

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
SINGLE AUDIT REPORT
June 30, 2023

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

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INDEPENDENT AUDITOR'S 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
Alameda-Contra Costa Transit District
Oakland, 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 fiduciary activities of Alameda-Contra Costa Transit District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated <>, 2023. Our report includes a reference to other auditors who audited the financial statements of the AC Transit Pension Trust Fund, as described in our report on the District's financial statements. The financial statements of the AC Transit Pension Trust Fund were not audited in accordance with *Government Auditing Standards*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2023-001).

(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

The District's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



San Francisco, California
<>, 2023

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

Board of Directors
Alameda-Contra Costa Transit District
Oakland, California

Report on Compliance for Major Federal Program

Opinion on Major Federal Program

We have audited Alameda-Contra Costa Transit District's (the District's) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the District's major federal program for the year ended June 30, 2023. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion on Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 the 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 the District 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 the major federal program. Our audit does not provide a legal determination of the District'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 the District's federal programs.

(Continued)

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 the District'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 GAAS, *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 for 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 the District's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *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 the District'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 the District'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 the District'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.

(Continued)

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 fiduciary activities of the District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated <>, 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.



San Francisco, California
<>, 2023

DRAFT
ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2023

SR. No. 23-522
Attachment No. 8

<u>Program Description</u>	<u>Assistance Listing Number (ALN)</u>	<u>Grant Number</u>	(Unaudited) <u>Total Program Award</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of Transportation					
Federal Transit Cluster:					
General capital assistance					
Federal transit capital improvement grants					
Capital improvement	20.500	CA-04-0189	\$ 12,099	\$ 554	\$ -
Federal transit formula grants (urbanized area formula program)					
Capital assistance	20.507	CA-90-0303	14,472	185	-
Capital assistance	20.507	CA-90-0370	10,268	6,474	-
Capital assistance	20.507	CA-90-9005	8,471	13	-
Capital assistance	20.507	CA-90-Z058	10,896	124	-
Capital assistance	20.507	CA-90-Z153	50,579	119	-
Capital assistance	20.507	CA-90-Z307	8,568	1,359	-
Capital assistance	20.507	CA-95-9001	2,415	264	-
Capital assistance	20.507	CA-95-Z033	<u>1,254</u>	<u>318</u>	<u>-</u>
Subtotal			<u>106,923</u>	<u>8,856</u>	<u>-</u>
Operating assistance	20.507	CA-90-0370	5,985	5,985	-
COVID-19 – Operating assistance					
- ARPA	20.507	CA-90-4232	116,345	36,764	-
Operating (Federal passthrough)	20.507	CA-95-0088	3,881	344	-
Operating assistance	20.507	CA-95-Z010	<u>3,800</u>	<u>407</u>	<u>-</u>
Subtotal			<u>130,011</u>	<u>43,500</u>	<u>-</u>
Subtotal ALN 20.507			<u>249,033</u>	<u>52,910</u>	<u>-</u>
Public Transportation Research, Technical Assistance, and Training Program					
Program grant	20.525	CA-54-0059	1,500	1	-
Buses and Bus Facilities Infrastructure Investment Program					
Program grant	20.526	CA-34-0205	5,821	2,594	-
Program grant	20.526	CA-34-0210	<u>16,562</u>	<u>15,782</u>	<u>-</u>
Subtotal ALN 20.526			<u>22,383</u>	<u>18,376</u>	<u>-</u>
Total Federal Transit Cluster			<u>272,916</u>	<u>71,287</u>	<u>-</u>
Highway Planning and Construction	20.205	STPLNI 6084	2,300	380	-
Highway Planning and Construction	20.205	CMLNI 6084	<u>900</u>	<u>389</u>	<u>-</u>
Total Highway Planning and Construction Cluster			<u>3,200</u>	<u>769</u>	<u>-</u>
Disaster Grants – Public Assistance					
COVID-19 Operating (FEMA Funds)	90.036	#4482DR-CA	936	936	-
Total Disaster Grants – Public Assistance Cluster			<u>936</u>	<u>936</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 277,052</u>	<u>\$ 72,992</u>	<u>\$ -</u>

See accompanying notes to the schedule of expenditures of federal awards.

NOTE 1 - REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Alameda-Contra Costa Transit District (the District) and its component units as disclosed in the notes to the basic financial statements for the year ended June 30, 2023. The information in this Schedule 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 Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

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. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the District by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the District. The Schedule includes both of these types of Federal award programs when they occur.

DRAFT
 ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Year Ended June 30, 2023

SR. No. 23-522
 Attachment No. 8

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

 X Yes _____ None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be Reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of major programs:

Assistance Listing Number

Name of Federal Program of Cluster

20.500 / 20.507 / 20.525 / 20.526

Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 2,189,765

Auditee qualified as low-risk auditee?

 X Yes _____ No

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2023-001 – Controls over Financial Reporting – Significant Deficiency

Criteria: Management is responsible to have internal controls in place to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without significant deficiencies in these controls.

Condition: During the current year audit, a number of audit adjustments were posted that changed the financial statements of the District by a significant amount.

Context: During our testing of the OPEB and pension plan transactions and balances, we noted that the District did not record deferred outflows of resources for the contributions made to the plans subsequent to the measurement date.

In testing net position, we found that not all of the audit adjustments from fiscal year 2022 had been posted by management.

During our testing of the District's lease activity under GASB Statement No. 87, *Leases*, we noted some minor differences between the amounts that should have been recorded and what actually was recorded.

In our testing of the AC Transit District Financing Corporation, a blended component unit of the District, we identified certain transactions that had not been recorded including adjusting the debt and receivable from the District for a principal payment made by the District during the current year, as well as other debt related transactions.

Lastly, we identified multiple financial statement reclassification adjustments that were necessary to present the District's financial statements accurately as of June 30, 2023.

Effect: Three audit adjustments were waived by management and as a result deferred outflows of resources are understated by approximately \$9.5 million, current liabilities are understated by approximately \$2.6 million, noncurrent liabilities are overstated by approximately \$2.6 million, and operating expenses are overstated by approximately \$9.5 million.

Five audit adjustments were posted by management which resulted in a decrease of noncurrent assets of approximately \$0.4 million, a decrease in capital assets of approximately \$0.3 million, an increase in current liabilities of approximately \$0.8 million, a decrease in noncurrent liabilities of approximately \$1.2 million, a decrease in deferred inflows of resources of approximately \$1.2 million, an increase in net position of approximately \$8.1 million, an increase in non-operating revenues of approximately \$1.5 million, an increase in operating expenses of approximately \$8.5 million, an increase nonoperating expenses of approximately \$0.4 million, and an overall decrease in change in net position of approximately \$7.3 million.

Cause: Management did not implement internal controls at the level of precision necessary to ensure that the transactions were properly recorded.

Repeat Finding: Yes. See Finding 2022-001.

Recommendation: As it relates to the pension and OPEB transactions, we recommend that management carefully review the transactions and the information provided to the actuary to ensure that the appropriate information is provided and the correct adjustments are recorded.

As it relates to any newer accounting standard, we recommend that the District implement a process in which new accounting standards are reviewed and understood by the accounting and finance department, proper information is gathered, the impact is evaluated in advance of the implementation date, the implementation journal entries are made, and then if appropriate, subsequent transactions are also accounted for appropriately under the new standard.

Lastly, throughout the month-end and year-end close out process, we recommend that management implement a process in which the full trial balance and internal financial statements are reviewed by someone independent of the reconciliation process to look for an ensure that all year-end adjustments have been made and that all transactions and reclassifications have been accounted for.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding. All proposed entries are reviewed and approved by a second senior accountant or Manager. We will add a second review by another Senior Manager, the Controller or CFO, for complex entries such as the pension, OPEB and GASB 87 adjustments. This review will include a reconciliation of the affected accounts after the entry is posted to ensure the net effect of the entry is as expected.

SECTION III - FEDERAL AW ARD FINDINGS AND QUESTIONED COSTS

None noted.