



Meeting Date: April 26th, 2023

Agenda Item: D.3

AGENDA SUMMARY REPORT

SUBJECT:

Discussion and Possible Acceptance of Draft Financial Compliance Audit management report for Fiscal Year 2021-2022.

SUMMARY:

As required by the Transit Development Act (TDA) Statutes and California Code of Regulations, PUC 99245, each transportation planning agency, transit board and county transportation commission shall ensure that all claimants to who it directs the allocation of Local Transportation Funds (LTF) shall submit to them an annual certified fiscal audit conducted by an entity other than the claimant.

STAFF RECOMMENDATION:

Accept the 2021 – 2022 Draft Management Report

ATTACHMENTS:

Draft Management Report

DRAFT

3/29/2023

To be used only for management discussion purposes; engagement is incomplete; this draft is subject to final review and possible revision. ****Report/Letter date is TENTATIVE-TBD****

**MENDOCINO TRANSIT AUTHORITY
BOARD OF DIRECTORS & MANAGEMENT REPORT**

JUNE 30, 2022

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DRAFT

To the Board of Directors
Mendocino Transit Authority
Ukiah, California

In planning and performing our audit of the basic financial statements of Mendocino Transit Authority for the fiscal year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of Mendocino Transit Authority's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's basic financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist Mendocino Transit Authority in implementing the recommendations.

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

We thank Mendocino Transit Authority's staff for its cooperation during our audit.

O'Connor & Company

San Rafael, California
March 28, 2023

To the Board of Directors
Mendocino Transit Authority
Ukiah, California

We have audited the basic financial statements of Mendocino Transit Authority for the year ended June 30, 2022. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 12, 2022, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Mendocino Transit Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mendocino Transit Authority are described in Note 2 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 Mendocino Transit Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the basic 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The most sensitive estimates affecting the basic financial statements were:

- Capital asset lives and depreciation expense.
- Accrual and disclosure of compensated absences.
- Actuarial assumptions for pension.
- Fair value of investments and financial instruments.

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 (Audit Adjustments)

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were 3 audit adjustments. Management has corrected all such adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the basic financial statements or the auditors’ report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter received on March 28, 2023.

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 Mendocino Transit Authority’s basic 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 Mendocino Transit 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 Management’s Discussion and Analysis, which is required supplementary information (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.

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

Mendocino Transit Authority
MANAGEMENT REPORT
For the Year Ended June 30, 2022

Current Year Observations

1. Lease Capitalization Policy

Observation:

Mendocino Transit Authority (the Authority) implemented Governmental Accounting Standards Board Statement No. 87, *Leases*, which became effective for the year ended June 30, 2022, and had immaterial effects on the financial statements. This new standard requires leases to be capitalized as intangible assets. In compliance with the new accounting statement the Authority should consider formalizing a capitalization policy for leases similar to their capitalization policy for capital assets.

The Authority has not raised their capitalization policy for capital assets in many years.

Recommendation:

We recommend the Authority consider formalizing a capitalization policy for leases liabilities and right to use assets over \$35,000. The Authority should also consider increasing the capitalization policy for capital assets to \$10,000.

Prior Year Observations

1) Annual Losses and Fare Box Ratio

Observation:

During the course of the audit, we noted the Authority has been reporting losses for the last three years. The increase in the Authority's costs can result in non-compliance with the Transportation Development Act's Fare Box Ratio regulations.

Recommendation:

We recommended the Authority develop a written plan to reduce costs and future losses. This should include ongoing monthly monitoring of expenses to ensure they do not exceed annual revenues. Fare Box ratio compliance should also be monitored quarterly. Fare Box compliance relief measures have been temporarily put in place in response to the pandemic crisis.

Status:

This recommendation is in the process of being implemented.