

S T A F F R E P O R T

SUBJECT: 2015 Audit of LAVTA's Financial Statements
FROM: Beverly Adamo, Director of Administrative Services
DATE: September 22, 2015

Action Requested

This is an information item for review and discussion.

Background

LAVTA has engaged an accountancy firm to audit the financial statements for each previous fiscal year. Part of that process is based on the Statement on Auditing Standards (SAS) No. 114 which requires the auditor to communicate with those charged with governance, including:

- An overview of the planned scope and timing of the audit.
- Representations the auditor is requesting from management.
- Additional guidance on the forms and timing of communication.
- An evaluation of the adequacy of the two-way communication.

Discussion

Maze and Associates is conducting the financial audit for fiscal year ending June 30, 2015. The attached letter and enclosure is provided for the Committee's review and Ms. Vikki Rodriguez of Maze and Associates will be available to discuss this communication with the Committee.

Budget

No budget impact.

Next Steps

Maze and Associates will work with Staff to complete the financial audit and are available to the LAVTA Board of Directors if any questions or concerns arise.

Recommendation

This is an information item for review and discussion.

Attachments:

1. Letter and Enclosure from Maze and Associates Dated September 1, 2015



September 1, 2015

Finance and Administration Committee
Livermore-Amador Valley Transit Authority
1362 Rutan Court, Suite 100
Livermore, CA 94550

Dear Committee Members:

We have been engaged to conduct an audit of the Authority's financial statements for the year June 30, 2015. Audit standards require us to communicate with the Board or other appropriate persons about the audit process. Topics include audit scope, management representations, fraud considerations and audit timing. We have presented an overview of these below:

Audit Scope, Management Representations and Fraud Considerations

Accompanying this letter is an Audit Process Overview attachment. It defines what an audit of the Authority's financial statements is and discusses management representations, internal control, fraud considerations and management responsibilities for data contained in financial statements. It is the standard used when a financial statement audit is to be conducted. This letter and the attachment are clarifications of the audit process contemplated in the contract we have entered into with the Authority pursuant to the Board's approval.

Audit Timing

We have met with staff and agreed to the following schedule:

- May 2015: Interim audit fieldwork completed
- Week of September 14, 2015: Final audit fieldwork is scheduled
- October 2015: Presentation to the Committee
- Prior to the End of December: Issuance of our opinions

Fraud Risk Considerations

Audit standards require us to have discussions with our clients to discuss both the potential for and any occurrences of fraud and the impact on financial statements. "Fraud" is defined as an intentional act that results in a *material misstatement in financial statements* that are subject to audit. In this case, fraud includes two concepts. The first is fraudulent financial reporting, including misapplication of accounting principles, the omission of data or disclosures, fictitious transactions or sham transactions and concealment of relevant data. The second concept is that of misappropriations of assets, including theft, its concealment and conversion to cash.

In accordance with audit standards, we met with management and asked:

- a. Is management aware of known instances of fraud?
- b. Are there areas management believe are “Susceptible to Fraud”
 - i. Areas presumed susceptible to fraud under audit standards:
 - i. Improper revenue recognition
 - ii. Management override of Internal Control

Communicating the Audit Process

We discussed the above topics with staff and wish to do so with you to provide the Committee an opportunity to participate in the audit process prior to its completion.

I look forward to our discussion.

Regards,



Vikki C. Rodriguez, CPA
Shareholder

Enclosure

AUDIT PROCESS OVERVIEW

We are pleased to confirm our understanding of the services we are to provide for the Livermore Amador Valley Transit Authority for the year ended June 30, 2015. The services we have been engaged to provide are outlined below, but we are also available to provide additional services at the Authority's request:

- 1) Audit of the basic financial statements
- 2) Single Audit (if required)
- 3) Transportation Development Act Compliance Report
- 4) Measure B and BB Compliance Reports
- 5) Assistance with the preparation of the Comprehensive Annual Financial Report
- 6) Proposition 1B Compliance Report

Audit Objective

The objective of our audit is to express opinions as to whether your financial statements are fairly presented in all material respects in conformity with generally accepted accounting principles in the United States of America and to provide limited assurance on accompanying supplemental information. Other information accompanying will not be audited by us and we will express no opinion on it. The objective also includes reporting on:

- Internal controls related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal controls related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the Board or their appointed committee, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with generally accepted auditing standards in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provision of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with Circular A-133 and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinion on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with Authority management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

AUDIT PROCESS OVERVIEW

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will prepare a draft of your financial statements, schedule of expenditures of federal awards, and related notes. Staff is responsible for making all management decisions and performing all management functions relating to the financial statements, the schedule of expenditures of federal awards, and related notes and for accepting full responsibility for such decisions. Staff will be required to acknowledge in the management representation letter that staff have reviewed and approved the financial statements, the schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, staff is required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; for the fair presentation in the financial statements of financial position of the Authority's various activities, major funds, and the aggregate remaining fund information and changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for federal award program compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us, including any significant vendor relationships in which the vendor has the responsibility for program compliance and for the accuracy and completeness of that information. We understand that the Authority will provide us with the Closing Checklist information required for our audit and that the Authority is responsible for the accuracy and completeness of that information. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Staff are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud or illegal acts could have a material effect on the financial statements. The Authority is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud or illegal acts affecting it received in communications from employees, former employees, grantors, regulators, or others. In addition, the Authority is responsible for identifying and ensuring that it complies with applicable laws and regulations. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings must be made available for our review.

AUDIT PROCESS OVERVIEW

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the Authority or to acts by management or employees acting on behalf of the Authority. Because the determination of abuse is subjective, *Governmental Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements, immaterial illegal acts, or violations of laws, or governmental regulations that do not have a direct and material effect on the financial statements or major programs. We will advise the Authority of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the Authority of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of physical existence of inventories, and direct confirmation of cash, investments and certain other assets and liabilities by correspondence with selected customers, creditors and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill the Authority for responding to this inquiry. At the conclusion of our audit we will also require certain written representations from management about the financial statements and related matters.

AUDIT PROCESS OVERVIEW

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the Authority 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. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major program. However, our tests will be less in scope than would be necessary to render an opinion on those controls, and accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and the Board internal control related matters that are required to be communicated under professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the Authority has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and the applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each major program. The purpose of those procedures will be to express an opinion on the Authority's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

AUDIT PROCESS OVERVIEW

Audit Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving The Authority's account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of the Authority's information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of the Authority's personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of the Authority's information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of the Authority's confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, staff will be asked to provide their consent prior to the sharing of the Authority's confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

At the conclusion of the engagement, we will complete the appropriate sections and sign the Data Collection Form that summarizes our audit findings. It is Management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on the Authority's website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

The name of the engagement partner is Vikki C. Rodriguez who is responsible for supervising the engagement and signing the report.

Government Auditing Standards require that we provide the Authority with a copy of our most recent quality control review report and letter of comment. Our most recent peer review report, the letter of comment and our responses accompany this letter.