



JANUARY 29, 2009

AGENDA ITEM # 9

RESULTS OF INDEPENDENT AUDIT FOR FY 2007-08

Action Requested: Receive and file

Key Staff: Mona Stephens, Senior Transportation Administrator

Recommendation

Receive and file the attached audit reports for fiscal year 2007-08 and direct staff to ensure correction of findings.

Discussion

In September 2008 the audits of the STA, SAVSA and their recipient entities for the fiscal year ended June 30, 2008 began. The results of that audit are presented today.

Unfortunately, again there were more findings this year than usual. There were SAVSA findings for the County of Sacramento and City of Sacramento. There were also Measure A findings for the Cities of Elk Grove, Sacramento, and Citrus Heights. Some findings from last year also were not corrected. There were no findings for the other entities or for the STA administration.

There are three reports attached. The first report basically tells you what the auditors did. The second report discusses internal controls of the STA. The third report lists the findings from the agreed upon procedures performed on the Measure A and SAVSA jurisdictions. In addition, there is a list of planned follow ups by STA staff.

Attachment(s)

**SACRAMENTO TRANSPORTATION AUTHORITY
AUDIT FINDINGS
AUDIT OF FISCAL YEAR ENDED JUNE 30, 2009**

City of Elk Grove Measure A

FINDING - The New Measure A Status Report provided by the City of Elk Grove to the Agency for the year ended June 30, 2008 over-reported expenditures by \$37,205.24 for the Sheldon Road/SR 99 Project because of expenditures being reported twice. Elk Grove detected this error after the claim was submitted. However, Elk Grove incurred more expenditures on this project that was funded by Measure A, so this discrepancy does not result in an overpayment. Elk Grove has adjusted its claim for 2008/09 by the over-reported amounts.

In addition on Elk Grove's Measure A Status Report, the amounts being reported as expenditures appear to represent the amounts claimed rather than the actual amount of expenditures incurred by Elk Grove.

FOLLOW UP – Elk Grove has corrected these errors and is working to ensure they don't occur again.

City of Sacramento Measure A

FINDING - Sacramento has included in the street maintenance expenditures on its Status Report \$890,468.83 associated with widening Del Paso Road. This project is not the proper use of maintenance funds, which are to be used for items such as pavement maintenance, curb, gutter and sidewalk repair, etc. In addition, the Del Paso Road widening project is not listed in the expenditure plan as an approved use of Measure A funds.

FOLLOW UP – Sacramento staff provided an explanation on the Del Paso Road project that appeared to be acceptable. The issue appears to be one of co-mingling a capital project with a maintenance project rather than an inappropriate use of funds. A letter from Sacramento explaining this issue is attached.

County of Sacramento Abandoned Vehicle

FINDING - The County had a few issues of missing timesheets, incorrect labor rates, and tow number discrepancies. While none of these issues were determined to be material, they do highlight some weaknesses in the County's overall control structure.

FOLLOW UP – These issues have been brought to the County's attention. We have asked the County to follow up in a letter discussing how these controls will be improved.

City of Sacramento Abandoned Vehicle

FINDING - Sacramento had a few issues of incorrect labor charges, and tow number discrepancies. While none of these issues were determined to be material, they do highlight some weaknesses in Sacramento's overall control structure.

FOLLOW UP – These issues have been brought to Sacramento's attention. We have asked that Sacramento follow up in a letter discussing how these controls will be improved.

FOLLOW UP ON PRIOR FINDINGS

City of Elk Grove Measure A: For the City of Elk Grove Measure A, the auditors noted the Status Report provided by Elk Grove for the year ended June 30, 2007 reported expenditures of \$3,274,196 for roadway maintenance. However, Elk Grove's general ledger reported \$2,423,087 in expenditures for the Maintenance Fund. Consequently, there was a difference between the Status Report and the accounting record of \$851,109. Elk Grove was unable to explain some of the amounts that were reported in a combined report for the 1st and 2nd Quarters, due to the person preparing this report no longer being employed by the City. The effect of this error was to over-report expenditures by \$851,109 on the Status Report and to exceed the fiscal year 2006/07 "Adjusted Budget" for roadway maintenance by \$363,774.

Current Status: The errors were not corrected in the 2007-08 year. Elk Grove staff has been instructed to revise its Status Report during fiscal year 2008/09 to correct for this discrepancy.

City of Sacramento Measure A: For the City of Sacramento Measure A, it was noted the Status Report provided by Sacramento for the year ended June 30, 2007 reported current year expenditures of \$1,966,369 for road reconstruction. However, Sacramento's general ledger reported \$2,017,478 in expenditures, after adjusting for an accrual of \$43,207. Consequently, there was a difference between the Status Report and the accounting record of \$51,109. This error has no effect on the amount of Measure A funds received, but results in the under-reporting of expenditures by \$51,109 on the Status Report.

In addition, Sacramento's Measure A Status Report for the year ended June 30, 2007 reported current year expenditures of \$10,065,186 for roadway maintenance. However, Sacramento's general ledger reported \$9,219,872 in expenditures. Consequently, there was a difference between the Status Report and the accounting record of \$845,314. The accountant position responsible for the reporting of Measure A funded projects was vacant in excess of six months during this past fiscal year and staff person who undertook reporting of Measure A expenditures mistakenly ran general ledger reports that included payments received from the Authority and reported these as expenditures. The \$10,065,186 reported as "expended" is exactly equal to Sacramento's fiscal year 2006/07 allocation for roadway maintenance. The effect of this error was to over-report expenditures by \$845,314 on the Status Report.

Current Status: In response to last year's findings, Sacramento staff committed to correcting this issue. In a letter dated 1/12/09, Sacramento staff admitted that it did not make the promised corrections, but states that they are still committed to resolving the issue.

City of Citrus Heights Measure A: For the City of Citrus Heights Measure A, it was noted the Status Report provided by Citrus Heights reported \$488,361 of expenditures related to pedestrian safety. However, in reviewing the expenditures coded to this project, it was noted that most of the expenditures relate to their annual asphalt overlay project, which appears more appropriately classified as road maintenance. While this classification issue did not affect the amount of Measure A Citrus Heights received, it did affect the reporting on the Status Report.

Current Status: During the June 30, 2008 examination, no discrepancies were noted between the Status Report provided by Citrus Heights.

County of Sacramento Abandoned Vehicle: For the County of Sacramento Abandoned Vehicle Program, the auditors selected a sample of 10 employees for the second quarter of fiscal year 2006/07 and noted one instance where a time was incorrectly coded to the SAVSA program. The auditors expanded the test to include four additional employees and noted that four hours related to the SAVSA program for one employee were incorrectly charged to another

program. While these discrepancies net to an immaterial amount, the County should ensure that controls are in place to detect errors in the coding of time.

In addition, it was noted that the County did not have a procedure in place whereby the invoices from the tow company are reconciled to the tows entered into the County system. The auditors recommend such a procedure be established to ensure the accuracy of the information provided to the Authority.

Current Status: During the June 30, 2008 examination, no similar errors in the coding of salary costs were noted. However, the County still does not have a procedure in place whereby the invoices from the tow company are reconciled to the tows entered into the County system.

Richardson & Company

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Board of Directors
Sacramento Transportation Authority
Sacramento, California

We have audited the financial statements of Sacramento Transportation Authority (the Authority) for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. 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 contract dated June 6, 2008, our responsibility, as described by professional standards, is to express an opinion 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.

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our contract dated June 6, 2008.

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. The following new accounting policies were adopted:

- Governmental Accounting Standards Board (GASB) Statement No. 48 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" related to sales tax revenues pledged for repayment of debt.
- GASB Statement No. 50, "Pension Disclosures" related to the PERS retirement plan.

The application of existing policies was not changed during 2008. We noted no transactions entered into by the 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.

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. The following misstatements detected as a result of audit procedures were corrected by management: adjusted accrued interest receivable to the correct amount and adjusted the abandoned vehicle fund expense to equal the amounts allocated.

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 financial statements or the auditor's 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 dated November 24, 2008.

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.

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

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To the Board of Directors
Sacramento Transportation Authority
Sacramento, California

In planning and performing our audit of the financial statements of the Sacramento Transportation Authority (the Authority) as of and for the year ended June 30, 2008, 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 our auditing procedures 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 Agency'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 organization'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 Authority's financial statements that is more than inconsequential will not be prevented or detected by the organization'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 financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we did note the following matter that has been presented below for your consideration. We recommend that the Authority develop a checklist or procedural memo to document the process involved in preparing the Comprehensive Annual Financial Reporting, including the sources of the information that is used. Any other reporting requirements, such as the filing of the Report of Abandoned Vehicles Abatements, should also be included in this memo.

To the Board of Directors
Sacramento Transportation Authority
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We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the audit. This report is intended solely for the information and use of the Board, of Directors, management, and others within the organization and does not affect our report dated November 24, 2008, on the financial statements of the Sacramento Transportation Authority.

Richardson & Company

November 24, 2008

Richardson & Company

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Sacramento, California 95825

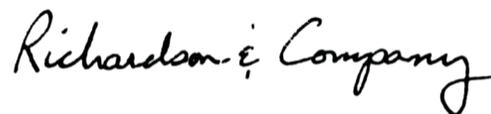
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Board of Directors
Sacramento Transportation Authority
Sacramento, California

We have performed the procedures described in Attachment I, as of June 30, 2008 and for the year then ended, which were agreed to by the Sacramento Transportation Authority (Authority), solely to assist you (1) with respect to the monitoring of recipient compliance with applicable Transportation Expenditure Agreements for Measure A funds between the Authority and the respective recipient entity as it relates to the Entity Allocation; and (2) with respect to the monitoring of applicable recipient compliance with the Abandoned Vehicle Abatement Handbook issued by the California Highway Patrol as it relates to the Sacramento Abandoned Vehicle Service Authority (SAVSA). This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on any of the Measure A or SAVSA recipient entities. Accordingly, we do not express such an opinion on the recipient entities compliance, specified elements, accounts or items. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Authority and is not intended to be and should not be used by anyone other than the Sacramento Transportation Authority.



December 5, 2008

ATTACHMENT I

PROCEDURES PREFORMED

At your request, we have performed certain procedures as of June 30, 2008 and for the year then ended with respect to recipient compliance with the applicable Transportation Expenditure Agreement between the Authority and the respective recipient entities. Such procedures performed were as follows:

1. We read the recipient's accounting system narrative as it specifically relates to the accounting for, and control over, Measure A receipts and expenditures.
2. We read the recipient's indirect cost allocation methodology, if any.
3. We read the recipient's methodology for allocating and recording interest related to Measure A receipts and recomputed reported interest income for one quarter for the year ended June 30, 2008 based on the amount set forth in the supporting schedules provided by the recipient entities, if interest was allocated to Measure A funds.
4. You selected certain projects from the Measure A Expenditure Plan Combined Status Report for the fiscal year ended June 30, 2008 as follows:

County of Sacramento: Landscape/Streetscape Improvements, Watt Avenue Streetscape/Landscape, Folsom Blvd – Sunrise to Aerojet, Maintenance, Elderly/Disabled Projects

Sacramento Regional Transit District: Operating Support, South Rail Line-Operations, Bus/Maint/Trans Facility #2

City of Sacramento: Maintenance, Handicapped, Focus Area Contingency, Signal Upgrade

City of Citrus Heights: Maintenance, Greenback Lane-Auburn to Dewey, Antelope Road-Roseville to Tupelo

City of Elk Grove: Maintenance, Pavement Maintenance, Grantline Interchange, Sheldon Interchange.

City of Rancho Cordova: Maintenance, Traffic Signal, Maintenance

Sacramento Municipal Air Quality Management District: Mobile Source Control Implementation

City of Folsom: Folsom Bridge

For the projects selected above, we performed the following:

- a. Obtained the Expenditure Status Report for fiscal year ended June 30, 2008.
- b. From the detail of total project costs provided by the recipient entities, we haphazardly selected all or 10, whichever is less, expenditures for the fiscal year ended June 30, 2008 and agreed amounts to supporting documentation noting if the expenditure was consistent with the project descriptions in the Expenditure Plan, on the new Measure A agreement, as applicable.
- c. We agreed the amounts in the Measure A Expenditure Plan Combined Status Report provided by the Authority for the fiscal year ended June 30, 2008 to the expenditure detail for the fiscal year ended June 30, 2008 provided by the recipient for the selected projects.

Further, we have performed certain procedures as of June 30, 2008 and for the year then ended with respect to the applicable recipient's compliance with the Abandoned Vehicle Abatement Handbook (Handbook) as it relates to the Sacramento Abandoned Vehicle Service Authority (SAVSA) recipient entities. Such procedures were as follows:

1. We read the recipient's accounting system narrative as it specifically relates to the accounting for, and control over, abatement receipts and expenditures.
2. We read the recipient's indirect cost allocation methodology, if any.
3. We read the recipient's methodology for allocating and recording interest related to Pre-92 receipts and recomputed reported interest income for the year ended June 30, 2008 based on the amount set forth in the supporting schedules provided by the recipient entities.
4. For the fiscal year ended June 30, 2008, you selected the following recipient entities for verification of abandoned vehicle abatement expenditures:

City of Sacramento
County of Sacramento

For the programs selected in the step above, we performed the following:

- a. Obtained the Expenditure Status Report for the fiscal year ended June 30, 2008.
- b. From the detail of total project costs provided by the recipient entities, we haphazardly selected all or 10, whichever is less, expenditures for the fiscal year ended June 30, 2008 and agreed amounts to supporting documentation noting if the expenditure was consistent with the allowable expenditures stated in the Handbook.
- c. We agreed the amounts in the SAVSA Quarterly Status Report - All Entities provided by the Authority for the fiscal year ended June 30, 2008 to the amounts in the Quarterly Status report for the quarter ended June 30, 2008 provided by the recipient.

In connection with the procedures performed, the following items came to our attention:

Current Year Findings

City of Elk Grove Measure A: The New Measure A Status Report provided by the City of Elk Grove to the Agency for the year ended June 30, 2008 over-reported expenditures by \$37,205.24 for the Sheldon Road/SR 99 Project because of expenditures being reported twice. The City detected this error after the claim was submitted. However, the City incurred more expenditures on this project that was funded by Measure A, so this discrepancy does not result in an overpayment. The City has adjusted their claim for 2008/09 by the over-reported amounts. We recommend that the City ensure that controls are in place to detect duplicate entries.

In addition, we noted that on the City's Status Report submitted to the Authority, the amounts being reported as expenditures appear to represent the amounts claimed rather than the actual amount of expenditures incurred by the City. We recommend that the City work with the Authority to revise the amounts that have been included on the Status Reports.

City of Sacramento Measure A: The City has included in the street maintenance expenditures on its Status Report \$890,468.83 associated with widening Del Paso Road. This project is not the proper use of maintenance funds, which are to be used for items such as pavement maintenance, curb, gutter and sidewalk repair, etc. In addition, we noted that the Del Paso Road widening project is not listed in the expenditure plan as an approved use of Measure A funds. We recommend that the City work with the

Authority to resolve this issue. The Status Report will need to be revised to reflect the proper amount of street maintenance expenditures.

City of Sacramento Abandoned Vehicle: The Daily Vehicle Activity Sheet prepared by the City to accumulate the count of towed vehicles was incorrectly totaled, resulting in an overstatement of one tow reported to the Authority. The City should ensure that procedures are in place for accurately reporting the tow information.

In addition, we noted that the personnel expenditures reported on the Status Report were overstated by \$298.41 because 16 hours that were charged to a grant project were reported as expenditures related to the Abandoned Vehicle program. This error does not affect the amount of Abandoned Vehicle funds the City receives because actual expenditures are higher than the reimbursements received from the Authority.

City of Citrus Heights Measure A: The Status Report of the City of Citrus Heights for the quarter ended June 30, 2008 reported current year expenditures for maintenance project years 04/05, 05/06, and 06/07 for amounts of \$143,923, \$190,667, and \$1,613,417, respectively. However, we determined these were prior year expenditures that had not been moved to the prior expended column. The City has revised their status report to remove these amounts.

County of Sacramento Abandoned Vehicle: We selected a sample of 10 employees for the third quarter of fiscal year 2007/08 and noted two instances where time sheets could not be found for one employee. Also, one labor rate was not supported by the labor rates report from their system. A variance of \$5.83 an hour was noted between the \$105.57 on the labor rate schedule and \$111.40 reported to the Authority, causing an overstatement of personnel costs by \$396.44. While this discrepancy results in an immaterial difference, the County should ensure that controls are in place to detect rate-related errors. We also recommend the County maintain complete payroll records.

We also noted a discrepancy in the number of tows of 14 between the tow summary report and the amount submitted on the Status Report. The County determined that this discrepancy was due to a discrepancy in the range of dates that were used in preparing the Status Report. Also, in our review of the third quarter tow listing generated from the database, we found 7 tows that appear to be duplicates and a discrepancy of one tow compared to the count on the Status Report. Furthermore, in our comparison of 10 tows from the County database to the tow company report, we found that one tow was excluded from the tow company report. We noted the County does not have a procedure in place whereby the invoices from the tow company are reconciled to the tows entered into the County system. We recommend such a procedure be established to ensure the accuracy of the information provided to the Authority.

Prior Year Findings

City of Elk Grove Measure A: For the City of Elk Grove Measure A, we noted the Status Report provided by the City to the Authority for the year ended June 30, 2007 reported expenditures of \$3,274,196 for roadway maintenance. However, the City's general ledger reported \$2,423,087 in expenditures for the Maintenance Fund. Consequently, there was a difference between the Status Report and the accounting record of \$851,109. City staff are unable to explain some of the amounts that were reported in a combined report for the 1st and 2nd Quarters, due to the person preparing this report no longer being employed by the City. The effect of this error was to over-report expenditures by \$851,109 on the Status Report and to exceed the fiscal year 2006/07 "Adjusted Budget" for roadway maintenance by \$363,774.

Current Status: The City needs to revise its Status Report during fiscal year 2008/09 to correct for this discrepancy.

City of Sacramento Measure A: For the City of Sacramento Measure A, we noted the Status Report provided by the City to the Agency for the year ended June 30, 2007 reported current year expenditures of \$1,966,369 for road reconstruction. However, the City's general ledger reported \$2,017,478 in expenditures, after adjusting for an accrual of \$43,207. Consequently, there was a difference between the

Status Report and the accounting record of \$51,109. This error has no effect on the amount of Measure A funds received, but results in the under-reporting of expenditures by \$51,109 on the Authority's Status Report.

In addition, the City's Measure A Status Report for the year ended June 30, 2007 reported current year expenditures of \$10,065,186 for roadway maintenance. However, the City's general ledger reported \$9,219,872 in expenditures. Consequently, there was a difference between the Status Report and the accounting record of \$845,314. The accountant position responsible for the reporting of Measure A funded projects was vacant in excess of six months during this past fiscal year and City staff that undertook reporting of Measure A expenditures mistakenly ran general ledger reports that included payments received from the Authority and reported these as expenditures. The \$10,065,186 reported as "expended" is exactly equal to the City's fiscal year 2006/07 allocation for roadway maintenance. The effect of this error was to over-report expenditures by \$845,314 on the Authority's Status Report.

Current Status: The City has not yet revised its Status Report to adjust for these discrepancies. The City needs to revise its 2008/09 Status Report for these changes.

City of Citrus Heights Measure A: For the City of Citrus Heights Measure A, we noted the Status Report provided to the Authority by the City reported \$488,361 of expenditures related to pedestrian safety. However, in reviewing the expenditures coded to this project, we noted that most of the expenditures relate to their annual asphalt overlay project, which appears more appropriately classified as road maintenance. While this classification issue does not affect the amount of Measure A the City receives, it does affect the reporting on the Status Report.

Current Status: During our June 30, 2008 examination, we noted no discrepancies between the Status Report provided by the City to the Authority and the City's expenditures.

County of Sacramento Abandoned Vehicle: For the County of Sacramento Abandoned Vehicle Program, we selected a sample of 10 employees for the second quarter of fiscal year 2006/07 and noted one instance where a time was incorrectly coded to the SAVSA program. We expanded our test to include four additional employees and noted that four hours related to the SAVSA program for one employee were incorrectly charged to another program. While these discrepancies net to an immaterial amount, the County should ensure that controls are in place to detect errors in the coding of time.

In addition, we noted that the County does not have a procedure in place whereby the invoices from the tow company are reconciled to the tows entered into the County system. We recommend such a procedure be established to ensure the accuracy of the information provided to the Authority.

Current Status: During our June 30, 2008 examination, we noted no similar errors in the coding of salary costs. However, the County still does not have a procedure in place whereby the invoices from the tow company are reconciled to the tows entered into the County system.