



Meeting Date: June 28, 2023

Agenda Item: #C.4

## AGENDA SUMMARY REPORT

Discussion and Possible Acceptance of Draft Fiscal & Compliance Audit/Single Audit for Fiscal Year 2023-2024.

### **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.

2 CFR Part 200 Subpart F. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

### **STAFF RECOMMENDATION:**

Accept the Draft Fiscal Year 2023-2024 Annual Fiscal and Compliance Audits.

### **ATTACHMENTS:**

Mendocino Transit Authority Single Audit Report June 30, 2022.

**DRAFT**

**6/13/2023**

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**

**UKIAH, CALIFORNIA**

**SINGLE AUDIT REPORT**

**JUNE 30, 2022**

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3-5
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8
Status of Prior Year Findings and Recommendations	9

DRAFT

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

Board of Directors  
Mendocino Transit Authority  
Ukiah, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the major fund, of Mendocino Transit Authority, which comprise the statement of net position as of June 30, 2022, and the related statement of activities for the year then ended, and the related notes to the financial statements, which collectively comprise Mendocino Transit Authority's basic financial statements, and have issued our report thereon dated March 28, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mendocino Transit 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mendocino Transit Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Mendocino Transit Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mendocino Transit Authority'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 financial statements. 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*.

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 Mendocino Transit Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mendocino Transit Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor & Company

San Rafael, California  
March 28, 2023

DRAFT

INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE AND REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Mendocino Transit Authority  
Ukiah, California

Report on Compliance for Each Major Federal Program

We have audited Mendocino Transit Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mendocino Transit Authority's major federal programs for the year ended June 30, 2022. Mendocino Transit Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Opinion on Each Major Federal Program

In our opinion, Mendocino Transit Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Mendocino Transit Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Mendocino Transit Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Mendocino Transit Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Mendocino Transit Authority's compliance based on our audit.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Mendocino Transit Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Mendocino Transit Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Mendocino Transit Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Mendocino Transit Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the business-type activities and the major fund of the Mendocino Transit Authority as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Mendocino Transit Authority's basic financial statements. We issued our report thereon dated March 28, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

O'Connor & Company

San Rafael, California

XX/XX/XX (Except for our report on the Schedule of Expenditures of Federal Awards, for which the date is March 28, 2023)

DRAFT



Mendocino Transit Authority  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2022

Federal Financial Assistance	Federal Assistance Listing Number	Grantor/ Pass-Through Entity Grant Number	Expenditures
<b>U.S. Department of Transportation:</b>			
<b>Pass-through Program From:</b>			
California State Department of Transportation:			
Division of Rail and Mass Transportation			
* Operating Assistance-5311	20.509	2660-102-0890(2)	\$ 552,134
* Operating Assistance-5311 (f)	20.509	2660-102-0890(2)	206,741
* Operating Assistance Cares Act Phase 2 - 5311	20.509	2660-102-0890(2)	<u>16,846</u>
Subtotal			<u>775,721</u>
Enhanced Mobility of Seniors - 5310 Transit Services Program Cluster	20.513	2660-102-0890(2)	<u>36,458</u>
Total U.S. Department of Transportation Pass through Programs			<u>812,179</u>
Total Expenditures of Federal Awards			<u>\$ 812,179</u>

\* Major Program

Mendocino Transit Authority  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of Mendocino Transit Authority under programs of the federal government for the year ended June 30, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of Mendocino Transit Authority, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of Mendocino Transit Authority.

NOTE 2 - BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in the notes to the Mendocino Transit Authority's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

NOTE 4 - FEDERAL ASSISTANCE LISTING NUMBERS (FALN)

The FALN number included in the accompanying SEFA was determined based on the program name, review of the award contract, and the Office of Management and Budget's Catalog of Federal Assistance Listings.

NOTE 5 - INDIRECT COSTS

Mendocino Transit Authority elected not to use the 10% de minimis cost rate as covered in the Uniform Guidance Part 200.414 Indirect (F&A) Costs.

NOTE 6 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The amounts reported in the accompanying SEFA agree or can be reconciled with amounts reported in the related federal financial assistance reports.

NOTE 7 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The amounts reported in the accompanying SEFA agree or can be reconciled with amounts reported in Mendocino Transit Authority's basic financial statements.

NOTE 8 - PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards are received from a pass-through entity, the SEFA shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, Mendocino Transit Authority determined that no identifying number is assigned for the program or Mendocino Transit Authority was unable to obtain an identifying number from the pass-through entity.

Mendocino Transit Authority  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2022

**Section I – Summary of Auditors’ Results**

1. Type of auditors’ report issued: Unmodified.
2. Internal control over financial reporting:
  - A. Material weakness(es) identified? No
  - B. Significant deficiencies identified that were not considered to be material weakness(es)? None reported.
  - C. Noncompliance material to financial statements noted. No
3. Internal control over major programs:
  - A. Material weakness(es) identified? No
  - B. Significant deficiencies identified that were not considered to be material weakness(es)? None reported.
  - C. Type of auditors’ report issued on compliance for major programs: Unmodified.
  - D. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No
4. Audited as Major Programs:

<u>FALN</u>	<u>Federal Program Name or Cluster</u>	<u>Amount</u>
20.509	Operating Assistance - 5311	\$775,721
5. Dollar threshold used to distinguish between type A and type B programs: \$750,000.
6. Auditee qualified as a low-risk auditee. No

**Section II – Financial Statement Findings**

There were no financial statement findings.

**Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings and questioned costs.

Mendocino Transit Authority  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2022

Recommendation

Status/Explanation

There were no prior year findings or recommendations.

DRAFT