



REPORT OF INDEPENDENT AUDITORS
AND SINGLE AUDIT REPORTS
SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

June 30, 2017

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* Incorporated by reference only

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

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 basic financial statements of Southern California Regional Rail Authority (SCRRA or the Authority), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2017.

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 opinion 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.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 through 2017-004 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 results 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.

A handwritten signature in cursive script that reads "Mess Adams HP".

Los Angeles, California
December 31, 2017

Report of Independent Auditors On Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Directors
Southern California Regional Rail Authority

Report on Compliance for the 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 Compliance Supplement* that could have a direct and material effect on SCRRA's major federal program for the year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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 *Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 the 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, 2017.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

We have audited the financial statements of SCRRA as of and for the year ended June 30, 2017, and have issued our report thereon dated December 31, 2017, 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 the Uniform Guidance 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.

Mess Adams LLP

Los Angeles, California

January 11, 2018, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 31, 2017

Southern California Regional Rail Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures	Passed through to Subrecipients
<u>U.S. Department of Transportation</u>				
Federal Transit Cluster				
Direct				
Federal Transit, Capital Investment Grants	20.500		\$ 2,674,484	\$ -
Pass through from				
Riverside County Transportation Commission				
Federal Transit, Capital Investment Grants	20.500	CA050268/CA050283	1,472,557	-
Orange County Transportation Authority				
Federal Transit, Capital Investment Grants	20.500	CA050269	886,088	-
Total Federal Transit, Capital Investment Grants			<u>5,033,129</u>	<u>-</u>
Direct				
Federal Transit, Formula Grants	20.507		588,433	-
Pass through from				
Orange County Transportation Authority				
Federal Transit, Formula Grants	20.507	CA2016032/CA90Y782/C A90Y942/CA95X180/CA9 5X286	1,339,651	-
Total Federal Transit, Formula Grants			<u>1,928,084</u>	<u>-</u>
Direct				
State of Good Repairs	20.525		9,192,841	-
Total State of Good Repairs			<u>9,192,841</u>	<u>-</u>
Total Federal Transit Cluster				
			<u>16,154,054</u>	<u>-</u>
Other programs				
Direct				
Railroad Safety and Technology Grants	20.321		176,640	-
Total Railroad Safety Technology Grants			<u>176,640</u>	<u>-</u>
Total U.S. Department of Transportation				
			<u>16,330,694</u>	<u>-</u>
Total Expenditures of Federal Awards				
			<u>\$ 16,330,694</u>	<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, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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 Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") 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.

SCRRA has not elected to use the 10 percent de minimis indirect cost rate as described in 2 CFR 200.414.

Southern California Regional Rail Authority
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: 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 major federal 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 2 CFR 200.516(a)? Yes No

Identification of major federal programs and type of auditor’s report issued on compliance for major federal programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
20.500, 20.507, 20.525	Federal Transit Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

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, 2017**

Section II – Financial Statement Findings

**Finding 2017-001 – Accounting for Accrued Accounts Receivable and Advances for Construction
(Significant Deficiency in Internal Control over Financial Reporting)**

Criteria: The Authority's policies require timely invoicing of receivables for collection of cash receipts. As part of the invoicing process, any customer deposits collected in advance are to be applied to customer's outstanding balance prior to the initiation of an invoice.

Condition/Context: The Authority regularly receives deposits in advance of any construction projects it performs for customers and other agencies. During the audit, it was identified that several projects had advance deposits that were collected from the customers that were not applied in estimating the accrued receivable for work performed in relation to that project. Additionally, the Authority is still in the process of formally invoicing funders for projects incurred as far back as 2011.

Cause: The initial setup of historical projects as well as large volume of projects has made it challenging to reconcile certain accounts such as accrued accounts receivable and advance deposits, which are reconciled by customer. This has also resulted in delays in invoicing customers for reimbursable costs on project work performed on behalf of others.

Effect: Several adjusting entries were identified as a result of the audit procedures performed:

- An audit adjustment was recorded to accrue for \$1.3 million of additional receivables from customers, and related revenues for reimbursable project costs that had not yet been billed. Additional proposed adjustment in the amount of \$978,000 was passed and not recorded by management. These adjustment was based on known misstatements from a sample of 20 projects tested. An additional \$1.4 million of possible misstatement in the accrued accounts receivable balance was estimated and recorded as a likely misstatement as of June 30, 2017.
- An adjusting entry for \$1.3 million was proposed to reduce receivables due from other agencies and related advance deposits for construction (a liability) to reduce outstanding receivable amounts for deposits already received from the agencies. This misstatement was not recorded by management.

Recommendation: Management should continue to review life to date costs of projects open for more than one year, apply deposits and reduce accounts receivable. Management should also review staffing allocations to ensure that as expenses are incurred for reimbursable projects, invoices are completed timely and sent to customers to result in timely receipt of funds for cash flow needs.

Views of responsible officials and planned corrective action: See response within management's corrective action plan.

Southern California Regional Rail Authority
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2017

Finding 2017-002 – Fare Revenue Bank Reconciliation (Significant Deficiency in Internal Control over Financial Reporting)

Criteria: As part of the Authority's month end close procedures, reconciliations of bank accounts are to occur within two weeks of the prior month's end. This reconciliation is significant control in monitoring activities of a third party administrator that collects cash receipts on behalf of the Authority and ensuring the completeness and accuracy of deposits collected.

Condition/Context: Reconciliations for the bank account used to deposit fare revenues were not reconciled until after year end. As SCRRA contracts with a third party to collect cash from its ticket vending machines and deposit these funds into SCRRA's bank account, it is imperative that timely reconciliations are performed to ensure completeness and accuracy of cash deposited by third-party.

Cause: The Authority's accounting procedures manual did not provide sufficient guidance for staff to follow the complexities associated with the reconciliation.

Effect: Errors in accounting for fare revenue may not have been detected timely as a result of the delay.

Recommendation: Procedural manuals should be detailed enough for staff unfamiliar with the procedures to follow. Management should continue to cross-train employees to act as backups in the event of staff turnover.

Views of responsible officials and planned corrective action: See response within management's corrective action plan.

Finding 2017-003 – Capital Assets and Project Management (Significant Deficiency in Internal Control over Financial Reporting)

Criteria: Monitoring over project progress and costs should be sufficient to prevent or detect misstatements over capital assets.

Condition/Context:

- We identified one project for approximately \$725,000 that was categorized as non-depreciable infrastructure, but did not meet the criteria and instead should be subject to depreciation.
- Approximately \$215,000 of interest was capitalized in the current year that should have been expensed.
- Project budgets are not updated as change orders to contracts with certain vendors are approved.

Cause: Accurate classification and capture of capital assets is reliant upon open and clear communications between project managers and the finance department. As there are a number of individuals involved in the process, there is not a role that can identify the completeness and accuracy of capital asset reporting.

Southern California Regional Rail Authority Schedule of Findings and Questioned Costs (continued) For the Year Ended June 30, 2017

Finding 2017-003 – Capital Assets and Project Management (Significant Deficiency in Internal Control over Financial Reporting) (continued)

Effect:

- Management recorded an adjustment for approximately \$725,000 to reclassify the asset so that it will be subject to future depreciation.
- Capital assets were overstated and expenses were understated by \$215,000.
- Depreciation expense could be understated for construction in progress projects that are not timely recognized as completed.
- Project managers could be more effective and efficient in their review and containment of project costs if overall project budgets were updated with change orders.

Recommendation: Management should incorporate additional reviews over capital asset activity to ensure that assets meet the criteria for capitalization and are properly classified for depreciation. These reviews should include continued coordination with project managers and updates to financial records for assets in use that staff are still completing record documentation. Management should continue to find tools which allow project managers the ability to more effectively and efficiently contain project costs.

Views of responsible officials and planned corrective action: See response within management's corrective action plan.

Finding 2017-004 – Inventory Management (Significant Deficiency in Internal Control over Financial Reporting)

Criteria: FIN 4.5 states that at fiscal year end, a physical inventory be conducted on all railroad parts and materials and that adjustments be recorded for discrepancies noted. Parts and materials that are utilized minimally and have outlived their useful life or subject to technological obsolesces are to be evaluated annually during the fiscal year end close.

Condition/Context: The Authority maintains a number of slow-moving inventory items which include replacement parts and tools for rolling stock, vehicles, communication signals, and other capital assets. Some of these inventory items have become obsolete because they no longer can be used for these assets, or they are retained on hand in excessive quantities compared to the need for these assets. At year end, management evaluated slow-moving inventory and recorded a reserve for items that were obsolete in the amount of \$3.8 million.

Cause: The delay in evaluation was the result of not having formalized procedures in place at year end.

Effect: Methodology for calculation of reserve for obsolete inventory was developed after the end of fiscal year and was recorded as part of the audit adjustments.

Southern California Regional Rail Authority
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2017

Finding 2017-004 – Inventory Management (Significant Deficiency in Internal Control over Financial Reporting) (continued)

Recommendation: We recommend that management continue efforts to evaluate obsolete inventory and refine its process for estimating obsolete inventory regularly. The methodology for the estimate should also be formalized and applied consistently going forward. Inventory should also be closely monitored throughout the year to ensure that inventory is not ordered in excess of need.

Views of responsible officials and planned corrective action: See response within management's corrective action plan.

Section III – Federal Award Findings and Questioned Costs

None reported.



FY2016-17 SINGLE AUDIT CORRECTIVE ACTION PLAN

Finding 2017-001 Accounting for Accrued Accounts Receivable and Advances for Construction

Management response:

We agree with this finding.

Issues stemming from our system conversion in 2013 and subsequent staff turnover have created challenges in reconciling projects and producing final billings for older projects. During FY17 we made noteworthy progress in this area, but acknowledge that even more emphasis must be given to it in FY18. We will be placing additional resources on this task to greatly reduce or eliminate the backlog before next fiscal year-end. This will simplify the accrual process, thereby minimizing the risk of error. At year-end, the accrual will also be subject to an additional layer of management review prior to recording the entry in the general ledger. We anticipate significant progress on reconciliation and final billings of older projects by the end of FY18 and to be fully current with billing by the end of FY19.

Responsible staff member(s): Tom Schamber, Controller

Finding 2017-002 Fare Revenue Bank Reconciliation

Management response:

We agree with this finding.

While we do perform some procedures monthly to ensure fare revenue deposits collected by contracted parties are captured, we agree that a full reconciliation should take place on a monthly basis. As part of the FY17 year-end close process, we have already enhanced our procedure document and trained staff on the process. Reconciliations are now being performed monthly. This finding has been fully addressed.

Responsible staff member(s): Tom Schamber, Controller

Finding 2017-003 Capital Assets and Project Management

Management response:

We agree with this finding.

Both management and staff responsible for this area were new in FY17. Considerable effort was made to evaluate each project and discuss with project managers where additional information was needed. We believe that we have learned from the process and have more knowledge of what is required to accurately record capital asset activity in the future. We will compile a list of process improvements and debrief with finance and project staff regarding the necessary communications that must occur during the annual close process. At fiscal year-end, we will convene a meeting with relevant staff to review each project for appropriate accounting treatment. This enhanced communication and review will be fully implemented with the FY18 year-end close process.

Responsible staff member(s): Tom Schamber, Controller

Finding 2017-004 Inventory Management

Management response:

We agree with this finding.

The reserve for obsolescent inventory was recorded late in the year-end process as we worked to define the most appropriate methodology for its calculation. We now have that methodology in place, eliminating any delays in future years. We will consider enhancements to that methodology as we gain historical experience with estimated salvage values through the disposal of these items currently identified as obsolete. Materials management and operations staff will collaborate to identify opportunities to minimize inventory so that obsolescence does not continue to be a material factor. We will incorporate a more timely reserve adjustment for the FY18 year-end close process.

Responsible staff member(s): Tom Schamber, Controller



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

I. Finding 2016-001 Annual Financial Reporting

Recommendation:

- Establish well-designed and efficient annual and month-end closing process that entail timely preparation and review of monthly reconciliations between general ledgers to sub-ledgers for all significant accounts. Establish well-documented roles and responsibilities.
- Formally documenting current policies for the opening and creation of new projects.
- Take advantage of financial reporting components of the financial system.
- Outline revenue recognition policies related to member subsidies.

Corrective Action Plan:

- 1) Revise annual and month-end close schedules to include a very detailed timeline for task completion as well as clearly defined roles and responsibilities of the varied staff involved.

Completed – A year-end close calendar was developed and presented to Moss Adams for review on April 30, 2017. This calendar was used for the FY17 close.

- 2) Develop standard operating procedures to complement each task identified to help with cross training of staff and staff transitions.

In progress – Standard operating procedure development is ongoing as various tasks are performed and documented. Cross training has occurred in a number of payroll and general accounting tasks.

- 3) Develop standard operating procedures for setting up new projects.

Completed – Project setups are now being routed through all Finance managers for approval prior to initiating ensuring appropriate configuration.

- 4) Evaluate utilization of the financial accounting system to its fullest capacity cooperatively between Finance and IT staff. Develop and implement a work plan.

In progress – Training and collaboration with IT relating to enhanced use of Financial Information System is ongoing in areas such as Accounts Payable, Capital Assets and Inventory. Significant progress was made in FY17. We will continue to seek areas for increased optimization on a going forward basis.

- 5) Outline revenue recognition policies as relates to member subsidies.

Completed – We have met internally to review our process for revenue recognition. We have agreed to present this concept, in written format, to Member Agencies annually as part of the Budget Development Workshop.

II. Finding 2016-002 Capital Assets and Project Management

Recommendation:

- Evaluate the use of the capital asset module to track activity.
- Timely review of newly constructed capital assets as either depreciable or non-depreciable
- All departments continue to receive training on the policies & procedures surrounding capital assets.
- Revise its capitalization policies on the capitalization of interest and overhead and indirect costs.

Corrective Action Plan:

- 1) Develop policies and standard operating procedures to address capital asset classification criteria, useful life designations, treatment of capitalized interest, treatment of overhead and indirect costs, and asset addition and disposal procedures.

Complete – Existing policies have been reviewed and are generally deemed adequate in reflecting accounting standards and best practices. Standard operating procedures presently in use are being drafted to ensure compliance. Capital Asset module of Oracle has been fully implemented.

- 2) Train all authority staff on these related policies and procedures to ensure compliance.

Completed – Training of staff has occurred.

- 3) Schedule a training with IT staff to gain a deeper understanding of the fixed asset module within the Financial Information System.

Completed – Training of Finance staff responsible for capital asset accounting on the asset module in Financial Information System has been conducted. Continuing consultations as best practices are identified and implemented.

- 4) Evaluate the PTC system to determine correct treatment for capitalization and depreciation purposes.

In progress – Due to delays awaiting completed analysis of distinct components of PTC by consultants, evaluation of the PTC system is expected occur by the end of FY18.

III. Finding 2016-003 Reconciliation and Valuation of Inventory

Recommendation:

- Prioritize the evaluation of obsolete inventory items and develop a well-defined methodology for reserve calculation.
- Perform final reconciliation to agree with total disbursements on inventory acquisitions to total costs per AssetWorks.

Corrective Action Plan

- 1) Develop policies and standard operating procedures to address the identification and valuation of obsolete or over-valued inventory.

Completed – We have established policies and procedures to identify existing obsolete inventory and to optimize inventory management going forward to minimize future obsolescence.

- 2) Schedule a training with IT staff to gain a deeper understanding of the unintegrated inventory system to enable Finance to better monitor the activity processed through that software.

In progress – Understanding the inventory life cycle, and the role of the Financial Information System and AssetWorks system in that cycle, are occurring concurrently with task assignments of the cross functional work group.

IV. Finding 2016-004 Claims and Judgments Valuation

Recommendation

- Establish a policy that follows GAAP for estimating contingent liability and risk exposure. Perform periodic reconciliation to monitor claims and judgment activity.

Corrective Action Plan:

- 1) Develop policies and standard operating procedures to guide Legal staff in preparing claims estimates according to GAAP.

Completed – Finance and Legal have met to discuss the GAAP requirements regarding claims and judgments valuations to ensure compliance for FY17 estimates. A template has been developed and implemented for tracking actual versus estimated claims expenses which will be used to gauge estimation precision.

- 2) Track payments on claims related to existing reserves to aid in evaluation of the reasonableness of ongoing and future estimates.

Completed – We have included an analysis of the use of existing reserves as part of the FY17 year-end process.

V. Finding 2016-005 Equipment Management

Recommendation

- Evaluate methods to include all required information for tracking in accordance with applicable award regulations.

Corrective Action Plan:

- 1) Develop policies and procedures to address asset addition and disposal procedures and to ensure complete and timely communication of capital asset activity.

In progress – Existing policies maintained by Finance and Procurement are being evaluated for needed revisions. Some standard operating procedures have been developed regarding vehicles. Disposal forms will be modified to ensure sufficient information and appropriate approvals/notifications are obtained upon disposal.

- 2) Training with IT staff to gain a deeper understanding of the fixed asset module within the financial accounting system.

Completed – Training of Finance staff responsible for capital asset accounting on the asset module in Financial Information System has been conducted. Continuing consultations as best practices are being identified and implemented.