



Single Audit Report
June 30, 2019

North County Transit District

NORTH COUNTY TRANSIT DISTRICT

**SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2019**

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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*, the Transportation Development Act and California Government Code §8879.50

Board of Directors
North County Transit District
Oceanside, 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 North County Transit District (NCTD) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise NCTD's basic financial statements, and have issued our report thereon dated December 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NCTD'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 NCTD's internal control. Accordingly, we do not express an opinion on the effectiveness of NCTD'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NCTD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of Title 21 of the California Code of Regulations, 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*.

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 Bailly LLP".

San Diego, California
December 26, 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
North County Transit District
Oceanside, California

Report on Compliance for The Major Federal Program

We have audited North County Transit District (NCTD)’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of NCTD’s major federal program for the year ended June 30, 2019. NCTD’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 program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of NCTD’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 NCTD’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 NCTD’s compliance.

Opinion on Each Major Federal Program

In our opinion, NCTD 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 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

NCTD's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. NCTD'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 NCTD 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 NCTD'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 NCTD'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 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 2019-001 that we consider to be a significant deficiency.

NCTD's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. NCTD'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 NCTD as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise NCTD's basic financial statements. We have issued our opinion thereon dated December 26, 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 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 Diego, California
December 26, 2019

NORTH COUNTY TRANSIT DISTRICT

**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 (Fixed Guideway Capital Investment Grants)	20.500	CA-03-0718	\$ 237,438
Federal Transit - Capital Investment Grants (Fixed Guideway Capital Investment Grants)	20.500	CA-04-0188	143,231
Subtotal - 20.500			<u>380,669</u>
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-0345	31,210
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-0467	347,916
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y556	23,880
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y632	54,738
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y705	64,804
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y815	102,270
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y874	67,118
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y959	110,518
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Z096	72,683
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Z200	667,636
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Z241	467,076
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-2016-068	24,847
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-2016-113	38,726
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-2016-134	22,731
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-2017-134	3,429,690
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-2019-005	10,962,768
Subtotal - 20.507			<u>16,488,611</u>
State of Good Repair Grants Program	20.525	CA-54-0012	187,729
State of Good Repair Grants Program	20.525	CA-54-0029	312,249
State of Good Repair Grants Program	20.525	CA-54-0035	1,763,699
State of Good Repair Grants Program	20.525	CA-2016-114/CA-2017-021	193,584
State of Good Repair Grants Program	20.525	CA-2016-069	1,200,000
State of Good Repair Grants Program	20.525	CA-2017-021	(896,733)
State of Good Repair Grants Program	20.525	CA-2017-133	236,940
State of Good Repair Grants Program	20.525	CA-2018-151	9,979,584
State of Good Repair Grants Program	20.525	CA-2019-010	171,799
Subtotal - 20.525			<u>13,148,851</u>
Bus and Bus Facilities Formla & Discretionary Programs (Bus Program)	20.526	CA-2016-112	2,102
Subtotal - Federal Transit Cluster			<u>30,020,233</u>
<u>Transit Services Programs Cluster:</u>			
Job Access and Reverse Commute Program	20.516	CA-37-X078	38,328
Job Access and Reverse Commute Program	20.516	CA-37-X091	119,256
Subtotal - Transit Services Program Cluster			<u>157,584</u>
<u>Passed-through from California Department of Transportation Division of Rail</u>			
Formula Grants for Rural Areas	20.509	Section 5311 (POP 23 & 24)	440,965
Capital Assistance to States - Intercity Passenger Rail Service	20.317	FRA	715,090
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	FY19 5304	35
Total - U.S. Department of Transportation			<u>31,333,907</u>
U.S. Department of Homeland Security			
<u>Passed-through from California Governor's Office of Emergency Services</u>			
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1952-DR-CA	1,197,000
Total U.S. Department of Homeland Security			<u>1,197,000</u>
Total Expenditures of Federal Awards			<u>\$ 32,530,907</u>

See accompanying note to Schedule of Expenditures of Federal Awards.

NORTH COUNTY TRANSIT DISTRICT

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

(A) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of NCTD 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 NCTD, it is not intended to and does not present the financial position, changes in net position, or cash flows of NCTD.

(B) Summary of Significant Accounting Policies

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when NCTD becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

However, expenditures relating to the U.S. Department of Homeland Security and Federal Emergency Agency ("FEMA") CFDA #97.036 are reported when 1) FEMA has approved the project worksheet and 2) eligible expenditures have been incurred, in accordance with FEMA regulations.

Pass-through entity identifying numbers were presented where available.

(C) Indirect Cost Rate

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

(D) Subrecipients

There were no awards passed through to subrecipients.

(E) Expenditures related to FEMA

The federal expenditures for FEMA CFDA# 97.036 include expenditures related to the December 2010 Statewide Storms 1952-DR-CA federally declared disaster. The federal disaster declaration 1952-DR-CA enables the reimbursement of certain costs incurred related to debris removal and approved permanent work through FEMA of the U.S. Department of Homeland Security.

NORTH COUNTY TRANSIT DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

I. SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditors' 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>None reported</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 auditors' 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)?	<u>Yes</u>
Identification of major federal programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.500/ 20.507/ 20.525/20.526	Federal Transit Cluster
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 975,927</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

NORTH COUNTY TRANSIT DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

II. FINANCIAL STATEMENT FINDINGS

None reported.

NORTH COUNTY TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2019-001

Federal Program: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

CFDA No.: 97.036

Federal Grantor: U.S. Department of Homeland Security

Pass-through Entity: California Governor's Office of Emergency Services

Pass-through Identification No.: FEMA-1952-DR-CA

Compliance Requirement: Reporting

Criteria:

As per guidance outlined on the 2019 Compliance Supplement issued by Office of Management and Budget (OMB), non-Federal entities must record expenditures on the Schedule of Expenditures of Federal Awards (SEFA) when: (1) Federal Emergency Management Agency (FEMA) has approved the non-Federal entity's Project Worksheet (PW), and (2) the non-Federal entity has incurred the eligible expenditures. Federal awards expended in years subsequent to the fiscal year in which the PW is approved are to be recorded on the non-federal entity's SEFA in those subsequent years.

Condition:

During the declared event, December 17, 2010 to January 4, 2011, severe rainstorms and resulting flooding damaged the COASTER (coastal) and the SPRINTER (inland) rail lines. The District submitted their PWs and FEMA approved these expenditures for reimbursement in 2012. The District incurred eligible expenditures and received reimbursement from 2011 to 2015 but did not record the reimbursement for these expenditures on the SEFA until fiscal year ending June 30, 2019.

Cause:

The District did not ensure that the federal expenditures for the FEMA program were reported on the SEFA consistent with grant requirements.

Effect:

The grant award and related federal expenditures were not recorded until fiscal year 2019.

Questioned Costs:

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

Context:

The District performed a detailed reconciliation of its unearned revenue accounts and identified that the federal award had been previously received but not reported on the SEFA.

NORTH COUNTY TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Recommendation:

We recommend the District strengthen its procedures for monitoring, reconciling, and reporting of its federal award programs.

View of Responsible Official and Planned Corrective Actions:

NCTD agrees with the finding that it did not timely report the revenues in the schedule of federal awards. As funds were received from FEMA, the cash receipts were recorded in a deferred account. In October 2018, Finance staff discovered the oversight and self-identified and self-corrected the accounting for the FEMA grant by recognizing the corresponding revenues and offsetting the deferred funds.

The Finance Division, prior to the audit finding, had implemented monthly accounting reconciliations that reconcile the amounts in the deferred accounts to the funding programmed in projects. These reconciliations ensure that revenues are properly recognized as funds are being spent. Enhanced reporting has also been created through the implementation and use of Hubble in 2018, a reporting application software, that allows for effective analysis and management of capital projects and funding sources. Communication has been improved between Finance staff that have oversight of the capital program and discretionary grants and finance staff that are responsible for project accounting by meeting on a bi-weekly basis to discuss grant activities, compliance, and reporting requirements. In addition, project funding is being reviewed monthly during the Capital Project Steering Committee meetings to monitor the progress of projects. Through these control activities, District staff will ensure that federal revenues are properly and timely reported in the schedule of federal awards in accordance with the Compliance Supplement.

NORTH COUNTY TRANSIT DISTRICT

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None reported.