



Report of Independent Auditors
and Single Audit Reports for

**Southern California Regional
Rail Authority**

June 30, 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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**REPORT OF INDEPENDENT AUDITORS 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***

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

We have audited, in accordance with 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 basic financial statements of Southern California Regional Rail Authority (SCRRA or the Authority) as of and for the year ended June 30, 2014, and the related notes to the basic financial statements and have issued our report thereon dated May 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 SCRRA's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

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 as items 2014-002 through 2014-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCRRRA'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*.

Southern California Regional Rail Authority's Responses to Findings

Southern California Regional Rail Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Southern California Regional Rail Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Los Angeles, California
May 22, 2015

REPORT OF INDEPENDENT AUDITORS 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

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

Report on Compliance for Each Major Federal Program

We have audited Southern California Regional Rail Authority's (SCRRA or the Authority) 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 SCRRA's major federal program for the year ended June 30, 2014. SCRRA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 SCRRA's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 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 the major federal program. However, our audit does not provide a legal determination of SCRRA's compliance.

Opinion on Each Major Federal Program

In our opinion, SCRRA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying schedule of findings and questioned costs as item 2014-006. Our opinion on the major federal program is not modified with respect to these matters.

SCRRA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 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 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 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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 2014-006 that we consider to be a significant deficiency.

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. 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 SCRRA as of and for the year ended June 30, 2014, and have issued our report thereon dated May 22, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



Los Angeles, California
May 22, 2015

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
FEDERAL TRANSIT CLUSTER			
<u>Department of Transportation</u>			
Federal Transit, Capital Investment Grants	20.500		\$ 13,096,486
Federal Transit, Formula Grants	20.507		2,630,935
ARRA-Federal Transit, Formula Grants	ARRA - 20.507		155,893
State of Good Repairs	20.525		508,200
Pass Through Programs From Riverside County Transportation Commission Federal Transit, Capital Investment Grants	20.500	CA050268	<u>203,166</u>
Total Federal Transit Cluster			16,594,680
Pass Through Programs From California Department of Transportation: Capital Assistance to States-Intercity Passenger Rail Service	20.317	75FRA0007	3,665,779
Direct Programs			
High Speed Ground Transportation-Next Generation High Speed Rail Program	20.312		249,894
Railroad Safety Technology Grants	20.321		1,580,169
National Priority Safety Programs	20.616		40,600
Pass Through Programs From California Department of Transportation: Railroad Safety	20.301	75LX212, 75LX212	<u>118,683</u>
Total Department of Transportation			<u>22,249,805</u>
<u>Department of Homeland Security</u>			
Direct Program			
Disaster Grants-Public Assistance	97.075		1,538,889
Pass Through Programs From California Emergency Management Agency Rail and Transit Security Grant Program	97.075	2008-RL-T8-K018	<u>132,916</u>
Total Rail and Transit Security Grant Program			<u>1,671,805</u>
Disaster Grants-Public Assistance	97.036	FEMA-1577	<u>66,857</u>
Total Department of Homeland Security			<u>1,738,662</u>
Total Expenditures of Federal Awards			<u><u>\$ 23,988,467</u></u>

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures of federal awards of the Southern California Regional Rail Authority (SCRRA) for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of SCRRA, it is not intended to and does not present the net position, changes in net position, or cash flows of SCRRA.

SCRRA's reporting entity is defined in Note 1 of SCRRA's financial statements. All federal awards from federal agencies are included in the Schedule.

Note 2 - Summary of Significant Accounting Policies

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). Such expenditures are recognized following the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or limited as to reimbursement. Expenditures reported include any property or equipment acquisitions incurred under federal programs. Pass-through identifying numbers are presented where available.

Note 3 - Subrecipients

Of the federal expenditures presented in the Schedule, SCRRA provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Amount Provided to Subrecipient</u>
20.507	Federal Transit, Formula Grants	<u>\$ 235,159</u>

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over federal major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of Federal Major Programs

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued</i>
20.500, 20.507, 20.507 ARRA, 20.525	Federal Transit Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$719,654

Auditee qualified as low-risk auditee? Yes No

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Section II - Financial Statement Findings

FINDING 2014-001 - Monthly Close Reconciliation and Review Process and Annual Financial Reporting (Material Weakness in Internal Control)

Criteria - In order to make the financial information reported to the Board of Directors as meaningful as possible and to ensure that internal controls are operating effectively, performing monthly reconciliations helps detect errors and prevents them from accumulating within a particular period. Per FIN 2.1 of the Authority's Finance Policies and Procedures Manual, section 1.5 requires that "accounting activities for month-end close conclude on the fifth business day of the following month."

Condition - Monthly closes were not performed during Fiscal Year (FY) 2014, and there was no established process in place for performing month-end closes. Many existing reconciliation processes lacked the appropriate level of review, including the following:

- Cash, restricted cash, and payroll bank reconciliations
- Accounts receivable reconciliations
- Accounts payable reconciliations
- Accrued accounts reconciliations, such as accrued payroll
- Capital assets and work orders for materials management

Cause - In discussions with management, it was noted that delays were caused by interface errors resulting from newly implemented budgetary controls and the system migration to the Oracle R12 FIS. During FY 2014, there was a lack of cross-training within the Finance Department and an absence of well-defined and documented roles and responsibilities that allow for a smooth transition during times of staff transition or turnover. We noted that current management has been documenting desktop procedures and processes since coming on board in late FY 2014.

Effect - The lack of a monthly closing process, established reconciliation and review process, and preparation and review of monthly financial statements resulted in multiple adjustments identified during the course of the audit, including:

- Adjustment to adjust restricted net position in the amount of \$9,621,355;
- Adjustment to reverse write-off of a capital project in the amount of \$8,513,235;
- Adjustment entry to general ledger to reconcile grant revenue between general ledger and Schedule of Expenditures of Federal Awards in the amount of \$3,740,365.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Section II - Financial Statement Findings (continued)

FINDING 2014-001 - Monthly Close Reconciliation and Review Process and Annual Financial Reporting (Material Weakness in Internal Control) (continued)

Recommendation - While we commend management for designing and implementing policies and procedures in place subsequent to June 30, 2014, those policies were not in existence or were not applied during the period under audit. We recommend that management establish a well-designed and efficient process for month-end closing that would entail timely preparation and review of monthly reconciliations between general ledgers to sub-ledgers for all significant accounts. In addition, well-documented roles and responsibilities would help when staff transitions or departures occur and should be used for cross-training of employees. Finally, timely reporting to the Board of Directors would allow in decision making and proper oversight.

Views of responsible officials and planned corrective actions - Management agrees that month-end closing and timely reconciliation of account balances were not performed during FY14. Several key financial management positions were hired in the latter months of FY14, including the Chief Financial Officer, Controller, General Accounting Manager, and two Financial Analysts. These new hires immediately began to address the various system issues related to monthly closing, as well as other accounting issues created by the poor implementation of the Oracle R12 system. Identifying and resolving many of these issues continued through the end of FY14 and during the year-end closing process to prepare for the annual financial audit. During the audit preparation, staff resolved the closing issues created by over 18,000 unposted problematic transactions, closed the year, and reconciled the various balance sheet accounts. This effort has taken much of FY15 to complete due to the magnitude of problems being resolved. Processes are currently in place for monthly reconciliations and monthly closings; however, due to the aforementioned efforts to resolve FY14 issues, the monthly close process has been delayed. Additionally, several staff positions have been filled with existing employees, which has led to cross-training in several areas, and the open positions created by these transfers have been filled during FY15.

FINDING 2014-002 - Reconciliation of the Schedule of Expenditures of Federal Awards (Significant Deficiency in Internal Control)

Criteria - The Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, is considered supplementary information to the basic financial statements and should relate directly to the underlying accounting and other records used to prepare the financial statements.

Condition - During FY 2014, management did not agree expenditures by transaction from the Schedule of Expenditures of Federal Awards (SEFA) to the Project Accounting (PA) module and to the general ledger.

Cause - During the system migration to Oracle R12 FIS, the chart of accounts was not established in a method to accessibly identify projects and awards, which is the basis of the Project Accounting module.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Section II - Financial Statement Findings (continued)

FINDING 2014-002 - Reconciliation of the Schedule of Expenditures of Federal Awards (Significant Deficiency in Internal Control) (continued)

Effect - As a result, excessive efforts were required on the part of management to ensure that expenditures of federal awards were being reported accurately and properly classified by program. This was accomplished subsequent to year-end, which resulted in an adjustment entry to the general ledger in the amount of approximately \$3.7 million.

Recommendation - We recommend that management develop a robust policy to ensure that federal expenditures reported on SEFA can easily be tracked by program/project and are reconciled to the general ledger.

Views of responsible officials and planned corrective actions - During FY15, management added the project number to the general ledger accounting string, which prior management had removed as part of the implementation of Oracle R12. Because all expenditures are tracked by project, this project data in the general ledger string is essential to the reconciliation of Federal Awards to the Project Accounting module and the General Ledger. Management retained KPMG and formed a team to review Oracle processes, implement improvements in the grant system processes and Oracle system functionality, and train staff on use of the Oracle system. Additionally, management has implemented monthly reconciliation of the Project Accounting module to the General Ledger. Currently, management is reviewing proposals from several third-party reporting tool providers that will enhance the Authority's ability to run reports for data including award/project information that is not readily available from the existing system.

FINDING 2014-003 - Reconciliation of Advances for Construction (Significant Deficiency in Internal Control)

Criteria - The Authority receives advanced deposits for projects that are later applied after the utilization of Authority resources. Revenue is recognized as earned only after the utilization of these resources.

Condition - During FY 2014, there was a lack of procedures in place to ensure timely review and reconciliation of construction advances.

Cause/Effect - Glitches caused by the system migration to Oracle R12 FIS and breakdowns in communication between project management and the Finance Department resulted in delays in applying deposits to completed projects and the recognition of revenue and delays in the return of deposits to customers.

Recommendation - We recommend that a formal policy be established for tracking and reviewing of construction advances, emphasizing review on the age of the deposits. Deposits that have aged significantly require further investigation to determine whether the deposit had previously been refunded to a customer or whether it should be recognized as revenue for a completed project. To assist in establishing the policy, an interdepartmental collaboration would be essential.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Section II - Financial Statement Findings (continued)

FINDING 2014-003 - Reconciliation of Advances for Construction (Significant Deficiency in Internal Control) (continued)

Views of responsible officials and planned corrective actions - During FY15, management has created a new section within the Finance Department, and a new staff person within that section has been assigned to the billing and reconciliation of these advanced deposits. Reconciliations are being done monthly for FY15. Additionally, management is in the process of automating advanced deposits billing and reporting of balances by customer and project. Processes will be established to enhance communication with other departments to further assist managing advanced deposits.

FINDING 2014-004 - Capital Assets and Project Management (Significant Deficiency in Internal Control)

Criteria - In accordance with the Authority's capitalization policy, all tangible property owned by the Authority such as land, buildings, and equipment with a useful life of more than three years and costing over \$5,000 should be capitalized.

Condition - In testing internal controls over capital assets, we noted a lack of procedures in place to monitor open projects, to ensure costs recorded are accurate, and to determine whether projects are correctly classified and whether disposed assets have been timely removed from the general ledger.

Cause - There appears to be a lack of communication between project management and the Finance Department regarding projects resulting in new assets to the Authority and those belonging to third parties. A similar breakdown in communication took place between asset management and the Finance Department.

Effect - We noted that one project in the amount of approximately \$8.5 million that was incorrectly expensed during the year actually resulted in an asset to the Authority. We also noted that approximately \$2.2 million of rail cars disposed of many years ago were only written off from accounting records during FY 2014.

Recommendation - We recommend that a formal process be established for status review and communication between project management and the Finance Department to ensure accurate tracking and reviewing of construction projects and disposed or impaired assets. In addition, a full reconciliation of assets recorded in accounting records to the physical existence of assets should be performed to ensure no disposed assets are still retained in the general ledger. Finally, all journal entries should be properly reviewed and approved prior to posting.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Section II - Financial Statement Findings (continued)

FINDING 2014-004 - Capital Assets and Project Management (Significant Deficiency in Internal Control) (continued)

Views of responsible officials and planned corrective actions - During FY15, management hired a consultant to review and make necessary adjustments to the capital assets. This consultant also provided significant assistance in implementing the Oracle Fixed Asset module, which was completed in mid FY15. Additionally, in FY15, permanent staff was hired specifically to manage fixed assets. Also during FY15, management developed an Assets Additions Procedure to formalize the process for recording new asset additions. This procedure requires that quarterly, the capital asset accountant together with the project manager(s) review all projects that have not been capitalized to ensure project status accuracy and update estimated project end dates. In addition, the capital asset accountant will review projects that have not incurred recent expenditures and discuss with the project manager whether the project should be on hold or is closed. Although journal entries were reviewed before posting, management will follow a process that requires certain more technical entries to be reviewed at higher levels to ensure that the proper amount of analysis and review is performed.

FINDING 2014-005 - Unearned Revenue (Significant Deficiency in Internal Control)

Criteria - Unearned balances consist of advances on projects from member agencies as well as Proposition 1B funds. To ensure timely recognition of revenues and for reporting to member agencies and other regulators on the available use of these funds, unearned revenue accounts should be reconciled periodically throughout the fiscal year.

Condition - We noted a lack of tracking and timely reconciliation of these balances during the year. Some unearned revenue accounts balances have not changed in several years and require additional research in order to properly be removed as a liability. In addition, related adjustments to release restricted cash require proper recognition of revenue from unearned revenue. We observed that current tracking processes are cumbersome and time consuming and do not allow for regular review and tracking.

Cause - Tracking procedures and recognition of expenditures appear to be cumbersome and time consuming, not lending themselves to regular review and tracking.

Effect - These events lead to delayed recognition of revenue and delayed reporting to member agencies regarding available surpluses that may be applicable to other third-party arrangements.

Recommendation - We recommend that a review and reconciliation of unearned revenue and related accounts (restricted cash, revenue, projects) be performed on a regular basis. Establishing a more simplified process for tracking unearned revenue would be beneficial.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Section II - Financial Statement Findings (continued)

FINDING 2014-005 - Unearned Revenue (Significant Deficiency in Internal Control) (continued)

Views of responsible officials and planned corrective actions - Management agrees that unearned revenue balances were not reconciled during FY14. However, as part of the year-end close and audit preparation, these accounts were reviewed and reconciled for the year under audit. Further analysis by the Authority's staff during the audit field work determined additional adjustments were necessary and entries were proposed. Management is currently reviewing the processes and responsibilities related to the deferred revenue accounts. As noted above, a new section within the Finance Department was created and staffed whose responsibility includes the review of accounting entries and reconciliations of these unearned revenue accounts. Additionally, management has hired staff whose specific responsibility is to analyze all member agencies' unearned revenue accounts for the years since these accounts have been utilized.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-006 - Equipment Management - Significant Deficiency and Instance of Noncompliance

<i>CFDA Number</i>	<i>Federal Agency / Pass-through Entity – Program Name</i>	<i>Pass-through Entity Identifying Number</i>	<i>Award Year</i>	<i>Questioned Costs</i>
20.500, 20.507, 20.507 ARRA, 20.525	Federal Transit Administration /Federal Transit Cluster	CA050268	2013-2014	\$0

Criteria - As a local government, Southern California Regional Rail Authority is required to comply with the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments 49 CFR 18. Section 18.32(d) requires “(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.”

Condition/Context - In connection with our audit, we obtained a detail listing of all equipment acquired with federal funds by SCRRA. We reviewed the listing and observed certain assets were not identified with a unique asset or other identification number for tracking; did not indicate the source of the property; who holds title; the percentage of federal participation in the cost of the property; the location; or use and condition of the property. In addition, we noted that the detail listing incorrectly identified certain assets as having been acquired with federal funds that were in actually acquired with other funding sources.

Cause - During FY2014, the Authority did not have a capital asset or equipment module for tracking equipment. In addition, management was unaware of the characteristics required for tracking equipment inventory items.

Effect - The Authority’s records have not been accurately maintained in accordance with federal requirements.

Recommendation - We recommend that as management implements their capital asset module they consider tracking all equipment acquired with federal funds in accordance with the parameters required by the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

Views of responsible officials and planned corrective actions - In fiscal year 2015, management implemented the capital asset module in Oracle. In addition to each asset having a unique identifying number, the acquisition date, original cost, location, and asset life are tracked. As part of the implementation, the funding source is identified, including percentages, if the asset is acquired with multiple funding sources. The funding sources field uses the Oracle grant number and the CDFA number if applicable.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

The following was reported as a finding in the audit of Southern California Regional Rail Authority for the year ended June 30, 2013.

Finding 2013-008 - Reporting (Significant Deficiency in Internal Control and Instance of Noncompliance)

Federal Program(s) - CFDA 20.500 / 20.507 Federal Transit Cluster

Federal Agency - U.S. Department of Transportation

Recommendation - Program personnel needs to implement a process to ensure timely report submissions.

Status of Finding - Corrected