

**SAN LUIS OBISPO REGIONAL
TRANSIT AUTHORITY**

SINGLE AUDIT REPORT
For the Fiscal Year Ended
June 30, 2014

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY

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**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
San Luis Obispo Regional Transit Authority
San Luis Obispo, 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 basic financial statements of San Luis Obispo Regional Transit Authority (the Authority), as of and for the fiscal year ended June 30, 2014, and the related notes to the basic financial statements, and have issued our report thereon dated October 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 may exist that have not been identified. We did identify certain deficiencies in internal control, Finding 2014-1, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Luis Obispo Regional 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 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*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

Moss, Reny & Hartgeim LLP

Santa Maria, California
October 6, 2014

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Fiscal Year Ending June 30, 2014

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog Number	Pass-Through Entity Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
FTA Section 5307 - Operating Assistance	20.507	CA-90-Y837-00	\$ 1,780
FTA Section 5307 - Operating Assistance	20.507	CA-90-Z169-00	675,029
FTA Section 5307 - Operating Assistance	20.507	CA-90-Z169-00	220,349
FTA Section 5307 - Operating Assistance	20.507	CA-90-Z169-00	488,459
FTA Section 5307 - Capital Assistance Support Vehicles	20.507	CA-90-Z075-00	50,000
FTA Section 5307 - Capital Assistance Bus Purchase	20.507	CA-90-Z075-00	400,000
Total cluster FTA Section 5307			<u>1,835,617</u>
FTA Section 5309 - Capital Assistance	20.500	CA-04-0223-01	3,344
FTA Section 5309 - Capital Assistance	20.500	CA-04-0223-01	1,450,663
Total cluster FTA Section 5309			<u>1,454,007</u>
Passed-Through State of California Department of Transportation:			
FTA Section 5311 - Operating Assistance	20.509	CSA - 642186	519,830
FTA Section 5316 - Operating Assistance	20.516	CSA - 642622	250,000
Total expenditures of federal awards			<u>\$ 4,059,454</u>

The note to the schedule of expenditures of federal awards is an integral part of this statement.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the San Luis Obispo Regional Transit Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Directors
San Luis Obispo Regional Transit Authority
San Luis Obispo, California

Report on Compliance for Each Major Federal Program

We have audited San Luis Obispo Regional Transit Authority's (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 each of the Authority's major federal programs for the fiscal year ended June 30, 2014. The Authority's major federal programs are 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 each of the Authority's major federal programs 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 the Authority'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 each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, San Luis Obispo Regional 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 fiscal year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of San Luis Obispo Regional Transit Authority 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 the Authority'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 the Authority'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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditure of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the San Luis Obispo Regional Transit Authority, as of and for the fiscal year ended June 30, 2014, and the related notes to the basic financial statements. We issued our report thereon October 6, 2014, which contained an unmodified opinion on those financials statements. Our audit was conducted for the purpose of forming an opinion 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 OMB Circular A-133 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 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.

Moss, Remy & Haulghain LLP

Santa Maria, California
October 6, 2014

FINDINGS AND RECOMMENDATIONS

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued Unqualified

Internal control over financial reporting:
 Material weaknesses identified? _____ Yes X No

Significant deficiencies identified not considered
 to be material weaknesses? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weaknesses identified? _____ Yes X No

Significant deficiencies identified not considered
 to be material weaknesses? _____ Yes X None reported

Type of auditors’ report issued on compliance for major
 programs: Unqualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>20.500, 20.507</u>	<u>Federal Transit Cluster</u>

Dollar threshold used to distinguish between Type A
 and Type B programs: \$ 300,000

Auditee qualify as low-risk auditee: X Yes _____ No

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2014

FINDING 2014-1
Employee Reimbursements and Credit Cards

Criteria:

Proper controls need to be in place and followed in order to decrease the risk of potential misappropriation of assets.

Condition:

During our examination of the use of employee reimbursements and credit cards, we noted that 2 of 20 transactions tested lacked an itemized receipt for a meal purchased at a restaurant.

Cause:

Agency oversight.

Effect:

A lack of proper control procedures could result in a misappropriation of assets.

Recommendation:

The Agency should ensure that itemized receipts are retained in order to validate the proper use of Agency funds for employee reimbursements and credit cards. The supporting documentation also needs to state the business purpose of the expense.

Authority's Corrective Action Plan:

The Authority has provided direction to staff that all meals purchased must include an itemized receipt upon submittal for reimbursement. If an itemized receipt is not available, a signed memorandum to the RTA Executive Director must be provided within one week of the transaction detailing the purpose (including who attended), and acknowledgment that all expenses are allowable under RTA policies. This memorandum will be reviewed jointly by the Executive Director and the submitter, and the Executive Director will sign the memorandum and file it with the CFO/Director of Administration.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SUMMARY OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2014

Federal Award Findings:

There were no federal award findings or questioned costs.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SUMMARY OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2014

Financial Statement Findings:

FINDING 2013-1
Employee Timecards

Criteria:

Hourly employee timecards should contain the employee's signature, verifying these are the hours the employee worked as well as a supervisor's signature verifying these hours were worked by the employee.

Condition:

For three of the 25 transactions tested employee timecards did not contain a supervisor's signature or an employee's signature.

Cause:

The Authority did not have controls in place to ensure that Runabout driver timecards are properly approved.

Effect:

Potential misappropriation of funds due to lack of controls over the payment of employees.

Recommendation:

The Authority should improve oversight in payroll areas to ensure that all timecards are signed by both the employee and the supervisor.

Current Status:

Implemented.

FINDING 2013-2
Inventory Count

Criteria:

Inventory sheets must be maintained accurately to provide an accurate inventory valuation.

Condition:

It was noted during our inventory test counts that 2 items tested were miscounted. In addition it was difficult for staff to match other items on the inventory list to the items on the shelves.

Cause:

The Authority recently did a re-organization of inventory without updating the inventory listing. This resulted in items not being on the shelves they were supposed to be according to the count sheets.

Effect:

Potential financial statement misrepresentation or misappropriation of the assets due to the inventory counts not being accurate and difficult to verify.

Recommendation:

The Authority should improve oversight in inventory controls to ensure that inventory is accurately maintained. The inventory list should be updated any time a re-organization is done so that staff can verify that reported counts are correct.

Current Status:

Implemented.

SAN LUIS OBISPO REGIONAL TRANSIT AUTHORITY
SUMMARY OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2014

Federal Award Findings:

There were no prior fiscal year federal award findings or questioned costs.