties conflicts when a task aligns with the apprentice's training and experience. Additionally, accounting clerk classifications were added to the salary schedule at the June 2024 board meeting, presenting the option for additional staff to be hired who could assist with the proper segregation of duties relating to the financial management of the agency. Other 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, or hiring consultants.

**Bank Reconciliation (2023-003) –** A double posting of a State of Good Repair deposit to two bank accounts in FY 2021/22 resulted in an understatement cash balance of $69,659. The CFO later discovered in FY 2022/23 that the deposit was not removed during the prior audit adjustment period. The finding is required in this FY 2022/23 audit for compliance; however, it is the same event that was noted in the finding from the FY 2021/22 report last year. Updated procedures to the bank reconciliation process, including a multi-person approval process, seems to have remediated this finding. Staff expects bank reconciliation to no longer be a concern in subsequent audits.

**Single Audit of Federal Awards (SAR) –** On September 5, 2024, the fiscal and policy committee reviewed a draft report of the single audit of federal awards (SAR). SRTA received the final report on September 19, 2024. The three findings from the fiscal and compliance audit are required to be carried over to the SAR. In addition, the report contains a "significant deficiency" finding in relation to the second quarter progress reports being submitted nine days after the deadline. The finding is not a material weakness, and the report remains unmodified. It is extraordinary that staff would submit required progress reports after the deadline, and Caltrans was aware that the submission would be late, verbally approving an extension prior to the due date. SRTA's current agency procedures require all reports to be submitted on or before the deadline, and management has reminded staff about the importance of timely submittals. The final SAR will be submitted to the Federal Audit Clearinghouse, State Controller's Office (SCO), and Caltrans after it receives approval from the board of directors.

**ALTERNATIVES:**
The board of directors may approve the audit reports and financial statements with clarifications.

**FISCAL AND POLICY COMMITTEE REVIEW:**

The Fiscal & Policy Committee met on September 5, 2024, to review and discuss the financial statements and available audit reports. The Committee concurs with staff recommendation for approval of the fiscal and compliance audit, as well as the draft SAR with only three findings. The final SAR issued on September 19, 2024, added the fourth significant deficiency finding which the Committee has not reviewed.

**FISCAL IMPACT:**

The findings in the FY 2022/23 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.

The significant delay in the consultant's delivery of the audit reports resulted in the SCO withholding FY 2023/24 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. Those funds will be replenished once the SCO releases the regional payments that are anticipated in November 2024.

**Jennifer Pollom, AICP, Senior Transportation Planner**

**Attachments:**

**A:** The Eide Bailly LLP fiscal and compliance audit governance letter, dated August 28, 2024

**B:** The audited financial statements and supplementary information are available online at: https://www.srta.ca.gov/DocumentCenter/View/9549/Fiscal-Year-202223-Financial-Statements-and-Fiscal-and-Compliance-Audit

**C:** The Eide Bailly LLP single audit of federal awards governance letter, dated September 19, 2024

**D:** The single audit of federal awards is available online at: https://www.srta.ca.gov/DocumentCenter/View/9554/Final-SRTA-FY-202223-Single-Audit-09-19-24

August 28, 2024

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, 2023, and have issued our report thereon dated August 28, 2024. 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 January 3, 2024, 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 August 28, 2024.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope we previously communicated to you. The timing was delayed to the discovery of errors in previously issued financial statements.

**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. 96, *Subscription-Based Information Technology Arrangements (SBITAs).* Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2022. 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) liability 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 Agency'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. As described in Notes 1 and 13 to the financial statements, due to the adoption of the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs),* the Agency restated opening balances as of July 1, 2022. We have included an emphasis of matter in our report regarding this restatement.

As described in Note 13 to the financial statements, the Agency discovered certain errors resulting in a misstatement of amounts previously reported for governmental activities, the general fund, the local transportation fund, and the state transit assistance fund. Accordingly, a restatement has been made to the beginning net position of the governmental activities and the beginning fund balances of the general fund, local transportation fund, and the state transit assistance fund. We have included an emphasis of matter in our report regarding this restatement.

**Representations Requested from Management**

We have requested certain written representations from management which are included in the management representation letter dated August 28, 2024.

**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 | Government Activities / | Cash | $ 69,659 | |
| | .General Fund | Unassigned fund balance/unrestricted net position | | $ 69,659 |
| | **Clear out reconciling item in bank reconcilation.* | | | |
| 2 | Governmental Activities | Deferred outflows of resources - OPEB | 37,943 | |
| | Governmental Activities | Deferred outflows of resources - Pensions | 20,055 | |
| | Governmental Activities | OPEB expense | | 37,943 |
| | Governmental Activities | Deferred inflows of resources - pensions | 650 | |
| | Governmental Activities | Pension expense | | 20,705 |
| | **Make corrections to pension numbers based on actuarial valuations and allocations.* | | | |
| 3 | Governmental Activities | Unrestricted net position | 404,746 | |
| | Governmental Activities | Unearned revenues | | 404,746 |
| | General Fund | Unearned revenues | 365,330 | |
| | General Fund | Unassigned fund balance | | 365,330 |
| | Local Transportation Fund | Unassigned fund balance | 7,020 | |
| | Local Transportation Fund | Unearned revenues | | 7,020 |
| | State Transit Assistance Fund | Unearned revenues | 46,436 | |
| | State Transit Assistance Fund | Unassigned fund balance | | 46,436 |
| | **Recognize adjustments from the prior year to unearned renveues.* | | | |

CPAs & BUSINESS ADVISORS

September 19, 2024

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, 2024, and have issued our report thereon dated August 28, 2024. 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* and our Compliance Audit under the Uniform Guidance**

As communicated in our letter dated January 3, 2024, 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 and to express an opinion on whether the Agency complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Agency's major federal program. Our audit of the financial statements and major program compliance does not relieve you or management of its 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.

Our responsibility, as prescribed by professional standards as it relates to the audit of the Agency major federal program compliance, is to express an opinion on the compliance for the Agency's major federal program based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances 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, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the Agency's internal control over compliance.

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 August 28, 2024. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated September 19, 2024.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope we previously communicated to you. The timing was delayed to the discovery of errors in previously issued financial statements.

**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. 96, *Subscription-Based Information Technology Arrangements (SBITAs).* Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2022. 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:

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- The net total other post-employment benefits (OPEB) liability 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 it is reasonable in relation to the basic financial statements taken as a whole.

*Financial Statement Disclosures*

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- Note 13 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. 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.

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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.

**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. As described in Notes 1 and 13 to the financial statements, due to the adoption of the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs),* the Agency restated opening balances as of July 1, 2022. We have included an emphasis of matter in our report regarding this restatement.

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**Other Significant Matters, Findings, or Issues**

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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