



Report of Independent Auditors  
and Single Audit Reports for

**Southern California Regional  
Rail Authority**

June 30, 2015

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

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\* Incorporated by reference only

**REPORT OF INDEPENDENT AUDITORS 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***

The Board of Directors  
Southern California Regional Rail Authority  
Los Angeles, California

We have audited, in accordance with 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 Southern California Regional Rail Authority (SCRRA or the Authority), which comprise the statement of net position as of June 30, 2015, the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated February 26, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SCRRA'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCRRA's internal control. Accordingly, we do not express an opinion on the effectiveness of SCRRA'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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, and 2015-003 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SCRRA'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*.

### **Southern California Regional Rail Authority's Responses to Findings**

Southern California Regional Rail Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Southern California Regional Rail Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 result 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.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Los Angeles, California  
February 26, 2016

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

The Board of Directors  
Southern California Regional Rail Authority  
Los Angeles, California

**Report on Compliance for Each Major Federal Program**

We have audited Southern California Regional Rail Authority's (SCRRA or 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 SCRRA's major federal programs for the year ended June 30, 2015. SCRRA'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 SCRRA'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 SCRRA'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 SCRRA's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Southern California Regional Rail Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### **Report on Internal Control Over Compliance**

Management of SCRRA 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 SCRRA'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 SCRRA'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 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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-004 that we consider to be a significant deficiency.

SCRRA's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. SCRRA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of SCRRA as of and for the year ended June 30, 2015, and have issued our report thereon dated February 26, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 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 financial statements or to the 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 financial statements as a whole.

*Moss Adams LLP*

Los Angeles, California  
February 26, 2016

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>FEDERAL TRANSIT CLUSTER</b>			
<u>U.S. Department of Transportation</u>			
Direct Programs			
Federal Transit, Capital Investment Grants	20.500		\$ 7,033,385
Federal Transit, Formula Grants	20.507		2,613,838
ARRA-Federal Transit, Formula Grants	ARRA - 20.507		125,205
State of Good Repairs	20.525		2,786,236
Pass Through Programs From			
Riverside County Transportation Commission			
Federal Transit, Capital Investment Grants	20.500	CA050268	548,444
Orange County Transportation Authority			
Federal Transit, Formula Grants	20.507	CA90Y782 / CA95X28600	<u>1,194,269</u>
Total Federal Transit Cluster			14,301,377
Direct Programs			
High Speed Ground Transportation-Next Generation High Speed Rail Program	20.312		60,858
National Priority Safety Programs	20.616		15,711
Pass Through Programs From			
California Department of Transportation:			
Capital Assistance to States-Intercity Passenger Rail Service	20.317	75FRA0007	1,647,885
California Department of Transportation: Railroad Safety	20.301	75LX212	<u>3,505</u>
Total U.S. Department of Transportation			<u>16,029,336</u>
<u>U.S. Department of Homeland Security</u>			
Direct Program			
Disaster Grants-Public Assistance	97.075		<u>37</u>
Total U.S. Department of Homeland Security			<u>37</u>
Total Expenditures of Federal Awards			<u>\$ 16,029,373</u>

# **SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY**

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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### **Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures of federal awards of the Southern California Regional Rail Authority (SCRRA) for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of SCRRA, it is not intended to and does not present the net position, changes in net position, or cash flows of SCRRA.

SCRRA's reporting entity is defined in Note 1 of SCRRA's financial statements. All federal awards from federal agencies are included in the Schedule.

### **Note 2 - Summary of Significant Accounting Policies**

The accompanying Schedule is presented using the accrual basis of accounting, whereby eligible grant expenditures are recorded when incurred (i.e., when goods are received or services provided). Such expenditures are recognized following the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") wherein certain types of expenditures are not allowable or limited as to reimbursement. Expenditures reported include any property or equipment acquisitions incurred under federal programs. Pass-through identifying numbers are presented where available.

### **Note 3 - Subrecipients**

During the fiscal year ended June 30, 2015, SCRRA disbursed no federal funds to subrecipients.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over federal major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

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

**Identification of Federal Major Programs**

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued</i>
20.500, 20.507, 20.507 ARRA, 20.525	Federal Transit Cluster	Unmodified
20.317	Capital Assistance to States-Intercity Passenger Rail Service	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$480,881

Auditee qualified as low-risk auditee?  Yes  No

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2015**

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**Section II - Financial Statement Findings**

**FINDING 2015-001 - Monthly Close Reconciliation and Review Process and Annual Financial Reporting (Significant Deficiency in Internal Control)**

**Criteria** - In order to make the financial information reported to management and the Board of Directors as meaningful as possible, and to ensure that internal controls are operating effectively, performing monthly reconciliations helps detect errors and prevents them from accumulating within a particular period. Per FIN 2.1 of the Authority's Finance Policies and Procedures Manual, section 1.5 requires that "accounting activities for month-end close conclude on the tenth business day of the following month." It also requires that the audit of the Comprehensive Annual Financial Report (CAFR) and Single Audit be completed within 180 days of the end of the fiscal year, or December 31, which is consistent with requirements of the California Public Utilities Code Section 99245.

**Condition** - Monthly closes were not performed during fiscal year 2015, and there was no established process in place for performing month-end closes and the annual audit of the CAFR and Single Audit were not completed by December 31. During the year and at year end, many existing reconciliation processes lacked documentation of the appropriate level of review and approval. Examples include the following:

- Cash, restricted cash, and payroll bank reconciliations
- Accounts receivable reconciliations
- Prepaid expenses reconciliations
- Accounts payable reconciliations
- Accrued accounts reconciliations, such as accrued payroll and claims and judgments
- Capital assets and work orders for materials management

**Cause** - In discussions with management, it was noted that delays in implementing month-end and the year-end close were due to un-posted interface errors caused by budgetary controls and incorrect accounting structures, staff turnover, and an absence of well-defined and documented procedures with roles and responsibilities. We noted that current management has been documenting procedures and processes which were implemented just subsequent to fiscal year 2015.

**Effect** - The lack of a monthly closing process, established reconciliation and review process, and preparation and review of monthly financial statements resulted in certain adjustments identified during the course of the audit, including:

- Claims and judgments payable is a critical estimate that should be evaluated at year end in order to be properly reflected in accounting records. Although an analysis was prepared, management did not confer with legal counsel to update estimates based on known events that occurred subsequent to year end but prior to performing the year end close. As a result, the estimate at year end was overstated. Management also accrued for reserves based on estimates that were not clearly documented. Finally, we also noted an incident in which an accrual for one claim was recorded twice. As a result we proposed an adjustment to decrease claims and judgments payable and related expenses by approximately \$2,500,000.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2015**

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**Section II - Financial Statement Findings (continued)**

**FINDING 2015-001 - Monthly Close Reconciliation and Review Process and Annual Financial Reporting (Significant Deficiency in Internal Control) (continued)**

- Month end closes were not completed during the year, and as a result, certain accounts on the statement of net position were not reconciled and/or updated as of June 30, 2015. For example, prepaid expenses recorded in fiscal year 2014 were not adjusted during 2015. As a result, we proposed an adjustment to reduce prepaid expenses and increase expenses by approximately \$97,000. It was also noted that accruals for certain liability accounts also did not change from 2014. Management is continuing to investigate whether any liability exists for these accounts as of June 30, 2015.
  
- In fiscal year 2014, when accruing for reimbursements from third parties and granting agencies, management did not factor all eligible expenditures and adjustments. Instead, only activity for transactions recorded in 2014 were accrued for. In fiscal year 2015, management corrected this process and appropriately accrued for reimbursements of all eligible costs resulting in approximately \$3.3 million of additional revenue recognized in 2015 that related to prior years.

**Recommendation** - While we commend management for designing and implementing year-end closing policies and procedures in place subsequent to June 30, 2015, those policies were not in existence or were not applied during the period under audit. We recommend that management establish a well-designed and efficient process for month-end closing that would entail timely preparation and review of monthly reconciliations between general ledgers to sub-ledgers for all significant accounts. In addition, well-documented roles and responsibilities would help when staff transitions or departures occur and should be used for cross-training of employees. Finally, timely reporting to the Board of Directors would allow in decision making and proper oversight.

**Views of responsible officials and planned corrective actions** - Management agrees. Currently the Finance Department is performing monthly closes and interface errors are being corrected and posted within two days after occurrence. Most of the incorrect accounting structures that occurred at the time of financial system upgrade have been addressed. It is the intention of management to reconcile all balance sheet accounts and clearing accounts before year-end. Reconciliation of the sub-ledgers to the general accounting ledger is currently being done monthly.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2015**

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**FINDING 2015-002 – Reconciliation and Valuation of Inventory (Significant Deficiency in Internal Control)**

**Criteria** – In accordance with the Authority’s Finance Policies and Procedures Manual FIN 4.5 and as promulgated by Government Accounting Standards Board (GASB) Statement No. 62, inventory should be valued at the lower of average cost or market. In addition, FIN 4.5 states that at fiscal year end, a physical inventory is to be conducted on all railroad parts and materials and that adjustments be recorded for discrepancies noted.

**Condition / Context** –

- We tested whether the Authority was applying its financial policy to record inventory balances at the lower of average cost or market. We selected a sample of twenty unique inventory items. Of those selected, management was only able to provide evidence documenting the original cost for five items. Evidence for the remaining selections had already been destroyed in accordance with the Authority’s record retention policies. In addition, we requested management provide evidence of market valuations at June 30, 2015 for similar materials and supplies. Four of the selections related to materials that are no longer manufactured. Management has asserted that although the parts are no longer manufactured they are necessary to service existing infrastructure, rolling stock, and communication signals. Seven of the selections were found to have values less than the amount recorded. This resulted in a likely overstatement of inventory in the amount of approximately \$1,420,000.
- We tested the valuation of new inventory items acquired in the current year and traced the original cost to acquisition records within Asset Works, the Authority’s inventory subledger. We noted that excise taxes on certain equipment that the Authority is exempt from paying were incorrectly included in the valuation. This resulted in a likely overstatement of inventory in the amount of approximately \$770,000.
- We observed management perform portions of the annual inventory counts at June 30, 2015. We selected a sample and recounted these items to determine if they were in agreement with management’s reconciliations. In this process, we observed certain excess materials that were originally acquired in constructing capital assets that were not properly tagged and were not included in the inventory asset listing. As a result, these items were not subject to the inventory counts at year end. In addition, a portion of these items may have been inappropriately classified as capital assets instead of inventory in the financial statements as of June 30, 2015.

**Cause** –

- Although the Authority has a policy that requires inventory to be valued at the lower of average cost or market, the Authority has not documented instructions on how staff is to appropriately assess the current market valuation. In addition, as the Authority replaces and disposes of older rolling stock, replacement parts may become obsolete or the number on hand may exceed what is required to service existing assets.
- Staff other than those that process disbursements were responsible for entering inventory values into the subledger for tracking individual inventory costs.
- Communication between project managers and the Finance Department and communication between project managers and materials supervisors is limited.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2015**

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**Section II - Financial Statement Findings (continued)**

**FINDING 2015-002 – Reconciliation and Valuation of Inventory (Significant Deficiency in Internal Control) (continued)**

**Effect** – Inventory at June 30, 2015 was likely misstated; however, the cumulative financial impact was not projected to be material to overall financial statements. This misstatement did not result in any known questioned costs related to federal awards.

**Recommendation –**

- We recommend that management revise procedures to instruct staff in the process of valuing significant categories of inventory. This may be performed on a sample basis rotated over a certain number of years to obtain full coverage. For significant variances identified, management should apply appropriate reserves between the average cost and market values.
- We recommend that the finance department perform a final reconciliation to agree total disbursements on inventory acquisitions to total costs entered into Asset Works on a periodic basis.
- We recommend that project managers communicate to the Finance Department all equipment and materials acquired in connection with capital projects that were not used. The Finance Department should ensure that the original cost of any unused materials is removed from capital projects so that they are not capitalized and instead recorded as inventory. Project managers should work with materials management to ensure that assets are appropriately tagged and added to Asset Works so that they are subject to future inventory counts and other controls such as work orders when the items are placed into service. Management should also ensure that if any of these items were acquired with assistance from a third party (i.e. a grantor or member agency) that all excess inventory items are communicated in accordance with applicable laws and regulations.

**Views of responsible officials and planned corrective actions** – Management agrees. The Finance Department will work with Inventory Management on a method to spot-check items for potential write downs to market. The Finance Department will also work with Inventory Management on the proper recording in Asset Works for unused items previously directly charged, so material is correctly returned to inventory in the financial system. In addition, the Finance Department will look into mitigating the use of inventory being directly charged to projects.

**FINDING 2015-003 – Capital Assets and Project Management (Significant Deficiency in Internal Control)**

**Criteria** - In accordance with the Authority's capitalization policy, all tangible property owned by the Authority such as land, buildings, and equipment with a useful life of more than three years and costing over \$5,000 should be capitalized.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2015**

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**Section II - Financial Statement Findings (continued)**

**FINDING 2015-003 – Capital Assets and Project Management (Significant Deficiency in Internal Control) (continued)**

**Condition –**

- In testing internal controls over capital assets, we noted a lack of procedures in place to monitor open projects, to ensure costs recorded are accurate, and to determine whether projects are correctly classified and whether disposed assets have been timely removed from the general ledger. We observed one project placed into service in the current year that was initially recorded as infrastructure under GASB Statement No. 34. After our further review with management, they concluded that \$17 million for one project should be reclassified from non-depreciable assets to depreciable assets.
- We selected a sample of completed projects in fiscal year 2015 and observed that several completed Project Set Up and Close Out Sheets were not provided for review or approval by the Finance Department. Additionally, we found that for several projects the project manager was also the department supervisor.
- We selected a sample of projects with activity in fiscal year 2015 and interviewed the respective project manager(s). We found that they have not been sufficiently trained in how to efficiently and effectively use the new Oracle R12 Financial Information System (FIS).

**Cause / Effect** – There appears to be a lack of communication between project management and the Finance Department for projects as they are completed. This lack of communication is partially the result of the Finance Department not reviewing and approving Project Set Up and Close Out Sheets and partially because project managers are not effectively trained in using the FIS. When projects are not closed timely, it increases the volume of reconciliations to be performed by the Finance Department at year end. If the Finance Department is informed at the time a project is completed, it could begin final billing procedures and ensure that unused deposits and advances from third parties are returned timelier.

**Recommendation –**

- We recommend that a formal process be established for status review and communication between project management and the Finance Department to ensure accurate tracking and review of construction projects and disposed or impaired assets.
- In cases where a project manager is also a department supervisor, we recommend that segregations of duties be established so that at least two individuals knowledgeable of the project are involved in the review and approval of purchase orders and/or invoices and tracking of the remaining project budget. This will allow for stronger controls in the prevention and detection of errors and/or fraud.
- As project managers are responsible for reviewing that disbursements are properly coded to the appropriate project and classified as either an expense (i.e. for maintenance of infrastructure) or as a capital project, the finance department should arrange for more frequent and substantial training related to the Authority's accounting policies and how to use the new FIS. In addition, the finance department should review classifications periodically throughout the year to capture data more timely and reduce the time required to follow up at year end.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2015**

**Section II - Financial Statement Findings (continued)**

**FINDING 2015-003 – Capital Assets and Project Management (Significant Deficiency in Internal Control) (continued)**

**Views of responsible officials and planned corrective actions** - Management agrees. The Finance Department will work with Project Management regarding the current process of projects close-out. By including both Grants Accounting and Capital Asset Accounting, projects capitalization will be incorporated as part of the process.

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

**FINDING 2015-004 - Equipment Management - Significant Deficiency**

<i>CFDA Number</i>	<i>Federal Agency / Pass-through Entity – Program Name</i>	<i>Pass-through Entity Identifying Number</i>	<i>Award Year</i>	<i>Questioned Costs</i>
20.500, 20.507, 20.507 ARRA, 20.525	U.S. Department of Transportation /Federal Transit Cluster	CA050268 CA90Y782 CA95X28600	2014- 2015	\$0

**Criteria** - As a local government, Southern California Regional Rail Authority is required to comply with the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments 49 CFR 18. Section 18.32(d) requires “(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.”

**Condition/Context** - In connection with our audit, we obtained a detail listing of all equipment acquired with federal funds by SCRRA. We reviewed the listing and observed certain assets were not identified with a unique asset or other identification number for tracking; did not indicate the source of the property; who holds title; the percentage of federal participation in the cost of the property; the location; or use and condition of the property.

**Cause** - During fiscal year 2015, the Authority did not have a module for tracking capital assets and equipment. Management has not yet been able to update detail listings to include all of the characteristics required under the Code of Federal Regulations.

**Effect** - The Authority’s records have not been accurately maintained in accordance with federal requirements.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2015**

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**FINDING 2015-004 - Equipment Management - Significant Deficiency (continued)**

**Recommendation** - We recommend that as management implements their capital asset module they consider tracking all equipment acquired with federal funds in accordance with the parameters required by the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

**Views of responsible officials and planned corrective actions** - In fiscal year 2015, management implemented the capital asset module in Oracle. Currently, the module identifies each asset with a unique identifying number, the acquisition date, original cost, location, and asset life. As part of the implementation, management will ensure that the funding source is identified, including percentages, if the asset is acquired with multiple funding sources. The funding sources field uses the Oracle grant number and the CDFA number if applicable.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015**

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The following was reported as a finding in the audit of Southern California Regional Rail Authority for the year ended June 30, 2014.

**FINDING 2014-001 – Monthly Close and Review Process and Annual Financial reporting (Material Weakness in Internal Control)**

**Federal Program(s)** – n/a

**Federal Agency** – n/a

**Status of Finding** – Partially corrected. Because the audit was not complete until well into the current fiscal year, SCRRA was unable to implement some of the auditor’s recommendations from the prior year. Portions of the prior audit finding were repeated within finding 2015-001.

**FINDING 2014-002 – Reconciliation of Schedule of Expenditures of Federal Awards (Significant Deficiency in Internal Control)**

**Federal Program(s)** – n/a

**Federal Agency** – n/a

**Status of Finding** – Corrected

**FINDING 2014-003 – Reconciliation of Advances for Construction (Significant Deficiency in Internal Control)**

**Federal Program(s)** – n/a

**Federal Agency** – n/a

**Status of Finding** – Corrected

**FINDING 2014-004 – Capital Assets and Project Management (Significant Deficiency in Internal Control)**

**Federal Program(s)** – n/a

**Federal Agency** – n/a

**Status of Finding** – Partially corrected. Because the audit was not complete until well into the current fiscal year, SCRRA was unable to implement some of the auditor’s recommendations from the prior year. Portions of the prior audit finding were repeated within finding 2015-003.

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015**

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**FINDING 2014-005 – Unearned Revenue (Significant Deficiency in Internal Control)**

**Federal Program(s)** – n/a

**Federal Agency** – n/a

**Status of Finding** – Corrected

**FINDING 2014-006 – Equipment Management (Significant Deficiency in Internal Control)**

**Federal Program(s)** – 20.500, 20.507, 20.507 ARRA, 20.525

**Federal Agency** – U.S. Department of Transportation

**Status of Finding** – Partially corrected. Because the audit was not complete until well into the current fiscal year, SCRRA was unable to implement some of the auditor’s recommendations from the prior year. Portions of the prior audit finding were repeated within finding 2015-004.