



Memorandum

U.S. Department of
Transportation
Office of Inspector General

Subject: **INFORMATION:** Quality Control Review on
the Single Audit of the Alameda-Contra Costa
Transit District, Oakland, CA
Report No. QC2017032

Date: March 27, 2017

From: George E. Banks, IV
Program Director for Single Audit

Reply to
Attn. of: JA-20

To: Regional Administrator, FTA, Region 9

The U. S. Department of Transportation (DOT) is the oversight Federal single audit agency for the Alameda-Contra Costa Transit District (AC Transit), of Oakland, CA. This report presents the results of our Quality Control Review (QCR) on DOT's major grant program included in the single audit of AC Transit that Maze and Associates (Maze) performed for AC Transit's fiscal year ended June 30, 2015. During this period, AC Transit expended approximately \$36 million from DOT grant programs. Maze determined that DOT's major program was the Federal Transit Cluster.

The Office of Management and Budget's (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires the auditor to render an opinion on the entity's financial statements, identify inappropriate use of Federal funds, and report internal control and compliance deficiencies that affect Federal grant programs.

Maze rendered an unmodified opinion on AC Transit's financial statements and compliance with DOT's major program requirements and did not question any costs.¹

¹ A copy of Maze's single audit report is available by request to singleauditrequest@oig.dot.gov.

SCOPE

The purpose of our QCR was to determine: (1) whether the audit work and reporting package complied with the Single Audit Act of 1984, as amended, and OMB Circular A-133; and (2) the extent to which we could rely on the auditors' work on DOT's major program, the Federal Transit Cluster.

RESULTS

Audit Work

Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Based on our QCR, we assigned an overall rating of *pass with deficiencies* to Maze's work. Therefore, Maze generally met the requirements of the Single Audit Act, OMB Circular A-133, and DOT's major program. While we found nothing to indicate that Maze's opinion on the Federal Transit Cluster was inappropriate or unreliable, we found the following deficiencies in Maze's work that should be corrected in future audits.

Understanding, Planning, and Testing of Major Program Internal Controls. Maze did not adequately document its understanding of internal controls applicable to the Federal Transit Cluster's direct and material compliance requirements. In addition, Maze did not document its plan to test major program internal controls and did not identify specific key internal controls to test to support their low assessed level of control risk.

Special Tests and Provisions—Wage Requirements. Maze determined that wage requirements were not direct and material to the Federal Transit Cluster. However, our discussions with the Federal Transit Administration (FTA) confirmed construction costs were charged to the grants during the fiscal year. Therefore, Maze should have performed wage requirement compliance testing, but it did not do so.

Matching, Level of Effort, Earmarking. Maze incorrectly determined that AC Transit did not have earmarking requirements related to its Federal Transit Cluster grants. As a result, Maze did not perform compliance testing on the earmarking requirement.

In their written response, included as an appendix to this report, Maze concurred with these deficiencies and agreed to implement corrective actions.

Reporting Package

During our desk review of AC Transit's fiscal year 2015 single audit reporting package that was submitted to the Federal Audit Clearinghouse, we identified the following items:

- Maze incorrectly presented the A/B threshold in the Data Collection Form and in the Schedule of Findings and Question Costs as \$1,089,479. The correct amount was \$1,090,950, representing 3 percent of the Federal expenditures. This error had no effect on Maze's major program determination.
- Multiple reports did not include the audit firms' signature. These included the following: (1) the 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, (2) the Report on Compliance for Each Major Federal Program and the Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.

Maze coordinated with AC Transit and corrected the reporting package.

If you have any questions concerning this report, please call me at (410) 962-1729, or John R. Sysak, DOT's National Single Audit Coordinator, at (410) 962-2630.

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cc: The Secretary
Audit Liaison, FTA, TSO-10
Audit Liaison, OST, M-1
Controller, Alameda-Contra Transit District
Partner, Maze and Associates

APPENDIX



March 27, 2017

George E. Banks IV
Program Director for Single Audit

Good Mr. Banks,

In response to your Quality Control Review on the Single Audit of the Alameda-Contra Costa Transit District dated March 27, 2017; we have the following comments on your results.

Understanding, Planning, and Testing of Major Program Internal Controls. Maze did not adequately document its understanding of internal controls applicable to the Federal Transit Cluster’s direct and material compliance requirements. In addition, Maze did not identify specific key internal controls to test to support their low assessed level of control risk.

RESPONSE

We agree with the comment. As part of our financial statement audit work, we identify and test internal controls for the District as a whole, including grant staff. We have modified our major program audit programs to document our identification of key internal controls and the testing of those internal controls as they relate to the program specifically to support a low assessed level of control risk.

Special Tests and Provisions—Wage Requirements. Maze determined that wage requirements were not direct and material to the Federal Transit Cluster. However, our discussions with FTA confirmed construction costs were charged to the grants during the fiscal year. Therefore, Maze did not, but should have performed wage requirement compliance testing.

RESPONSE

We agree with the comment. We have reviewed our current procedures and have enhanced our staff training to review grant awards that would be subject to wage requirement compliance testing such as Davis-Bacon Act. In addition, we have modified our audit workpapers related to the documentation breakdown of the composition of grant expenditures by “type” obtained from the client to ensure it identifies construction costs separate from other non-construction capital outlay costs.

Matching, Level of Effort, Earmarking. Maze incorrectly determined that AC Transit did not have earmarking requirements related to its Federal Transit Cluster grants. As a result, Maze did not perform compliance testing on the earmarking requirement.

RESPONSE

We agree with the comment. We have provided additional Single Audit training to our staff to ensure they understand the nuances of the agency program requirements, including earmarking.

Desk Review. In addition, during our desk review of AC Transit's fiscal year 2015 single audit reporting package that was submitted to the Federal Audit Clearinghouse (FAC), we identified the following items:

- Maze incorrectly presented the A/B threshold in the Data Collection Form and in the Schedule of Findings and Question Costs as \$1,089,479. The correct amount was \$1,090,950, representing 3 percent of the Federal expenditures. This error had no effect on Maze's major program determination.
- The 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, and the Report 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 did not include the audit firm's signatures.

RESPONSE

We agree with the comments. This error was due to a change to the Schedule of Expenditures of Federal Awards discovered during the audit that was not reflected in the final Data Collection Form and Schedule of Findings and Questioned Costs.

Although the reports presented to the District's Board of Directors in October 2015 included our audit firm's signature, the upload of the reporting package to the clearing house was inadvertently completed using a copy without signatures.

We made the \$1,471 correction to the Data Collection Form as well as the Schedule of Findings and Questioned Costs and uploaded a corrected reporting package, including the signed versions of the reports, to the clearinghouse on February 28, 2017.

Please feel free to contact us if you have further questions on our audit.

Maze + Associates

Pleasant Hill, CA