

AGENDA ITEM 1H  
Consent Item

**MEMORANDUM**

**DATE:** December 2, 2021

**TO:** El Dorado County Transit Authority

**FROM:** Julie Petersen, Finance Manager

**SUBJECT:** Receive and File Fiscal Year 2020/21 Independent Financial Audit, Single Audit and Compliance Reports

**REQUESTED ACTION:**

**BY MOTION,**

**Receive and File Independent Financial Audit, Single Audit and Compliance Reports for Fiscal Year 2020/21 for the El Dorado County Transit Authority**

**BACKGROUND**

The El Dorado County Transportation Commission (EDCTC) is responsible to ensure that the El Dorado County Transit Authority (El Dorado Transit), as a Transportation Development Act (TDA) claimant, annually submits an independent financial audit per Public Utilities Commission Code 99245. The fiscal and compliance audits are performed in accordance with Generally Accepted Accounting Principles by a certified public accounting firm and include a determination of compliance with TDA rules and regulations. The El Dorado Transit Fiscal Year (FY) 2020/21 Compliance Audit and Single Audit are included in the EDCTC Overall Work Program.

EDCTC awarded a contract to Richardson & Company to produce compliance audits and reports for all FY 2020/21 TDA claimants including El Dorado Transit.

**DISCUSSION**

Ingrid Shepline of Richardson & Company presented the Financial and Compliance audits to staff and the Ad Hoc Audit Review Committee comprised of Chair Kara Taylor and Vice Chair Lori Parlin on November 22, 2021. Discussion items included the following:

Richardson & Company reports that El Dorado Transit received a clean opinion under the generally accepted auditing standards.

There were three (3) proposed journal entry adjustments made by the auditors including the following:

Two (2) adjustments were made to correct grant revenues that should have been accrued in fiscal year 2019 and adjust receivable and deferred revenue.

**Response:** A grant tracking system will be implemented for future audits.

One (1) adjustment to State of Good Repair (SGR) to recognize interest earned as miscellaneous income.

**Response:** Adjustment made to true up allocation and interest earned.

Included in the Audited Financial Statements are a Financial Audit and Compliance Reports.

### *FINANCIAL AUDIT*

El Dorado Transit staff is pleased to report that the FY 2020/21 Independent Financial Audit has identified no material weaknesses.

The financial audit is a measure of financial activity and compliance to government code during the given fiscal period. Highlights include net assets of El Dorado Transit exceeding its liabilities by \$15,173,638 with unrestricted net asset of \$1,673,513. It is the opinion of management that the unrestricted net assets indicate a good fiscal condition for El Dorado Transit.

### *COMPLIANCE REPORT*

The audit report states with regard to the laws, regulations and provisions of the TDA, the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA), the California Transit Security Grant Program (CTSGP), and the Low Carbon-Transit Operations Program (LCTOP) applicable to El Dorado Transit, “The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, or the TDA or State grant program requirements.”

### *SINGLE AUDIT*

The Single Audit is a supplementary report of internal control over federal program financial reporting and compliance based on an audit of financial statements performed in accordance with government auditing standards. The primary function of a Single Audit is to review internal controls, purchasing procedures and reporting standards of agencies receiving federal grant funds. The trigger for conducting a Single Audit is an agency receiving over \$750,000 of federal funding in one fiscal year. El Dorado Transit received \$3,485,913 in federal funding during FY 2020/21 including an operating assistance grant from the CARES Act pandemic relief program and two (2) formulaic grants, one (1) formulaic preventative maintenance grant, and three (3) capital assistance grant for rolling stock.

El Dorado Transit is reporting that the FY 2020/21 Independent Single Audit identified no material weaknesses in internal control over compliance. A deficiency was found related to the exclusion of one operating assistance grant on the Schedule of Expenditures of Federal Awards (SEFA) from the 2019 prior period. Additionally, the SEFA had transpositions and inaccurate CFDA grant numbers. Each year El Dorado Transit provides the external auditors a SEFA to assist the auditors in determining if a Single Audit is warranted and which federal programs should be selected. Details of the item are found on page 46 of the Audit.

Following Board acceptance, the full FY 2020/21 Independent Financial Audit Report will be available on El Dorado Transit's website at <https://eldoradotransit.com/board-meeting/december-2-2021> and will be made available for public review upon request at El Dorado Transit's offices during normal business hours.



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## GOVERNANCE LETTER

To the Board of Directors  
El Dorado County Transit Authority  
Diamond Springs, California

We have audited the financial statements of the El Dorado County Transit Authority (the Authority) for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We provided such information in the engagement letter dated March 17, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Our Responsibilities under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and the Uniform Guidance

As stated in our engagement letter dated March 17, 2019, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Uniform Guidance.

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Authority's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the Authority's compliance with those requirements.

### Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involves judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We communicated any internal control related matters that are required to be communicated under professional standards in a separate report.

#### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements include the need for an allowance for uncollectible accounts receivable, grant receivables accrued, depreciable lives used for capital assets, the current portion of the liability for compensated absences, the pension liability and other postemployment benefits liability. The pension and other postemployment benefits liabilities are determined by actuarial valuations. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Two adjustments were made during the audit process to correct for grant revenue that should have been accrued in fiscal year 2019.

#### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 17, 2021.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the required supplementary information (RSI) listed in the table of contents, which are RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Operating Expenses, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Restriction on Use

This information is intended solely for the use of the Authority and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

*Richardson & Company, LLP*

November 17, 2021



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## MANAGEMENT LETTER

To the Board of Directors and Management  
El Dorado County Transit Authority  
Placerville, California

In planning and performing our audit of the financial statements of the El Dorado County Transit Authority (the Authority) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The items below summarize our comments and suggestions regarding those matters. A separate report dated November 17, 2021 contains our communication of significant deficiencies in the Authority's internal control. This letter does not affect our report dated November 17, 2021, on the financial statements of the Authority.

Accrued interest payable: Since the interest payments on the capital lease are paid quarterly, and the last payment before the fiscal year end is made in April, the Authority needs to accrue interest payable from the April payment date to the end of June. Currently, interest is being recorded on the cash basis.

Document Retention: In auditing the preventative maintenance grant, we noted documentation supporting payroll costs charged to the grant, including a summary of the personnel and hours, were not readily available at the time of the audit. The Shop Manager was able to produce internal documents that were maintained for performance review that we were able to use to recalculate the hours and payroll charges. The Shop Manager indicated that these documents are only typically maintained until the employees' annual review has been completed and then disposed. We recommend that procedures be put in place to formalize tracking of hours spent on grant-funded projects and that supporting documentation be maintained for costs allocated to grants at least seven years after the grant is closed out and audits are completed to comply with documentation retention standards or the Authority's retention policy, whichever is longer.

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This communication is intended solely for the information and use of management, the Board of Directors and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Richardson & Company, LLP*

November 17, 2021