# SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

## Single Audit Reports

## For the Year Ended June 30, 2013

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY**
**Single Audit Reports**
**For the Year Ended June 30, 2013**

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# 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*

Board of Directors
Southern California Regional Rail Authority
Los Angeles, 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 Southern California Regional Rail Authority (SCRRA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the SCRRA's basic financial statements, and have issued our report thereon dated May 31, 2014. Our report contained a qualified opinion on the inventory balance due to the absence of an inventory observation.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the SCRRA's internal control over financial reporting (internal control) to determine the 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 SCRRA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SCRRA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2013-001, 2013-002 and 2013-003.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as items 2013-004, 2013-005, 2013-006 and 2013-007.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the SCRRA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

**SCRRA's Response to Findings**

The SCRRA's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The SCRRA'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 result of that testing, and not to provide an opinion on the effectiveness of the entity's 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.

Macias Consulting Group, Inc.

Sacramento, California
May 31, 2014

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Southern California Regional Rail Authority
Los Angeles, California

## Report on Compliance for Each Major Federal Program

We have audited the Southern California Regional Rail Authority' (SCRRA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the SCRRA's major federal programs for the year ended June 30, 2013. The SCRRA's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the SCRRA's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 SCRRA'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 SCRRA's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the SCRRA 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 federal programs for the year ended June 30, 2013.

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-008. Our opinion on each major federal program is not modified with respect to this matter.

The SCRRA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The SCRRA'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 SCRRA 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 SCRRA'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 OMB Circular A-133, 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 SCRRA'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-008 that we consider to be a significant deficiency.

The SCRRA's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The SCRRA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the SCRRA as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the SCRRA's basic financial statements. We issued our report thereon dated May 31, 2014, which contained a qualified opinion on the inventory balance due to the absence of the inventory observation. Our audit was conducted for the purpose of forming an opinion 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 OMB Circular A-133 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 basic 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.

Macias Consulting Group, Inc.

Sacramento, California
May 31, 2014

**Southern California Regional Rail Authority**

**Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2013**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Catalog of Federal Domestic Assistance Number | Pass-Through Entity Identifying Number/Grant Number | Federal Expenditures | |
|---|---|---|---|---|
| **U.S. Department of Transportation:** | | | | |
| Direct Programs: | | | | |
| High Speed Ground Transportation-Next Generation High Speed Rail Program | 20.312 | FR-RRD-0051-12-01-00 | $ 8,457 | |
| Job Access Reverse Commute | 20.516 | CA37X068 | 240,658 | |
| Public Transportation Research | 20.514 | CA260049 | 315,610 | |
| Railroad Safety Technology Grants | 20.321 | FR-TEC-0004-11-01-00 | 2,709,388 | |
| Federal Transit Cluster | | | | |
| Federal Transit, Capital Investment Grants | 20.500 | CA030662 | 2,570 | |
| Federal Transit, Capital Investment Grants | 20.500 | CA040045 | 243,038 | |
| Federal Transit, Capital Investment Grants | 20.500 | CA050205 | 44,423 | |
| Federal Transit, Capital Investment Grants | 20.500 | CA050208 | (9,023) | A |
| Federal Transit, Capital Investment Grants | 20.500 | CA050223 | 78 | |
| Federal Transit, Capital Investment Grants | 20.500 | CA050235 | 3,460,443 | |
| Federal Transit, Capital Investment Grants | 20.500 | CA050258 | 2,228,357 | |
| Federal Transit, Capital Investment Grants | 20.500 | CA050271 | 29,326 | |
| Federal Transit, Capital Investment Grants | 20.500 | CA550005 | 193,883 | |
| **Total Federal Transit, Capital Investment Grants** | | | 6,193,095 | |
| Federal Transit, Formula Grants | 20.507 | CA909908 | 345,873 | |
| Federal Transit, Formula Grants | 20.507 | CA90Y077 | 365 | |
| Federal Transit, Formula Grants | 20.507 | CA90Y412 | 312 | |
| Federal Transit, Formula Grants | 20.507 | CA90Y579 | 93 | |
| Federal Transit, Formula Grants | 20.507 | CA90Y608 | 862,141 | |
| Federal Transit, Formula Grants | 20.507 | CA90Y687 | 1,040,496 | |
| Federal Transit, Formula Grants | 20.507 | CA90Y934 | 218,643 | |
| Federal Transit, Formula Grants | 20.507 | CA90Y992 | 229,228 | |
| ARRA-Federal Transit, Formula Grants | ARRA-20.507 | ARRA CA96X046 | 1,245,879 | |
| ARRA-Federal Transit, Formula Grants | ARRA-20.507 | ARRA CA66X017 | 615 | |
| Pass through the Orange County Transportation Authority: | | | | |
| Federal Transit, Formula Grants | 20.507 | CA90Y860 | 284,604 | |
| **Total Federal Transit, Formula Grants** | | | 4,228,249 | |
| **Total Federal Transit Cluster** | | | **10,421,344** | |
| Pass through the California Department of Transportation: | | | | |
| Capital Assistance to States-Intercity Passenger Rail Service | 20.317 | 75FRA0007 | 5,637,266 | |
| Pass through the California Department of Transportation: | | | | |
| Railroad Safety | 20.301 | 75LX211 | 416,913 | |
| Railroad Safety | 20.301 | 75LX212 | 614,404 | |
| **Total Railroad Safety** | | | 1,031,317 | |
| **Total U.S. Department of Transportation** | | | **20,364,040** | |

See notes to the schedule of expenditures of federal awards.

**Southern California Regional Rail Authority**

**Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2013**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Catalog of Federal Domestic Assistance Number | Pass-Through Entity Identifying Number/Grant Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Homeland Security:** | | | |
| Direct Programs: | | | |
| Disaster Grants-Public Assistance | 97.075 | 2009-RA-T9-K005 | $ 172,206 |
| Disaster Grants-Public Assistance | 97.075 | 2010-RA-T0-K017 | 1,869,978 |
| Total Disaster Grants - Public Assistance | | | 2,042,184 |
| Pass through the California Emergency Management Agency: | | | |
| Rail and Transit Security Grant Program | 97.075 | 2008-RL-T8-K018 | 3,828,620 |
| **Total Rail and Transit Security Grant Program** | | | 5,870,804 |
| **Total U.S. Department of Homeland Security** | | | **5,870,804** |
| **Total Schedule of Expenditures of Federal Awards** | | | **$ 26,234,844** |

A Credit balance represents costs accrued in fiscal year 2012 that were not billable to the grant.

See notes to the schedule of expenditures of federal awards.

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## (1) General

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures of federal awards of the Southern California Regional Rail Authority (SCRRA). The SCRRA's reporting entity is defined in Note 1 of the SCRRA's financial statements. All federal awards from federal agencies are included in the Schedule.

## (2) Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting, whereby eligible grant expenditures are recorded when incurred (i.e., when goods are received or services provided).

## (3) Relationship to the Basic Financial Statements

Federal award expenditures agree or can be reconciled with the amounts reported in the SCRRA's basic financial statements.

## (4) Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule agree with the amounts reported in the related federal financial reports.

## Section I - Summary of Auditor's Results

***Financial Statements***

| | |
|---|---|
| Type of auditor's report issued: | Qualified |
| Internal control over financial reporting: | |
| ▪ Material weakness(es) identified? | Yes |
| ▪ Significant deficiency(ies) identified that are not considered to be material weaknesses? | Yes |
| Noncompliance material to the financial statements noted? | No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| ▪ Material weakness(es) identified? | No |
| ▪ Significant deficiency(ies) identified that are not considered to be material weaknesses? | Yes |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133? | Yes |

Identification of major programs:

| ***CFDA Numbers*** | ***Name of Federal Programs*** |
|---|---|
| 20.500 and 20.507 | Federal Transit Cluster |
| 20.321 | Railroad Safety Technology Grants |
| 97.075 | Rail and Transit Security Grant Program |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $787,045 |
| Auditee qualified as a low-risk auditee? | No |

## Section II – Financial Statement Findings

**Finding 2013-001: Financial Reporting - Schedule of Expenditure of Federal Awards**

***Criteria:***

TITLE 2 - GRANTS AND AGREEMENTS, SUBTITLE A - OFFICE OF MANAGEMENT AND BUDGET GUIDANCE FOR GRANTS AND AGREEMENTS, CHAPTER 2, SUBCHAPTER F - AUDIT REQUIREMENTS §200.508

The auditee must:

> (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.

SINGLE AUDIT ACT AMMENDMENTS OF 1996, CHAPTER 75 – REQUIREMENTS FOR SINGLE AUDITS, §7502 – AUDIT REQUIREMENTS; EXEMPTIONS

The auditor shall:

> (e)(2) Determine whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA), AUDIT AND ACCOUNTING GUIDES, GOVERNMENT AUDITING STANDARDS AND CIRCULAR A-133 AUDITS – CLARIFIED, PART II – CIRCULAR A-133 AUDITS, CHAPTER 7 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The auditee should:

> §7.04 – Identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received… Using this information, the auditee should be able to reconcile amounts presented in the financial statements to related amounts in the schedule of expenditures of federal awards.
>
> §7.06 – In order to opine on whether the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should determine that all of the following conditions are met:
>
> - The information contained in the schedule of expenditures of federal awards was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.

***Condition:***

During our audit, we noted the following in the preparation of the Schedule of Expenditures of Federal Awards (SEFA):

1. We were unable to agree expenditures by transaction from the SEFA to the Project Accounting (PA) module and to the general ledger. A reconciliation was prepared in order to agree the SEFA to the accounting records by project.

2. Accruals under $100,000 were initially omitted from the SEFA.

SCRRA's controls over the preparation and review of the SEFA were not operating effectively. This is due in part to the financial information system (FIS) conversion that was implemented in May 2013, resulting in a need to reconcile project-based SEFA expenditures on the PA module to the program-based recording on the general ledger. In addition, due to vacancies in management at the time of the SEFA preparation, a review did not occur to ensure that all SEFA expenditures were reconciled to the accounting records (general ledger).

Lack of adequate controls over financial reporting of federal expenditures caused difficulties in the agreement of SEFA expenditures to the accounting records, which led to an excessive amount of time needed to ensure that expenditures of federal awards were complete and properly classified by program (ie. CFDA number). Accuracy of the SEFA is fundamental to selecting samples and testing of federal compliance requirements for SCRRA's major programs in accordance with OMB Circular A-133. Errors in preparing the SEFA may result in the improper selection and testing of compliance for major programs required under OMB Circular A-133.

Item 1 was also identified in the Financial Management Oversight Review (FMO) performed for the U.S. Department of Transportation, Federal Transit Administration in their report dated February 8, 2012 and to date has not been resolved. The corrective action implementation date was 180 days as of the date of their report.

***Recommendation:***
We recommend that management strengthen their policies and procedures to ensure that federal expenditures reported on the SEFA can be identified by program/project, includes all expenditures incurred in the fiscal year and agree to the accounting records.

***Management Response and Corrective Action:***
Management concurs.

SCRRA is in the process of changing its chart of accounts to include the project numbers and also an identifier to distinguish federal expenditures. Currently the revenue accounts already have an identifier to indicate if the revenue is federal. Management agreed that the current process to prepare the SEFA is not efficient and the format of the SEFA is difficult to follow and understand. The changes made to the chart of accounts should allow management to reconcile both revenue and expenditure on the SEFA to the general ledger more efficiently.

## Finding 2013-002: Controls over Bank Reconciliations

### 1. Preparation of Bank Reconciliations

***Criteria:***
Southern California Regional Rail Authority's (SCRRA) written procedures state, "Bank Reconciliations are done at month end. Staff Accountants prepare the monthly reconciliations and they are reviewed and approved by the Accounting Manager".

***Condition:***
We have identified the following during our review of eleven (11) bank reconciliations at June 30th:

- Ten (10) bank reconciliations were not finalized until 7 months/8 months after June 30, 2013. This was due to the lack of staff and the accounting records not being closed due to transactions continuing to be processed.
- All bank reconciliations were not properly approved, i.e. there is no formal "approved by" signature from the Accounting Manager.

***Recommendation:***
We recommend that the SCRRA perform all bank reconciliations in a timely manner after month-end. We further recommend that bank reconciliations be formally approved.

***Management Response and Corrective Action:***
Management concurs.

SCRRA has filled a number of vacancies in its finance/accounting staff since February 2014. With the addition of a CFO, a Controller, an Accounting Manager and a Financial Analyst, SCRRA's finance department is in the process of catching up on the monthly bank reconciliations for fiscal year 2014.

Finance staff is also in the process of reviewing its month end closing process. As part of the monthly close process, management will institute formal guidelines detailing an appropriate timeline for the completion of bank reconciliations, formal review and approval by the general accounting manager.

**2. Stale-dated Checks Outstanding**

***Criteria:***
Per Southern California Regional Rail Authority's (SCRRA) Finance Department Policies and Procedures as of July 1, 2013, FIN-8.7 Accounts Payable Policies and Procedures, Escheating Uncashed/ Unclaimed Checks states, "Checks greater than 90 days old are considered stale-dated and must be voided and reissued if the payable is still valid."

In addition, FIN-8.8 Accounts Payable Policies and Procedures, Escheating Uncashed/ Unclaimed Checks states, "On a regular basis, outstanding checks are reviewed for the number of days since issuance. Those checks that are greater than 90 days old are listed separately. Checks that are over 90 days since issuance are escheated and the funds returned to the Enterprise Fund."

***Condition:***
During our review of bank reconciliation's, we noted that SCRRA did not follow their written policy over stale dated checks. We have identified the following during our review of SCRRA's bank reconciliations:

- Operating Account
  862 checks ranging from 5 cents to $95,849 (from 2001 to 2013) are beyond their 90 day policy. The total of the stale dated checks as of July 2013 is $214,395.
- Ticket Refunds Account
  878 checks ranging from 50 cents to $287 (from 2001 to 2013) are beyond their 90 day policy. The total of the stale dated checks as of July of 2013 is $12,833.

***Recommendation:***
We recommend the SCRRA follow their policies and procedures over stale dated checks. In addition, if these costs were charged to federal or state programs, funds may need to be returned.

***Management Response and Corrective Action:***
Management concurs.

Management will review the policies and procedures over stale dated checks in accordance with the guidelines pertaining to unclaimed properties established by the California State Controller's Office.

Finance staff will perform research and propose proper treatment for the stale dated checks as identified above.

**3. Fare Revenue Reconciliation**

***Criteria:***
For the fare revenue reconciliation, we were informed that, "The Business Analyst prepares the Fare Revenue Report which is used by the Accountant to perform a fare revenue reconciliation in order to ensure that the sales being recorded by Central Management Server (CMS) are in line with the actual cash being collected. On a daily basis, the Cash Management Analyst will receive the Ticket Vending Machine (TVM) reports and match the deposits with the amounts received by Union Bank. Any discrepancies are investigated immediately."

***Condition:***
During our review of the reconciliation for account 40185 (Fare Revenue Clearing), we noted that SCRRA wrote off $91,065 of TVM sales without identifying the cause for the write-off. The $91,065 is due to a discrepancy between the CMS and the actual cash collected from the TVM. The CMS is the system that generates reports from the TVM that includes the amount of ticket sales for the particular TVM. Although some investigation was performed, due to the lack of staff, SCRRA was unable to identify the cause of the discrepancy before the write-off.

***Recommendation:***
A written procedure should be adopted that addresses the need for a timely review to identify the cause when discrepancies are identified.

***Management Response and Corrective Action:***
Management concurs. Management acknowledged that currently the finance staff does not have a written policy and procedure or designated staff to reconcile fare revenue timely and on a regular basis.

SCRRA has filled a number of vacancies in its finance staff since March 2014 including a CFO, a Controller, an Accounting Manager and a Financial Analyst. SCRRA's finance department will develop written procedures over the reconciliation of fare revenue.

**Finding 2013-003: Information Technology (IT) Controls**

***Criteria:***
IT controls are a critical mechanism for ensuring the integrity of information systems and the reporting of SCRRA's finances.

## 1. System Acquisition, Development and Program Change Management

***Condition:***
SCRRA lacks a comprehensive System Development/ System Implementation Life Cycle process for major system implementations or upgrades.

General controls require that major system development or system implementation projects are initiated, planned, controlled, and executed in a coordinated way that addresses the needs of key stakeholders and maximizes a project's contribution to the organization's success. While SCRRA has policies covering Change Management and New Project Business Cases, it lacks both policy and processes for implementing large IT projects in a coordinated manner across functions. Such a policy would help SCRRA realize large project business benefits and reduce the risks of unexpected delays, costs, data integrity issues, and value erosion by improving communications to and involvement of business and end users and assuring the value and quality of project deliverables.

***Recommendation:***
SCRRA should develop and implement a policy and procedures for major Systems Development and Systems Implementation, including major system upgrades. The policy and procedures should cover how projects are initiated, planned, controlled, and executed in a way that appropriately engages all key functional stakeholders and validates the effectiveness of project deliverables. The policy should also cover appropriate planning and audit trails for areas with high potential financial system impact, such as system data conversion.

## 2. Program Data Conversion

***Condition:***

1. The Financial Information System (FIS) chart of accounts conversion resulted in a decreased ability to track revenue and expenses by project.

   General system and project management controls require that financial management systems, record keeping, and internal controls are adequate as required by the federal government to accumulate and segregate reasonable, allocable, and allowable costs for billing purposes to meet criteria set forth in 48 CFR Chapter 1, Part 31 and 49 CFR Part 18. SCRRA's business decision to not include project codes in the new general ledger (GL) object codes increased the difficulty of tracking revenue and expenses by project. While project revenue and expenses are tracked in the Project Accounting module, unbilled project expenditures have been also recorded as revenue in the Project Accounting module, causing difficulty in determining actual project revenue.
   This item was identified in the Financial Management Oversight Review (FMO) performed for the U.S. Department of Transportation, Federal Transit Administration in their report dated February 8, 2012 and to date has not been resolved. The corrective action implementation date was 180 days as of the date of their report.

2. SCRRA did not convert grant funding restrictions into the new FIS system.

   General controls require that financial management systems, record keeping, and internal controls are adequate as required by the federal government to accumulate and segregate reasonable, allocable, and allowable costs for billing purposes to meet criteria set forth in 48 CFR Chapter 1, Part 31 and 49 CFR Part 18. The SCRRA's business decision to not include grant funding restrictions in R12 required SCRRA's staff to manually flag funding restrictions at the project task level. Use of the resulting manual versus automatic controls reduces the assurance that all grant requirements and restrictions are being properly tracked.

***Recommendation:***
SCRRA should expand its general ledger object codes to include project codes. (Status: In Process). In addition, SCRRA should review its open grants and add the specific grant funding restrictions to each grant in the FIS system.

**3. Computer Operations**

***Condition:***
SCRRA has not completed a Disaster Recovery Plan.

Computer operations controls require that an agency has developed and documented a disaster recovery/business continuity plan to provide contingency for unforeseeable events and assure that system and financial data can be recovered in a timely manner. While SCRRA backs up files on a scheduled basis, it has not finalized its Disaster Recovery (DR) Plan. DR Plan finalization is pending completion of SCRRA's Pomona Train Control and Operations Support Facility (TCOSF), scheduled for late summer 2014, which will house backup operations. Without a completed Disaster Recovery Plan that has been fully tested, SCRRA cannot be fully assured that IT systems can be restored within a reasonable time after a disaster.

This finding was also identified in the Financial Management Oversight Review (FMO) performed for the U.S. Department of Transportation, Federal Transit Administration in their report dated February 8, 2012 and to date has not been resolved.

***Recommendation:***
SCRRA should finalize and test its draft Disaster Recovery Plan as it completes its TCOSF backup facility later this year. Findings from the testing should be incorporated into updates to the plan.

**4. Access to Programs and Data**

***Condition:***
SCRRA does not regularly review high-level user activity and user access privileges.

General computer controls over the access to programs and data require that network and application security controls be implemented to assure 1) appropriate access roles and 2) administrative and power user activities are proper and authorized and safeguard information technology resources and data. We noted the following:

1) SCRRA has not established procedures to monitor super-user activity in the Oracle financial application. Ten SCRRA employees or contractors have some type of super user access.

2) SCRRA has not established procedures to monitor employee user access privileges within the Oracle application to assure that user authorization roles are current and appropriate for the user's functions, and to ensure proper segregation of duties. An audit of FIS users found seven (of 187) active accounts for users who are no longer SCRRA employees or contractors. This places the

SCRRA at an increased risk of the user account access being inappropriate for assigned job functions.

***Recommendation:***
In order to minimize the risk of improper or unauthorized administrator activities within the financial systems, we recommend that the SCRRA take the following actions:

1) Develop policies and implement procedures requiring periodic (e.g., monthly) reviews of Oracle super user activities. The review should be performed by a position outside of the chain of command of these users with high level access and should be pursuant to guidelines and criteria that would aid in identifying the nature of this activity.
2) Develop policies and implement procedures requiring periodic (at least annually) reviews of user accounts and related access privileges to ensure that the access privileges are current and appropriate for their job functions and to ensure proper segregation of duties.
3) Develop policies and implement procedures to assure that terminated employees and contractors have their system and application access privileges revoked immediately.

***Management Response and Corrective Action:***
SCRRA will review both systems features and manual process to ensure that grant funding restrictions are properly tracked in compliance with the Grantor's requirements.

**<u>Finding 2013-004: Internal Controls</u>**

***Criteria:***
An organization should have internal controls that allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, and/or correct misstatements on a timely basis. In general, accounting and financial information should be designed to provide management with accurate and timely financial information to enable well-informed business decisions to be made.

***Condition:***
Based upon interviews and test work performed during our audit, the SCRRA was very behind in their accounting of transactions and there were instances noted where controls were not operating efficiently. The following were noted during our audit:

1. Cash disbursements and accounts payable
   MGO tested 39 checks and 20 wires for a total sample of 59 cash disbursements. Out of the sample, 3 wires and 2 checks were missing the second signatures for a total of 5 exceptions as stated below.
   a. According to Section FIN-8.5 of SCRRA's policy, two levels of approval are required in order for wire transfers to be processed. During our review of three cash disbursement samples, we noted that the wire transfers only had one level of approval.
   b. According to Section FIN-8.1 and FIN-8.2 of SCRRA's policies and procedures, two levels of approval are required in order for checks to be processed over $100,000. During our review of two cash disbursement samples with checks over the amount of $100,000, we noted that the checks had only one level of approval.
   c. According to Section FIN-8.1 of SCRRA's policies and procedures, all invoices are to be approved before payment is made. During our review of two cash disbursement samples, we noted that the invoices were not approved.

2. Cash receipts and accounts receivable billing
   a. Invoicing to federal and state agencies was not performed timely and many had still not been invoiced after 6 months of the close of the fiscal year. This results in SCRRA not being reimbursed for costs already paid for.
   b. Reversing entries for unbilled receivables were not made to the account where the original entry was made.
3. Salaries, employee benefits and compensated absences
   a. The SCRRA has a written policy in place that requires two levels of approval in order for wire transfers to be processed. During our review of a payroll sample, we noted that the processed payroll wire transfer only had one level of approval.

The lack of review was due to the absence of key management personnel within the Finance Department and the financial information system (FIS) conversion in May 2013. This caused the accounting function to be very behind due to the poor implementation and lack of oversight of the FIS conversion. Currently, key management positions have been filled and it is anticipated that proper oversight will occur going forward.

***Recommendation:***
We recommend that SCRRA enforce their established policies and procedures and strengthen their review process.

***Management Response and Corrective Action:***
Management is addressing the issues created by the limited resources. With additional staff, oversight of accounting functions through monitoring, review and approval of accounting transactions will be performed.

Finance department management is also currently working with the IT department to correct the FIS implementation issues.

**Finding 2013-005: Capital Assets and Record Keeping**

***Criteria:***
An organization is responsible for safeguarding the assets of the organization. This includes the proper recording in the accounting records. Due to the significant capital assets balance, records should be reconciled and reviewed by the Finance Department on a quarterly basis to ensure capital assets are properly recorded by classification and net book value.

***Condition:***
SCRRA performed a comprehensive review to evaluate SCRRA's capital assets to ensure they were properly recorded in the accounting records as of June 30, 2013. The review included an evaluation of construction in progress (CIP) to determine if completed projects should have been capitalized, depreciation was correctly calculated and that the accounting records agreed to Asset Works, the capital asset tracking system. The following were noted as a result of this review:

- Expense was overstated in prior years' due to an error in not transferring vehicles that should have been capitalized to the appropriate capital asset category which resulted in an understatement of capital assets of $1,570,000. In addition, the related depreciation was understated by $590,474.

- CIP is to be capitalized when an asset is placed in service. CIP in the amount of $68,840,590 should have been capitalized in fiscal years 2009 – 2012. This resulted in depreciation to be understated by $2,507,631.

These items were also identified in the Financial Management Oversight Review (FMO) performed for the U.S. Department of Transportation, Federal Transit Administration in their report dated February 8, 2012 and to date has not been resolved. The corrective action implementation date was 90 days as of the date of their report.

***Recommendation:***
We recommend on a quarterly basis, that a process be implemented to ensure that the capital assets records are updated which includes the status of CIP. Once it has been determined that a project is placed in service, depreciation should commence. The detailed capital asset records should then be reconciled with the general ledger.

***Management Response and Corrective Action:***
Management concurs. SCRRA, with the help from the consultant, has updated the detailed listing of capital assets through the end of fiscal year 2013. Management has also added a new staff position within the finance department to oversee and maintain capital assets accounting records and will fill this position in the near future. In addition, management plans to implement the Fixed Assets module in Oracle r12.

All capital costs are captured at a project level and at the end of the fiscal year, are recorded to CIP. Upon completion of the capital project(s), CIP is transferred to capital assets. SCRRA does not have a formal process in place in which the finance staff is notified of the transfer of CIP to capital assets by the project management oversight department. Management will implement a process for periodic evaluation over the status of all CIP and contact with the project management oversight department to determine the appropriate time to transfer assets from CIP to capital assets and commence depreciation as necessary.

**Finding 2013-006: Accrued Receivables and Billing Process**

***Criteria:***
Per the Southern California Regional Rail Authority’s (SCRRA) Finance Department Policies and Procedures as of July 1, 2013, FIN-9.1 Accounts Receivable Policies and Procedures states “It is the policy of the SCRRA to generate invoices on a timely basis for all receivables” and that “on a monthly basis, Accounts Receivable invoices its grantor agencies all eligible expenses incurred in the prior month.”

The accrued receivables account is used to record unbilled receivables related to allowable expenditures incurred on projects with third-party funding sources (e.g. third-party agreements, Prop 1B, Measure R, etc.). Once an invoice is created and the third-party is billed, the accrued receivable balance is reversed and subsequently reclassified to the appropriate receivable account. For project expenditures related to advanced funds (e.g. Prop 1B), an internal billing occurs and the accrued receivable balance is reversed and subsequently debited against the corresponding deferred revenue account.

**Condition:**
There is a significant delay in the billing process for amounts recorded in the accrued receivables account balance. As of June 30, 2013, there was approximately $56.3 million of accrued receivables before adjustments. The majority of this balance had not been billed to the appropriate agencies as of the end of

December 2013. Additionally, there were credit memos and reversals that were not recorded, resulting in an adjustment of $2,518,336 to the accrued receivables balance as of June 30, 2013.

***Recommendation:***
We recommend that the SCRRA establish policies and procedures as part of the monthly close process to reconcile this balance and bill the appropriate agencies in a timely manner in order to collect funds owed to the SCRRA. As part of the monthly close process, Finance Department staff should prepare all necessary invoices for amounts owed to the SCRRA for eligible projects. The invoices should be reviewed and approved by the grants administration and fiscal management manager for completeness, accuracy and appropriateness before issuance. The review of aging of accounts receivable and timely follow-up should also be part of the month-end close process.

***Management Response and Corrective Action:***
Management concurs that timely billings are crucial to the financial well being of the agency. Management further acknowledged that in fiscal year 2013, SCRRA fell behind on its billings due to a number of reasons including a significant turnover in key finance positions, delays in hiring replacement staff, and issues with implementation of the Oracle r12 grant module. However, SCRRA has filled a number of vacancies in its finance staff since March 2014. With the addition of a CFO, a Controller, an Accounting Manager and a Financial Analyst, SCRRA's finance/accounting department is catching up on the billings. SCRRA is also in the process of revisiting the implementation of Oracle r12 to make the billing process more efficient.

Currently finance staff only accrues accounts receivables at year-end; however, finance staff is evaluating accruing receivables at month-end with automatic reversals in the following month. The month-end accrued receivables should provide management with oversight of the timeliness of billings and address any significant delays.

**Finding 2013-007: Establish and Implement Accounting Polices and Procedures**

***Criteria:***
Communication is an essential component of internal controls. One method of communication over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff.

***Condition:***
During our audit, we noted that well-defined accounting policies and procedures have not been established and many review and reconciliation policies and procedures have not been consistently or continuously maintained. We suggest that formal accounting policies and procedures be developed and documented which includes a timely review process.

At a minimum, the following critical policies and procedures need to be documented for the following areas:

1) Accounts receivable
    a) Allowance for doubtful accounts
    SCRRA does not have a formalized policy for calculating an allowance for doubtful accounts receivable. We noted receivables that were over 180 days old. The explanation provided was that they were in dispute. The Accounting Policy and Procedures Manual does have a policy

for writing-off uncollectible accounts (FIN–9.3), however since these receivables were in dispute, SCRRA did not feel they should be written-off.

In order to properly reflect the accounts receivable balance and allowance should be established. The adequacy of the allowance should be reviewed during the year and adjusted based on collections, accounts aging, and an overall evaluation of the accounts. This should minimize the need for a year-end adjustment of this account and improve the accuracy of interim financial information. We recommend that management establish and implement such a policy.

***Management Response and Corrective Action:***
Management will formalize the policy to reserve 50% of all receivables aged over 180 days. Finance staff will review the adequacy of the reserve periodically.

b) Unbilled receivables
SCRRA accrues unbilled receivables for amounts that are to be invoiced to the funding source. These amounts represent costs that were incurred, but have not yet been invoiced for reimbursement. At June 30, 2013, this amount represented approximately $54 million. SCRRA does not have a formalized policy on the recording of these receivables and the timeliness of invoicing the funding source.

***Management Response and Corrective Action:***
See "Management Response and Corrective Action" to Finding 2013-006: Accrued Receivables and Billing Process.

2) Capital assets
   a) FIN-4.1 Fixed Assets includes procedures for the accounting of SCRRA's capital assets. Section 3.0 defines the responsibilities within the organization for the oversight of these assets. SCRRA performed an update of their capital assets information, and it was determined that capital assets were understated and misclassified for a number of years. In addition, depreciation was not calculated properly due to the understatement of fixed assets. We recommend that SCRRA strengthen its policies and oversight of its fixed assets. This balance represents 86% of SCRRA's total assets.

   b) Capitalizing construction-in-progress (CIP)
   A policy needs to be formally established to ensure that CIP is appropriately classified when placed in service. Additionally, a process needs to be implemented to communicate when a project is completed and placed into service to the Finance Department to ensure it is capitalized and depreciated. Ideally this notification should be timely; however, at a minimum, all CIP should be evaluated to determine if it should be capitalized.

   Item 2a was identified in the Financial Management Oversight Review (FMO) performed for the U.S. Department of Transportation, Federal Transit Administration in their report dated February 8, 2012 and to date has not been resolved. The corrective action implementation date was 180 days as of the date of their report.

***Management Response and Corrective Action:***
See “Management Response and Corrective Action” to Finding 2013-005: Capital Assets Recording and Record Keeping.

3) Deferred revenue (Unearned revenue)
   a) There are no documented procedures in place for the deferred revenue calculation. This calculation determines the member agencies’ and Prop. 1B deferred revenue balances. An important basis of this balance is the allocation of costs based on a Board approved allocation for member agencies.

      ***Management Response and Corrective Action:***
      Management agrees that there are no documented procedures for the deferred revenue calculation. Historically this calculation was performed by a staff in the budget department. This staff left finance in January 2014. Management will designate a staff in finance with the responsibility to calculate deferred revenue and prepare a written document of the steps taken to complete the calculation in accordance with Board approved allocation for member agencies.

4) Claims and judgments
   a) Claims and judgments payable is a critical estimate that needs to be evaluated at year end in order to be properly reflected in the accounting records. Although an analysis was prepared subsequent to year-end, it is important that one is prepared at June 30$^{th}$, which includes all known claims and incurred but not reported (IBNR) claims, and be provided to the Finance Department to be recorded in the accounting records. As this schedule is updated, notification should be made to the Finance Department to update the accounting records accordingly. A process should be formalized for the recording of this balance.

      ***Management Response and Corrective Action:***
      It is the position of management that claims and judgments payable represent management’s best estimate. Usually finance staff defer to the legal department’s judgment in deriving the liability. Finance staff will inquire with the legal department at or about June 30 and will post the legal department’s estimate to the accounting records. Auditors usually inquire of this liability directly with legal department and determine if the liability is understated or if additional liability needs to be recognized. Management does not think that it is necessary to formalize the procedure on how to derive this liability between legal department and finance department.

5) Year-end closing procedures for accrued expenses
   a) There are no formalized year-end closing procedures. It was determined that amounts in excess of $100,000 were not accrued at June 30$^{th}$. For purposes of reporting on the schedule of expenditures of federal awards, it is critical that costs are recorded in the year the service is rendered and/or goods received. Due to the lack of a formalized policy, expenses charged to grants could have been recorded in the incorrect year. Year-end closing procedures should also address revenue recognition, capital asset reconciliations, review of prepaid expenses, etc.

      ***Management Response and Corrective Action:***
      Management is in the process of developing year-end closing procedures for accrued

expenses. SCRRA historically has year-end closing procedures for accrued expenses; however these procedures were not executed fully in fiscal year 2013 due to the significant turnover in key positions within the finance department. Additionally, the upgrade to Oracle r12 at the end of fiscal year 2013 presented a challenge to the finance department in year-end closing.

SCRRA has since filled a number of vacancies in its finance/accounting staff. With the addition of a CFO, a Controller, an Accounting Manager and a Financial Analyst, management is currently revising the year-end closing procedures for accrued expenses with the consideration of Oracle r12 functionalities.

6) Unclaimed checks
   a) FIN-8.8 Escheating Uncashed/Unclaimed Checks documents the policy and procedures for the review and processing of unclaimed checks over 90 days outstanding. However, the current policy and procedures are outdated, and does not follow the State of California’s unclaimed property laws and regulations. This policy should be updated in accordance with California Government Code Sections 50050-50057 for SCRRA to properly write-off unclaimed checks and recognize revenue.

      ***Management Response and Corrective Action:***
      See “Management Response and Corrective Action” to Finding 2013-002: Controls over Bank Reconciliations, no. 2. Stale-dated Checks Outstanding.

7) Restricted cash
   a) There is no formalized tracking of restricted cash. A policy should be formalized that identifies cash received for restricted purposes and tracks the restricted cash in the accounting records or in a subsidiary schedule.

      This item was identified in a report performed by the Internal Audit Department and to date has not been addressed.

      ***Management Response and Corrective Action:***
      Management is in the process of drafting a policy pertaining to restricted cash. Currently restricted cash is recorded and maintained in separate general ledger accounts.

8) Methodology for current and non-current liabilities
   a) For financial reporting purposes, compensated absences and claims and judgments payable need to be reported as current and non-current liabilities. A policy needs to be developed to arrive at the methodology used to determine the current and non-current amounts for both liabilities.

      ***Management Response and Corrective Action:***
      It is the position of management that a formal policy is not necessary. Management believes that a liability due beyond a 12 months period is non-current and a liability due within a 12 months period is current. For fiscal year 2014 and beyond, the finance/accounting department and legal department will derive all current and non-current liabilities for financial reporting purposes in accordance with this guideline.

The following is an instance where policies and procedures were not followed:

1) Inventory write-off
   a) FIN - 2.3 Documenting Unusual and/or Significant Activities establishes procedures when financial transactions outside of the regular daily business transactions are handled. Section 1.1.5 identifies the write-off of inventory as a transaction outside of the regular activities. This policy includes documentation and reporting requirements. The reporting requirement states that the Board is to be notified concurrently with the transaction. During the fiscal year, $1.68 million of inventory was written-off to reconcile the accounting records with the physical inventory balance. This transaction was not reported to the Board when written-off.

   ***Management Response and Corrective Action:***
   There was no reliable physical inventory count conducted at end of fiscal year 2013 and as such the physical to book inventory reconciliation resulted in an unidentified reconciling item. Due to this scope limitation, the current year auditor was not able to issue an audit opinion on the inventory balance as of the end of fiscal year 2013. It is the position of management that the journal entry to reduce the inventory balance is an adjustment on the books for financial reporting purposes and not a write-off and as such does not require explicit Board approval. The Board has already been notified of the scope limitation associated with the physical inventory count. Management will perform a review of the inventory policy and procedure and make subsequent updates as necessary. Management will also perform a reconciliation between physical and book inventory at the end of fiscal year 2014 and will record any adjustment and get the appropriate approval as necessary.

***Recommendation:***
The documentation of accounting policies and procedures should be readily available to all employees. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. The documentation of accounting policies and procedures should indicate which employee roles are to perform which procedures. The documentation of accounting policies and procedures should explain the design and purpose of control related procedures to increase employee understanding of and support for controls. The accounting policies and procedures should be evaluated annually and updated, no less than once every three years, according to a predetermined schedule. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur.

***Management Response and Corrective Action:***
Management concurs with the recommendation. See responses above for each item.

## Section III - Federal Award Findings and Questioned Costs

| | |
|---|---|
| **Reference Number:** | **2013 - 008** |
| **Federal Program Title(s):** | **Federal Transit – Capital Investment Grants & Federal Transit – Formula Grants** |
| **Federal Catalog Number(s):** | **20.500/20.507** |
| **Federal Agency:** | **Federal Transit Administration** |
| **Pass-Through Entity:** | **N/A** |
| **Federal Award Number(s) and Year(s):** | **CA-66-X017-00, 2012-13**<br>**CA-96-X046-01, 2012-13** |
| **Category of Finding:** | **Reporting/ARRA 1512 Reports** |

***Criteria:***
OMB-A133 *States:*

*Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009).*

***Condition:***
Submission and approval of the ARRA 1512 report were one (1) day after the prescribed submission date.

***Cause:***
The submission of the ARRA 1512 reports was a day late due to staff misinterpreting the $10^{th}$ day after the end of each calendar quarter as ten (10) business days after the end of each quarter to submit the reports.

***Effect:***
ARRA funds are aimed at providing transparency into the use of the funds, noncompliance with prescribed submission dates could result in a reduction or elimination of funding.

***Questioned Costs:***
There are no questioned costs.

***Context:***
Out of four (4) ARRA 1512 reports, two (2) were submitted a day after the prescribed submission date.

***Recommendation:***
Program personnel needs to implement a process to ensure timely report submission.

***Management Response and Corrective Action:***
Grant reporting responsibility has shifted from the finance department to planning. Planning is assessing the process. In addition, management would like to highlight the fact that the federal government's fiscal year 2014 omnibus spending bill that was enacted in January has repealed Section 1512 reporting as of February 1, 2014, making fourth quarter 2013 the last time SCRRA submits ARRA 1512 reporting.

### Finding 2012-1—Timely Reconciliation and Review of Accounts

**Condition:**
The bank and accounts payable reconciliations reviewed during planning in July 2012 for both April and May 2012 had not been reviewed by the general accounting manager. Additionally, during the year-end audit process, it was found that several of the significant account balances recorded in the general ledger did not agree to the supporting schedules provided by the Authority, nor were they provided and/or reviewed in a timely manner. The significant account balances not reconciled to detailed supporting schedules include inventory, capital assets, accrued receivables, bad debt reserve and deferred revenue.

**Recommendation:**
To help provide more accurate, complete and timely financial information, we recommend the Authority establish more comprehensive general ledger account reconciliation policies and procedures as part of its monthly close process, which could include the following:

- Complete monthly reconciliations of all material general ledger accounts, quarterly reconciliations for less material accounts, as determined, with established deadlines and personnel responsibilities

- Supporting documentation for routine and nonroutine account adjustments as determined during the reconciliation process

- Review and approval by the appropriate manager of all monthly general ledger account reconciliations and journal entries before journal entries are posted

- Investigate and understand why variances exist, and establish a plan to improve processes to eliminate such variances

This list is not all-inclusive and there may be additional policies or procedures that the Authority determines critical for implementation in order to remedy this deficiency.

**Current year response:**
The conditions remain the same during fiscal year 2013. The Authority has been unable to implement and/or follow through with some of the auditor's recommendations from prior year.

The Authority has been operating without a Chief Financial Officer (CFO) since February 2013. The former CFO left the Authority in February 2013, and the Controller/Director of Finance at the time assumed the role of an interim CFO to help oversee finance and accounting. However, the interim CFO subsequently departed six months later in August 2013. Since then, the Authority has been unsuccessful in filling the various vacancies in the Finance/Accounting department. Additionally, the condition exacerbated with untimely reconciliation and review of accounts as the lead/primary staff accountant left the Authority in September 2012 and did not return until February 2013. During the lead accountant's absence, the Authority did not have any staff in the Finance/Accounting to reconcile and review the accounts on a timely basis. Upon the staff accountant's return in February 2013, the Authority has assigned some temporary staff to assist the lead accountant to catch up with the reconciliation and review of accounts. For the fiscal year 2013 period, staff was able to completely reconcile the cash accounts and complete about 85% of the remaining Balance Sheet accounts reconciliations.

The upgrade to Oracle r12 also caused significant delays in month-end closing for May 2013 and June 2013 due to errors during data migration from Oracle 11i to Oracle r12, and issues with interfacing the general ledger with the subsidiary ledgers.

**Status:**
Not implemented, see Finding 2013 - 002.

**Finding 2012-2—Accrued Receivables and Billing Process**

**Condition:**
There is a significant delay in the billing process for amounts recorded in the accrued receivables account balance. As of June 30, 2012, there was approximately $38 million recorded for accrued receivables prior to adjustment. The majority of this balance had not been billed to the appropriate agencies as of the end of January 2013. Additionally, there were amounts included in the accrued receivables balance that should have been recognized against the deferred revenue balances recorded as of year-end. This resulted in an adjustment to the general ledger of approximately $2,800,000.

**Recommendation:**
We recommend that the Authority establish policies and procedures as a part of the monthly close process to reconcile this balance and bill the appropriate agencies in a timely manner in order to collect funds owed to the Authority. As part of the monthly close process, Finance Department staff should prepare all necessary invoicing for amounts owed to the Authority on eligible projects. The invoices should be reviewed and approved by the grants administration and fiscal management manager for completeness, accuracy and appropriateness before issuance. The review of aging of accounts receivable and timely follow-up should also be part of the month-end close process.

**Current year response:**
The conditions remain the same during fiscal year 2013. The Authority has been unable to implement and/or follow through with some of the auditor's recommendations from prior year.

The Authority has been operating without a Chief Financial Officer (CFO) since February 2013. The former CFO left the Authority in February 2013, and the Controller/Director of Finance at the time assumed the role of an interim CFO to help oversee finance and accounting. However, the interim CFO subsequently departed six months later in August 2013. Since then, the Authority has been unsuccessful in filling the various vacancies in the Finance/Accounting department. The grants billing team was under staffed throughout 2013.

There is no month-end closing procedures relating to the accrual of accounts receivable, and there is a delay in revenue recognition against deferred revenue balances. The grants billing team has been unable to use cost-based billing in Oracle r12 because the funding pattern was not established correctly during the Oracle r12 upgrade as well as other technical issues such as issuing credit memos. The grants billing team has been using event-based billing which does not provide a direct linkage between expenditures and amounts invoiced to grantors in Oracle r12.

The Authority recognizes the challenge with grants billings and revenue accrual, which are attributable to the Oracle r12 implementation, and is working systematically towards cost-based billing. However, the Authority will implement cost-based billing with projects that originated in Oracle r12. The Authority has contracted an Oracle grants specialist to assist with grants billings and grants management. In addition, the Authority has implemented Application X-Tender to help manage documents on-line and compile supporting documents for billing purposes more effectively and efficiently. The Authority has hired temporary staff to assist with grants billing until a suitable permanent replacement is hired.

**Status**
Not implemented, see Finding 2013-006.

**Finding 2012-3—Capital Assets Recording and Record Keeping**

**Criteria:**
Due to the significant balance of capital assets, records should be reconciled and reviewed by the Finance Department on a quarterly basis to include all current year transactions.

**Condition:**
There were several matters noted relating to the Authority's capital assets, which in conjunction constitute a significant deficiency. They include:

• Formula errors in calculating depreciation expense for current year facility additions, which resulted in an adjustment to decrease depreciation by approximately $1,600,000 in the financial statements.

• An adjustment from construction-in-process (CIP) to rolling stock for approximately $54,000,000 to capitalize rolling stock that was placed into service during the year ended June 30, 2012.

• A facility project that was closed out in June 2011, but was not capitalized into capital assets until the year ended June 30, 2012. This resulted in approximately $27,000 of depreciation expense that should have been recorded for the year ended June 30, 2011.

• Infrastructure additions of approximately $600,000 that were incorrectly capitalized. The Authority has met the requirements under Governmental Accounting Standards Board Statement No. 34 to report infrastructure using the modified approach. Additions are only capitalized if they increase capacity or efficiency of those assets (rather than preserve the useful life). The additions noted did not meet the requirements under the modified approach to be capitalized.

**Recommendation:**
We recommend the Authority utilize its accounting system in order to record capital assets, rather than Excel spreadsheets, as the system is designed to accumulate asset cost and calculate depreciation expense. This will eliminate a significant amount of record keeping duties, make operations more efficient, provide more accurate information and reduce potential of human error. On a quarterly basis, the general accounting manager should meet with the applicable project managers (PMs) to update the status of CIP projects. After each quarterly meeting, the capital asset records should be updated for any projects that have been completed and depreciation should commence. The detailed capital asset records should then be reconciled with the general ledger at least quarterly.

**Current year response:**
The conditions remain the same during fiscal year 2013. The Authority has been unable to implement and/or follow through with some of the auditor's recommendations from prior year.

The Authority has been operating without a Chief Financial Officer (CFO) since February 2013. The former CFO left the Authority in February 2013, and the Controller/Director of Finance at the time assumed the role of an interim CFO to help oversee finance and accounting. However, the interim CFO subsequently departed six months later in August 2013. Since then, the Authority has been unsuccessful in filling the various vacancies in the Finance/Accounting department. Additionally, the Authority has been unable to assign fixed assets accounting responsibilities to any full time staff in the Finance/Accounting department throughout FY2013.

There has been no update to or maintenance of the fixed assets accounting since fiscal year 2012 through October 2013. There continues to be discussions and evaluations to implement the Oracle Capital Assets Module; however at this time, the Authority is in the initial phases of the Capital Assets Module implementation. The primary reason for the delay is that the Oracle Capital Assets Module needs to be integrated with the Grants Management Module, and currently the Authority has not been able to fully utilize the functionalities of the Grants Management Module.

In November 2013, the Authority hired a part-time retired annuitant who has prior experience with fixed assets accounting. A short-term solution was implemented for fixed assets accounting which is to develop a database type transaction file for the purpose of computing the year-end capital assets and depreciation for fiscal year 2013 year-end closing. This transaction file has all the required fields for the Oracle Capital Asset system, and will be used to update the Oracle system. The Authority is in the initial phases of the Oracle Capital Asset Module implementation. In addition, the Authority has defined a new permanent position for fixed assets accounting, and will be presented to the Board for approval.

**Status:**
Not implemented, see Finding 2013-005.