



Single Audit Report

For the Year Ended June 30, 2019

Southern California Regional Rail Authority

Southern California Regional Rail Authority

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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
Southern California Regional Rail Authority
Los Angeles, 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 Southern California Regional Rail Authority (SCRRA), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SCRRA's basic financial statements, and have issued our report thereon dated December 31, 2019.

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 have not been 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 certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCRRA's financial statements are free of 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*.

SCRRA's Response to Findings

SCRRA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and SCRRA's separate corrective action plan. SCRRA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion in it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Rancho Cucamonga, California
December 31, 2019



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of SCRRA's major federal programs for the year ended June 30, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 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). Those standards and the Uniform Guidance 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, SCRRA 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, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to this matter.

SCRRA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and SCRRA's separate corrective action plan. 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.

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, we considered SCRRA's internal control over compliance with the requirements that could have a direct and material effect on a 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 the Uniform Guidance, 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 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 did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-002 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 and SCRRA's separate corrective action plan. 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 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 SCRRA as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SCRRA's basic financial statements. We have issued our opinion thereon dated December 31, 2019, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 31, 2019

Southern California Regional Rail Authority

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Grant Number	Federal Expenditures
U.S Department of Transportation:			
<u>Federal Transit Cluster:</u>			
<u>Direct Assistance:</u>			
Federal Transit, Capital Investment Grants	20.500	CA040045	\$ 18,650
Federal Transit, Capital Investment Grants	20.500	CA050205	45,256
Federal Transit, Capital Investment Grants	20.500	CA050223	183,806
Federal Transit, Capital Investment Grants	20.500	CA050235	32,190
Federal Transit, Capital Investment Grants	20.500	CA050258	85,645
Federal Transit, Capital Investment Grants	20.500	CA050271	291,120
Subtotal			656,667
<u>Pass Through From Orange County Transportation Authority</u>			
Federal Transit, Capital Investment Grants	20.500	CA050269	21,242
<u>Pass Through Programs From Riverside County Transportation Commission</u>			
Federal Transit, Capital Investment Grants	20.500	CA030812	11,615
Federal Transit, Capital Investment Grants	20.500	CA050268	443,784
Federal Transit, Capital Investment Grants	20.500	CA050283	368,431
Subtotal			823,830
Total Federal Transit, Capital Investment Grants			1,501,739
<u>Direct Assistance:</u>			
Federal Transit, Formula Grants	20.507	CA90Y412	25,572
Federal Transit, Formula Grants	20.507	CA90Y608	36,762
Federal Transit, Formula Grants	20.507	CA90Y992	5,907
Federal Transit, Formula Grants	20.507	CA2017009	1,653,129
Federal Transit, Formula Grants	20.507	CA2018136	1,014,848
Federal Transit, Formula Grants	20.507	CA2019009	10,909,594
Federal Transit, Formula Grants	20.507	CA2019137	708
Subtotal			13,646,520
<u>Pass Through Orange County Transportation Authority</u>			
Federal Transit, Formula Grants	20.507	CA90Y942	6,366
Federal Transit, Formula Grants	20.507	CA95X180	336,287
Federal Transit, Formula Grants	20.507	CA95X286	228,557
Subtotal			571,210
<u>Pass Through From Riverside County Transportation Commission</u>			
Federal Transit, Formula Grants	20.507	CA95X339	2,924,692
Total Federal Transit, Formula Grants			17,142,422
<u>Direct Assistance:</u>			
State of Good Repair Grants Program	20.525	CA540014	1,798,552
State of Good Repair Grants Program	20.525	CA540043	879,123
State of Good Repair Grants Program	20.525	CA2017009	2,956,823
State of Good Repair Grants Program	20.525	CA2017085	2,294,071
State of Good Repair Grants Program	20.525	CA2019009	9,106,933
Subtotal			17,035,502
<u>Pass Through Programs From Riverside County Transportation Commission</u>			
State of Good Repair Grants Program	20.525	CA540033	721,813
State of Good Repair Grants Program	20.525	CA2017121	471,377
Subtotal			1,193,190
Total State of Good Repairs Grants Program			18,228,692
Total Federal Transit Cluster			36,872,853
<u>Direct Assistance:</u>			
Railroad Safety Technology Grants	20.321	FR-TEC-0019-17	1,171,156
Railroad Safety Technology Grants	20.321	CA2018033	438,069
Total Railroad Safety Technology Grants			1,609,225
Total Expenditures of Federal Awards			\$ 38,482,078

See accompanying note to Schedule of Expenditures of Federal Awards.

Southern California Regional Rail Authority

Note to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Southern California Regional Rail Authority (SCRRA) under programs of the federal government for the year ended June 30, 2019. 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 SCRRA, it is not intended to and does not present the financial position, changes in net position, or cash flows of SCRRA.

Note 2 – Summary of Significant Accounting Policies

The expenditures included in the accompanying schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

SCRRA has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Southern California Regional Rail Authority

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

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:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	
Identification of major federal programs:	<u>Yes</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.321	Railroad Safety Technology Grants
20.500, 20.507, 20.525	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,154,462</u>
Auditee qualified as low-risk auditee?	<u>No</u>

Southern California Regional Rail Authority

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

II. Financial Statement Findings

Finding 2019-001

FINANCIAL REPORTING/YEAR-END CLOSING

Criteria or Specific Requirement:

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein and for the fair presentation of the financial statements in conformity with U.S. general accepted accounting principles (GAAP). This requires management to work through a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements. The year-end closing process includes the review and/or reconciliation of all balances within SCRRA's general ledger and financial statements.

Condition:

We noted the following as a result of our audit procedures:

- SCRRA maintains a policy to adjust the allowance for doubtful accounts for those receivables that are past due by 120 days or more. Based on our review of the accounts receivable aging, the allowance for doubtful accounts was increased to better represent the net realizable value of certain trade accounts receivables where collections were not regularly occurring.
- SCRRA regularly receives deposits in advance of any construction projects it performs for customers and other agencies. These deposits are typically returned to its customers once the projects are completed. During the audit, we noted projects which were completed a few years ago; however, SCRRA was still in the process of performing account reconciliations in order to refund deposits.
- A large balance of SCRRA's capital assets consist of Positive Train Control (PTC) projects. These projects consist of components with varying useful lives; however, these projects were capitalized over a singular useful life of ten years.
- For the recognition of claims and loss contingencies, SCRRA does not maintain formalized policies and procedures to consistently evaluate contingencies in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
- The fuel hedge and related deferred inflows of resources was adjusted in order to reconcile to the year-end third party statements.
- The footnote disclosures required adjustment for pension and other postemployment benefits (OPEB).

Context:

The condition noted above was identified as a result of our audit procedures.

Southern California Regional Rail Authority

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

II. Financial Statement Findings

Cause:

Corrective action on the reconciliation of deposits and assignment of useful lives on the PTC projects was still in progress during the fiscal year.

For the remaining items, certain aspects of SCRRRA's year-end closing were not in place.

Effect:

Adjustments were proposed to the allowance for trade receivables, fuel hedge derivative, and disclosures related to pensions and OPEB.

Recommendation:

We recommended that SCCRA update its accounting policies and procedures related to year-end reporting. Further, we recommend that the formal review of the financial statements include the preparation/completion of a disclosure checklist to ensure that all relevant disclosures are included in accordance with GAAP.

View of Responsible Official and Planned Corrective Actions:

See separate Corrective Action Plan.

Southern California Regional Rail Authority

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

III. Federal Award Findings and Questioned Costs

Finding 2019-002

Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507 & 20.525

Federal Agency: U.S. Department of Transportation

Passed-through: Orange County Transportation Authority and Riverside County Transportation Commission

Award Year: Various

Compliance Requirements: Equipment & Real Property Management

Criteria:

The Southern California Regional Rail Authority is required to comply with Title 49 U.S. *Code of Federal Regulations* (CFR) Part 18, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* for federal awards made prior to December 26, 2014 and to comply with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* for federal awards made subsequent to December 26, 2014. Both of these regulations require property records 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:

SCRRA's listing of all equipment acquired with federal funds only included federal equipment acquired in recent fiscal years and did not include any equipment acquired with federal grants in prior years.

Context:

The condition noted above was identified as a result of our audit procedures.

Effect:

SCRRA's records have not been consistently maintained in accordance with federal requirements.

Cause:

Due to the implementation of a new capital asset module in 2017, only assets acquired in recent fiscal years were included in the module.

Questioned Costs:

No questioned costs were identified as a result of our procedures.

Southern California Regional Rail Authority

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

III. Federal Award Findings and Questioned Costs

Repeat Finding:

This finding is a repeat finding of prior year finding 2018-003.

Recommendation:

We recommended that SCRRRA update its accounting policies and procedures related to federally funded equipment to track and include all the required information in accordance with applicable award regulations.

View of Responsible Official and Planned Corrective Actions:

See separate Corrective Action Plan.

Southern California Regional Rail Authority

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2019**

Financial Statement Findings

Finding No.	Category	Status of Corrective Action
2018-001	Capital Asset and Project Management	Partially Implemented. See current year finding 2019-001.
2018-002	Annual Financial Reporting	Partially Implemented. See current year finding 2019-001.

Federal Award Prior Year Finding

Finding No.	Program	CFDA No.	Compliance Requirements	Status of Corrective Action
2018-003	Federal Transit Cluster	20.500, 20.507, 20.526	Equipment and Real Property Management	Not Implemented. See current year finding 2019-002.



METROLINK.

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Corrective Action Plan

Year ended June 30, 2019

Compiled by: Alex Barber

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Corrective Action Plan

Year ended June 30, 2019

I. FINANCIAL STATEMENT FINDINGS

FINDING 2019-001

Financial Reporting/Year-end Closing

Management's or Department's Response:

We concur.

Views of Responsible Officials and Corrective Action:

SCCRA Management will work with external auditors in FY20 to enhance year-end procedures to include a more detailed checklist for financial statement review and all relevant disclosures in accordance with GAAP and industry best practice.

Name of Responsible Person: Alex Barber

Implementation Date: June 30, 2020

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2019-002

Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507 & 20.525

Federal Agency: U.S. Department of Transportation

Passed-through: Orange County Transportation Authority and Riverside County Transportation Commission

Award Year: Various

Compliance Requirement: Equipment & Real Property Management

Management's or Department's Response:

We concur.

Views of Responsible Officials and Corrective Action:

To address the FY18 Audit finding, staff began working in January of 2019 by first completing a review of Finance Policy 4.1, which provides guidance for the tracking of federal funded equipment. During the last six months of FY19, staff then worked to create a "Grantor Report" that tracks fixed assets by "Funding Source Award Number" and "Award Type." In addition to tracking the federal participation percentage, the report would also track: description, serial number, federal award information number, acquisition date, acquisition cost, location, useful life, use and condition. This meets the basic requirement for FTA-funded equipment.

All of the fixed assets from FY17 – FY19 (and going forward) are being tracked by funding allocations or federal participation percentage. During the same six-month period of FY19, SCCRA's fixed asset accountant was able to identify the funding allocations on 85% of the total 1,076_QTY assets to be accounted for. General Accounting staff has remaining 410 assets which require additional research to complete the project. This work is anticipated to be completed by June 30, 2020.

Name of Responsible Person: Alex Barber

Implementation Date: June 30, 2020

Summary Schedule of Prior Audit Findings

Year ended June 30, 2019

I. FINANCIAL STATEMENT FINDINGS

FINDING 2018-001

Capital Asset and Project Management

Status:

Partially implemented. See current year finding 2019-001.

FINDING 2018-002

Annual Financial Reporting

Status:

Partially implemented. See current year finding 2019-001.

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2018-003

Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507 & 20.525

Federal Agency: U.S. Department of Transportation

Passed-through: Orange County Transportation Authority and Riverside County Transportation Commission

Award Year: Various

Compliance Requirement: Equipment & Real Property Management

Status:

Not implemented. See current year finding 2019-002.