



A Tradition of Stewardship  
A Commitment to Service

# **Napa County Transportation and Planning Agency**

## **2012 Follow-Up**

Accountant's Report on Applying Agreed-Upon Procedures  
For the Period of July 1, 2011 to March 13, 2012

Issued by  
**AUDITOR-CONTROLLER**  
**Internal Audit Section**  
April 26, 2012

**NAPA COUNTY TRANSPORTATION AND PLANNING AGENCY  
AGREED-UPON PROCEDURES  
2012 FOLLOW-UP**

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## EXECUTIVE SUMMARY

On April 2<sup>nd</sup> and April 3<sup>rd</sup> of 2012, a follow-up in accordance with the standards established by the American Institute of Certified Public Accountants for agreed-upon procedures was performed by the Internal Audit Section of the Napa County Auditor-Controller's Office on the Internal Audit Follow-Up Report issued February 2, 2009 and subsequently accepted by the Napa County Transportation and Planning Agency (Agency) on February 18, 2009.

The follow-up included reviewing cash receipt, cash disbursement and journal entry transactions processed during the period of July 1, 2011 to March 13, 2012; reviewing the preparation of records for the fiscal year ended June 30, 2011; and following up on any specific actions or tasks that were recommended to be accomplished.

The following is a summary of the status of the 24 findings reported in the February 2, 2009 Follow-Up Report.

	<b>Implemented</b>	<b>Partially Implemented</b>	<b>Not Implemented</b>
<b>2009</b>	3	18	3
<b>2012</b>	17	7	0

The seven (7) findings that are not fully implemented in 2012 are resulting from the need to fine tune the mechanism used to track the transactions in compliance with the policy that the Agency has in place.

Portions of the original findings and recommendations have been included in the report along with the management response from the 2008 report. Additional detail on the status can be found on the pages referenced below.

<b>Step</b>	<b>Finding</b>	<b>2009 Status</b>	<b>2012 Status</b>	<b>Page Ref.</b>
<b>II.A.1.</b>	<b>Grants -Monitoring Grants Receivable</b> No consistent mechanism in place to centrally track outstanding grant agreements and activity.	Partially Implemented (50%)	Partially Implemented (95%)	8
<b>II.A.2.</b>	<b>Grants -Supporting Documentation</b> No consistent mechanism in place to track and identify which project or grant cash disbursements are attributed to.	Partially Implemented (50%)	Partially Implemented (95%)	10
<b>II.A.3.</b>	<b>Grant – Misclassification of a Grant Transaction</b> No formal policy or procedure in place governing the proper recording of expense transactions for grants.	Partially Implemented (50%)	Partially Implemented (85%)	12
<b>II.B.1.</b>	<b>Cash Disbursements – Segregation of Duties</b> Lack of segregation of duties occurring in the invoice approval process.	Partially Implemented (85%)	Partially Implemented (95%)	13
<b>II.B.2.</b>	<b>Cash Disbursements – Misapplication of GAAP (Identification and Accrual of Accounts Payable)</b> No mechanism in place to appropriately track, analyze and identify year-end account payables.	Implemented (100%)	Implemented (100%)	16
<b>II.B.3.</b>	<b>Cash Disbursements – Lack of Formal Policies and Procedures (Capitalization)</b> No formal policy or procedure in place governing the capitalization of transactions.	Not Implemented (0%)	Implemented (100%)	17
<b>II.B.4.</b>	<b>Cash Disbursements – Misclassification of Expenses</b> No formal policy or procedure in place governing the proper recording of expense transactions.	Partially Implemented (50%)	Partially Implemented (85%)	19

<b>Step</b>	<b>Finding</b>	<b>2009 Status</b>	<b>2012 Status</b>	<b>Page Ref.</b>
<b>II.B.5.</b>	<b>Cash Disbursements – Marketing Related Disbursements</b> No formal policy or procedure in place governing the procurement and utilization of marketing related items.	Not Implemented (0%)	Unknown (No Expenses)	21
<b>II.B.6.</b>	<b>Cash Disbursements – Application of Agency Policy (Procurement)</b> Requirements of Procurement Manual not adhered to consistently by Agency Staff.	Partially Implemented (50%)	Implemented (100%)	22
<b>II.B.7.</b>	<b>Cash Disbursements – Lack of Formal Policies and Procedures (Petty Cash)</b> No formal policy or procedure in place governing the utilization of petty cash.	Partially Implemented (85%)	Implemented (100%)	24
<b>II.B.8.</b>	<b>Cash Disbursements – Application of Agency Policy (Travel)</b> Requirements of the Travel Policy not thoroughly communicated to Agency Staff resulting in inconsistencies in the treatment of travel expenses.	Partially Implemented (50%)	Implemented (100%)	25
<b>II.C.1.</b>	<b>Contracts – Administration</b> Lack of evaluation of current vendors to ensure the requirements of the Procurement Manual are being met.	Partially Implemented (50%)	Partially Implemented (75%)	26
<b>II.C.2.</b>	<b>Contracts – Authorization</b> Board minutes and agenda packets lack sufficient clarity to determine the level of Board authorization pertaining to significant contract terms.	Implemented (100%)	Implemented (100%)	28
<b>II.C.3.</b>	<b>Contracts – Monitoring</b> No mechanism in place to appropriately track expenditures under a contract or blanket purchase order to determine that authorization limits are not exceeded.	Partially Implemented (75%)	Implemented (100%)	29

Step	Finding	2009 Status	2012 Status	Page Ref.
II.D.1.	<b>Identification and Accrual of Accounts Receivable (New)</b> Determine if a mechanism exists to appropriately track, analyze and identify year-end accounts receivable.	N/A	No Exceptions	30
II.D.2.	<b>Cash Receipts – Private Contributions</b> No formal policy in place governing the acceptance of private contributions or donations by the Agency.	Implemented (100%)	Implemented (100%)	30
II.D.3.	<b>Cash Receipts – Misapplication of GAAP (Miscellaneous Income)</b> No formal policy or procedure in place governing the proper recording of revenue transactions.	Not Implemented (0%)	Implemented (100%)	31
	<b>Cash Receipts – Misclassification of Revenue (Accounts Receivable)</b> No formal policy or procedure in place governing the proper recording of revenue transactions.	Partially Implemented (85%)	Implemented (100%)	32
II.D.4.	<b>Cash Receipts – Application of Agency Policy (Transit Pass Sales)</b> No policy or procedure in place governing the process of recording cash receipts attributed to the sale of transit passes handled by the transit contractor.	Partially Implemented (85%)	Implemented (100%)	34
II.D.5.	<b>Cash Receipts – Lack of Formal Policies and Procedures (Fare Deposits)</b> No policy or procedure in place governing the recording of fare deposits made by the armored car contractor.	Partially Implemented (50%)	Implemented (100%)	36
II.E.	<b>Employee Training (New)</b> Determine if training sessions occur on a regular basis to ensure that employees are knowledgeable of Agency’s Policy and Procedures.	N/A	No Exceptions	38

<b>Step</b>	<b>Finding</b>	<b>2009 Status</b>	<b>2012 Status</b>	<b>Page Ref.</b>
<b>II.F.</b>	<b>Fixed Assets – Monitoring</b> No mechanism in place to ensure that documentation pertaining to federally funded assets is complete and meets FTA compliance requirements.	Partially Implemented (50%)	Implemented (100%)	38
<b>II.G.</b>	<b>Journal Entries – Segregation of Duties</b> Lack of segregation of duties occurring in the journal entry process.	Partially Implemented (90%)	Partially Implemented (95%)	41
<b>II.H.</b>	<b>Payroll – Segregation of Duties</b> Lack of segregation of duties occurring in the payroll approval process.	Partially Implemented (85%)	Implemented (100%)	41
<b>II.I.</b>	<b>Financial Manager Role</b> No provision for a financial manager role within the organizational structure of the Agency.	Partially Implemented (50%)	Implemented (100%)	42
<b>II.J.</b>	<b>Physical Security</b> Lack of security measures governing the handling and accessibility of Agency assets (such as petty cash and transit passes).	Partially Implemented (50%)	Implemented (100%)	44
<b>III.</b>	<b>Grant Compliance (New)</b> Grants are utilized in accordance with grant documents.	N/A	No Exceptions	45
<b>IV.</b>	<b>Compliance with Policies and Procedures adopted subsequent to December 31, 2008 (New)</b> Agency staff is adhering to the policy and procedures set by the Board.	N/A	No Exceptions	46

This report is intended solely for the information and use of the Agency's management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Tracy A. Schulze  
Auditor-Controller

By Karen Dotson-Querin  
Karen Dotson-Querin, CPA  
Internal Audit Manager

April 26, 2012





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## **ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES FOR THE PERIOD OF JULY 1, 2011 to MARCH 13, 2012**

Board of Directors  
Napa County Transportation and Planning Agency  
707 Randolph Street, Suite 100  
Napa, CA 94559

We have performed the procedures enumerated below, which were agreed to by the Board Chair of the Napa County Transportation and Planning Agency, hereafter known as NCTPA, on behalf of the Board and Manager of NCPTA. These procedures are solely to assist the designated parties with respect to the documents obtained in Step I of the Agreed-Upon Procedures as they pertain to the Accounts Receivable, Fixed Assets, Accounts Payable, Contracts, Grants, Payroll, Cash Receipts, Cash Disbursement and Journal Entries. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Responses to the findings identified in our report have been provided by NCPTA staff. We did not audit these responses and, accordingly, we express no opinion on them.

Our procedures and findings are as follows:

### **I. DOCUMENTATION**

We obtained copies of the following documents:

From NCTPA, we obtained copies of grant agreements in effect from July 1, 2011 to March 13, 2012; copies of reimbursement requests to Federal and State agencies; and copies of policies and procedures adopted since January 2009.

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**I. DOCUMENTATION (Continued)**

During the site visit, the Agency provided us access to all financial transaction support documentation; tracking mechanisms for grants, accounts payable, contracts and fixed assets; and Board minutes and agendas.

**II. 2012 Follow-Up on Recommendations from Internal Audit Report issued June 30, 2008 and Follow-Up Report dated February 2, 2009**

**A. GRANTS**

**A.1. Monitoring Grants Receivable** – Determine if a consistent mechanism is in place to track outstanding grant agreements and activity.

**2008 Finding:** We noted that there currently is no consistent mechanism in place by the Agency to track the outstanding grant agreements in place, milestones, reimbursement requests or availability of funds. Accordingly, based on our inquiries, our limitation in scope and the Agency having no tracking mechanism in place it appears that receivables related to grants have not been properly identified and reported by the Agency at period-end. Due to the lack of such a mechanism and the extent of our testing, we are unable to determine the effect, if any, on the grants receivable balance of the Agency for fiscal year 2007. Please refer to our comments in the Cash Disbursement Section of this report *Misapplication of GAAP – Identification and Accrual of Accounts Payable* for additional comments regarding the Agency's ability to properly identify and accrue for accounts payable.

**2008 Recommendation:** It is recommended that a mechanism be implemented to centrally track all grant activity. This database should be accessible to all Agency staff thereby allowing each individual the ability to add activity and data related to grants under their responsibility into the database. An Agency Manager, as designated by the Executive Director, should be given primary responsibility for ensuring the completeness of the information reported in the database and timeliness of required report submissions. It is recommended that the following grant data be included in the database:

- Grant agreement identifying number and description
- Awarding agency
- Term of agreement
- Total award amount
- Date of reimbursement request and amount requested (including related invoice number/vendor information)
- Date and amount of reimbursement received by the Agency
- Running balance of funds available
- Milestones (dates when required reports are to be provided to the grantor)

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**II.A. GRANTS (Continued)**

**A.1. Monitoring Grants Receivable (Continued)**

**2008 Recommendation (Continued):** It is within our understanding that the Agency is in the process of implementing an access database to track such information. It is our recommendation that the access database also include functionality to enable the user to request reports which assist the Agency in the identification of period-end receivables, fund availability, and Agency expenditures which have not been previously claimed (for purposes of operational reimbursements).

**2008 Management Response:** As detailed below in several responses, NCTPA staff has since February 2008 developed a number of spreadsheets and tracking mechanisms for all Agency Receivables and Payables. Staff hopes in the summer of 2008 to work with a consultant to design and build a database to incorporate and centralize all of our newly established tracking mechanisms. The Fiscal and Planning Manager is currently overseeing development of tracking mechanisms and will work with the consultant to optimize functionality of the database.

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Partially Implemented (95%)

The Agency currently tracks their grant activity on Excel spreadsheets. Each funding source is tracked on its own sheet and major construction projects are kept on two (2) separate sheets (Project and Construction in Progress analysis). The following are recommendations to enhance this process:

- For the funding source spreadsheet, information should be added to the spreadsheet so the expenditures can be tracked to the general ledger. The information should include the Fund, Budget Unit and Account. The date should correlate with the date of the expenditure.
- Formulas should be verified on all spreadsheets.
- Indication should be included on the spreadsheets of the amounts claimed for reimbursement from the funding source and which reimbursement requests have been received.
- Explore the possibility of consolidating the project spreadsheet with the analysis of the Construction in Progress account.
- The analysis of the Construction in Progress account will need to be updated to include all FY 11/12 expenses.

The spreadsheets did provide information after further analysis that indicated the funds were being spent in accordance with the funding requirements.

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**II.A. GRANTS (Continued)**

**A.2. Supporting Documentation** – Determine if a consistent mechanism is in place to track and identify which project or grant a cash disbursement is attributed to.

**2008 Finding:** At the time of our field work we examined grant reimbursements requested by the Agency, we noted the following instances where documentation supporting the reimbursement was either not retained or not readily available for our review:

FTA Agreement Y507 – Four (4) reimbursements occurred under this agreement for a total of \$1,272,894.00 or 74% of the value of all FTA reimbursement requests made during the period under audit. We noted two (2) instances where documentation supporting the reimbursement was either not complete or not readily available for review [See 2009 report for detail].

In aggregate, these exceptions represent a total dollar amount of \$1,155,491.43 which represents 91% of the value of total reimbursements received under this agreement. Alternatively, this exception represents 67% of the value of reimbursements received under all FTA grant agreements during the period under audit.

FTA Agreement Y550 - One (1) reimbursement was requested on 12/21/2007 under this agreement for a total of \$264,055.00 or 17% of the value of all FTA reimbursement requests made during the period under audit. We noted that documentation supporting this request was not sufficiently available for review [See 2009 report for detail].

This exception represents 100% of the value of this reimbursement or alternatively, 17% of the value of reimbursements received under all FTA grant agreements during the period under audit.

MTC STP Funding – Section 5313 (b) – We noted two (2) reimbursements that occurred during the period under audit for a total dollar amount of \$44,375.69. This represented 89% of the total award amount of \$50,000. Invoices presented by the IBI Group for work performed on the Northern Napa Valley Transportation Study did not include progress reports or other supporting documentation indicating the tasks completed as related to the amounts invoiced.

As exhibited with the exceptions noted above, the Agency does not have an overall system in place to properly track all Federal and State grant agreements or the required local matches. The Agency has attempted to identify invoices claimed through the retention of a general ledger printout. However, this printout did not sufficiently identify other invoices claimed under other reimbursements or utilized as local match. The inability of the Agency to easily and efficiently retrieve documentation substantiating the requests for reimbursement under grant agreements may potentially result in disallowances from Federal Transportation Agencies.

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**II.A. GRANTS (Continued)**

**A.2. Supporting Documentation (Continued)**

**2008 Recommendation:** This recommendation is made in conjunction with the recommendation made above under *Monitoring Grants Receivable*. In order to properly substantiate all requests for reimbursement as well as enable Agency staff to efficiently and effectively locate such support, it is recommended that all expenditures under a particular agreement is tracked in a separate mechanism (such as an Access database). This database will allow for Agency staff to efficiently view and identify all expenditures made and reimbursements requested under the particular agreement. In addition, it is recommended that copies of those invoices be retained in the related grant file for ease in accessibility. Alternatively, a reference may be made in the file as to where the particular invoice referenced in the Access database is located (i.e. vendor file name)

The identification of the grant or projects to which all invoices pertain is imperative in ensuring that double billing is not occurring. In addition, the local match must also be separately identified and tracked as invoices attributed to a local match may not be utilized for another project or grant.

Implementation of such recommendations will ensure that Agency staff has the necessary information available to retrieve the documentation supporting the requests made under any grant agreement at any time.

**2008 Management Response:** In February 2008, NCTPA staff began implementing new procedures for identifying which expenses are funded by each source of revenue coming to the Agency. In particular, specific expense accounts in each department and fund have been uniformly identified as attributable to specific activities funded by specific grants. For example, NCTPA's FTA 5307 funds for operating transit services are now tracked precisely to the following expense accounts:

Fund 2100 – Department 31200  
52100000 – Insurance  
52170150 – Security  
52250300 – Fuel and Lubricants  
52250300 – Purchased Transportation

Agency staff is able to run PeopleSoft general ledger reports to get total expenditures for each of these accounts and then seek reimbursement from the FTA for up to 50% of these expenses. Similarly, 5307 capital/maintenance funds (reimbursable at 80%) are tracked through expense accounts 52120000 and accounts beginning 55- and 56-.

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**II.A. GRANTS (Continued)**

**A.2. Supporting Documentation (Continued)**

**2008 Management Response (Continued):** As expenses for reimbursement are identified, the general ledger lines are clearly marked as funded by a particular grant so that one expense is not mistakenly reimbursed through more than one grant source. As also noted earlier, invoices are marked by funding source, and all relevant invoices are pulled and attached as back-up for specific fund reimbursement requests.

All of NCTPA's expense accounts for each fund and department have been specifically organized and standardized according to fund source. Details of all the standards and which accounts draw from which funds will be explicated in the policy and procedures manual currently being developed by NCTPA staff.

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Partially Implemented (95%)

As noted under II.A.1, the Agency currently tracks their grant activity on Excel spreadsheets but could enhance this process further. The Agency also maintains separate folders for each grant. The folders include the grant agreement, budget amendments, reimbursement requests, invoice copies, copies of the reimbursement requests, and other documents required for the grant.

**A.3. Misclassification of a Grant Transaction** – Determine if the Agency has a formal policy or procedure governing the proper recording of expenses pertaining to grants.

**2008 Finding:** During our examination of grant reimbursement requests, we noted one (1) instance of the transaction being booked into the improper budget unit as follows:

- Cal Trans Agreement Number 645003 for the purchase of a paratransit VINE Go bus. We noted that both the revenue and expenditure for the grant transaction was booked to budget unit 31200 *VINE*. As this transaction was for the purchase of a paratransit VINE Go bus, the activity should have been booked to budget unit 31100 *VINE Go*. This instance represented a total expenditure of \$54,422.19. The reimbursement subsequently remitted represented revenue of \$44,898.30 (the difference being attributed to a local match).

**2008 Recommendation:** This recommendation is being made in conjunction with the recommendation in the Cash Disbursements section of this report *Misclassification of Expenses*. Please refer to this section of the report for our full recommendation.

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**II.A. GRANTS (Continued)**

**A.3. Misclassification of a Grant Transaction (Continued)**

**2008 Management Response:** NCTPA management understands and concurs with findings. Please see management response in the section of this report *Misclassification of Expenses*.

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Partially Implemented (85%)

In the process of examining grant compliance under section III, the analysis performed on all active grants disclosed three (3) instances of intentional misclassification of expenses as follows:

- Bus shelters for the American Canyon route were recorded in the correct budget unit (31400) but the incorrect account, Professional Service for a total of \$151,106. Prior to our engagement \$90,000 was transferred to building and improvements, but the remainder of \$61,106 could not be transferred since the budget for the account was only \$90,000.
- Two (2) buses were purchased for the St. Helena Vine (budget unit 31600) through the VINE budget unit (31200) for an aggregate of \$143,598. The St. Helena Vine budget unit did not have a budget established for fixed asset purchases. However, the corresponding reimbursement from the funding source, MTC was recorded in the St. Helena Vine budget unit.
- Two (2) buses were purchased for the Calistoga Handy Van (budget unit 31800) through the VINE budget unit (31200) for an aggregate of \$143,598. The Calistoga Handy Van budget unit did not have a budget established for fixed asset purchases. However, the corresponding reimbursement from the funding source, MTC was recorded in the Calistoga Handy Van budget unit.

Purchases must be budgeted prior to expending the funds.

**II.B. Cash Disbursements/Accounts Payable**

**B.1. Segregation of Duties** – Determine if duties and responsibilities of the cash disbursement process are segregated to minimize risk.

**2008 Finding:** During our examination of cash disbursements, we noted twenty-two (22) instances where proper segregation of duties between different individuals was not maintained during the invoice approval process for both transit and administrative expenses. The lack of segregation of duties is attributed to the following circumstances:

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.1. Segregation of Duties (Continued)**

**2008 Finding (Continued):**

- The invoice did not appear to have any indication that the Agency staff responsible for ordering the goods or services had reviewed and acknowledged the receipt and accurate billing of items invoiced. We noted sixteen (16) instances for a total dollar amount of \$401,778.10. These invoices represented 33% of the value of our sample.
- The signatory authorization to disburse the funds was provided by the Agency staff responsible for ordering and receiving the goods or services invoiced. We noted six (6) instances for a total dollar amount of \$237,237.82. These invoices represented 20% of the value of our sample.

The combined effect of the aforementioned exceptions aggregated to twenty-two (22) instances for a total dollar amount of \$639,015.92. This represents 53% of the value of our sample.

**2008 Recommendation:** Duties should be divided, to the extent possible, among different individuals to reduce the risk of error or inappropriate actions. In this particular instance, duties should be divided between the purchasing and disbursement functions of the Agency.

It is recommended that each invoice received by the Agency be first reviewed by the individual responsible for ordering and receiving the goods or services invoiced. Packing slips and/or progress reports should be attached to the invoice, as applicable. A signature acknowledgement by this individual should be provided to indicate that the goods or services were received, the invoice was reviewed and the charges are accurate. A secondary authorization is recommended to be provided by the Executive Director (or his designee) to approve payment of the invoice. The implementation of such a process will ensure that proper segregation of duties is maintained between these functions and that risk of error or unauthorized payment is minimized.

**2008 Management Response:** NCTPA management fully understands and concurs with the recommendation. Further, NCTPA understands the importance of maintaining clear segregation of duties with regard to cash disbursements.

Furthermore, it should be noted that prior to this audit NCTPA had already recognized an opportunity to revisit this matter. As a result, in February 2008, Agency staff began implementing new procedures to ensure segregation of duties in the fiscal processes of NCTPA. The following process has been implemented as of spring 2008 regarding cash disbursements:



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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.1. Segregation of Duties (Continued)**

**2008 Management Response (Continued):**

- 1) Technical review of invoices by Program Manager - Program manager reviews invoices and packing slips as necessary. Invoices for services are reviewed to ensure appropriate documentation of progress toward tasks. For goods received at transit facilities and not NCTPA administrative offices, confirmation of receipt occurs by phone or email with the appropriate manager at the receiving location. Method and time/date of confirmation is noted on the invoice. Program Manager is also responsible for identifying the budget account from which funds will be paid, and what source of funds will be used for payment (i.e. the grant number, and percent of local match as necessary).
- 2) Authorization for disbursement by Executive Director or his/her designee - After technical review, invoices and supporting documentation are presented to the Executive Director/designee for disbursement authorization.
- 3) Input of payables into PeopleSoft system - NCTPA's account clerk, upon receiving invoices with complete documentation and signatures for both technical review and disbursement authorization, inputs payables into PeopleSoft. Clerk runs a calculator tape roll of invoices to ensure accurate input into PeopleSoft, and then runs an Operator ID report for signature of Fiscal Manager.
- 4) Operator ID sign-off - NCTPA's Fiscal and Planning Manager reviews Operator ID, reviews all invoices for signatory approvals, and reviews accuracy of inputs including confirmation of appropriateness of accounts and completeness and appropriateness of grant/fund notations.

NCTPA staff has modified the sticker attached to each invoice to reflect these processes.

**2009 Status:** Partially Implemented (85%)

**2012 Status:** Partially Implemented (95%).

As a component of our examination we selected a sample of cash disbursements. Our examination disclosed three (3) instances where segregation of responsibilities may not exist. Three (3) separate invoices payable to Pacific Gas & Electric for the relocation of power did not indicate on the invoices that they had been approved for payment. The cumulative amount of payments made without approval noted on the support documents was \$21,345.

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.2. Misapplication of GAAP – Identification and Accrual of Accounts Payable –**

Determine if the mechanism put into place to appropriately track, analyze and identify year-end accounts payable prior to February 2009 is either currently in place or has been improved upon.

**2008 Finding:** During our examination of cash disbursements, we noted two (2) instances where the invoice reviewed was recorded or potentially recorded in the wrong accounting period. [See 2009 report for detail]

The combined effect of the aforementioned exceptions aggregated to [...] a total dollar amount of \$223,247.60. This represents 19% of the value of our sample.

**2008 Recommendation:** These exceptions are indicative of a control deficiency in the Agency's ability to properly track, analyze and identify year-end account payables. Such control deficiency could potentially result in a material misstatement of the year-end accounts payable reported by the Agency in the annual financial statements (subject to external auditor thresholds).

It is recommended that a mechanism be put into place to appropriately track invoices which have not been paid by period-end. In addition, an analysis should be performed to identify all inter-period projects. Progress reports should be obtained, analyzed, and retained in order to properly allocate the charges between accounting periods. Implementing such a mechanism and analysis will assist the Agency in ensuring that accounts payable have been correctly recorded at period-end.

**2008 Management Response:** As noted above, NCTPA management fully understands its responsibility to exercise tighter controls over its financial management and further recognizes that discipline and intense attention to details is required to do so.

Since the completion of NCTPA's FY 06-07 audit, agency staff has thoroughly reviewed the financial-controls deficiencies identified and reported to the NCTPA by auditor's Bartig, Basler and & Ray. Lack of a mechanism for capturing year-end payables has been a significant concern for staff, and developing such a mechanism has been a high priority.

As of April 2008, in response to the audit and in preparation for 07-08 year-end closing, staff developed a spreadsheet for tracking regular payables for each fund and department in NCTPA's accounting structure. Further, staff has with another spreadsheet inventoried all open contracts, identified inter-period projects, and interviewed Program Managers to determine what amounts will be payable against contracts through June 30<sup>th</sup>. Finally, staff is actively contacting all active vendors requesting invoices for work and services through June 30<sup>th</sup> be delivered as soon after June 30 as possible.

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.2. Misapplication of GAAP – Identification and Accrual of Accounts Payable  
(Continued)**

**2009 Status:** Implemented (100%)

**2012 Status:** Implemented (100%).

No exceptions noted during our examination.

**B.3. Lack of Formal Policies and Procedures – Capitalization** – Determine if the Agency has a formal policy or procedure governing the capitalization of transactions when applicable and is adhering to the requirements of the policy.

**2008 Finding:** During our examination of cash disbursements, we noted one (1) instance where an invoice was improperly capitalized and reported as an asset on the financial statements. [See 2009 report for detail]

The invoice examined represents a total dollar amount of \$77,322.75 or 6% of the value of our sample.

**2008 Recommendation:** Many times procedures are communicated in an informal manner. This manner can be effective where the procedure is long-standing and well-understood practice, and in smaller organizations where communication channels involve only limited management layers and close interaction and supervision of personnel. However, in this instance, the exception noted indicates a control deficiency in the communication of the informal capitalization procedure to Agency staff. Such a deficiency could result in a material misstatement of the Agency's capital assets recorded on the annual financial statements (subject to external auditor thresholds).

It is recommended that a procedural manual be developed and communicated to all Agency staff. This manual should incorporate all significant accounting policies of the Agency (such as those found in the financial statements) in an easy to access guide. This will provide an effective resource for the staff which will assist in the processing and recording of the daily transactions of the Agency. In addition, this guide may serve as a training instrument for the development of new staff.

**2008 Management Response:** NCTPA management concurs with the observations and recommendation of the Auditor-Controller regarding more clearly defined processes and procedures as well as establishing better communication among entities working with NCTPA on financial matters.

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.3. Lack of Formal Policies and Procedures – Capitalization (Continued)**

**2008 Management Response (Continued):** NCTPA policy stipulates a capital asset as an asset with an initial, individual cost of more than \$5,000 and an estimated useful life of one year. A miscommunication between entities working on NCTPA's financial matters has occurred with the booking into accounts of NCTPA's capital purchases. In utilizing the County of Napa's accounting system, NCTPA has booked all capital purchases into accounts beginning with either "55-" or "56-". According to the County of Napa's organizing of accounts, both 55- and 56 purchases are for capital assets. However, NCTPA has historically used the 55-account to record non-capitalized capital purchases, and the 56- account for capitalized purchases.

As formal policy for booking capital purchases/recording assets had not been recorded for NCTPA, miscommunication among NCTPA staff and between NCTPA and the Auditor-Controller's office led to misunderstandings and mis-recordings of the Agency's assets. Agency management fully appreciates the ongoing cooperation of the County of Napa's Auditor-Controller's staff in clearing communications.

NCTPA management wholly concurs with the need for the development of a formal procedural manual including all significant accounting policies of the Agency. Development of this manual is in progress and is expected to be completed early in FY 08-09.

**2009 Status:** Not Implemented

**2012 Status:** Implemented (100%)

A Fixed Asset Management Policy was approved on September 22, 2010 as a component of the NCTPA Policies, Practices and Procedures, Section 2; however, in an effort to comply with the Policy, the Agency reduced expenses in the process of capitalizing the asset. Expenses should not be reduced since their reduction distorts the available budget. Capitalization of the assets should occur through the use of a contra expense account. See Section II.G. for additional information on the exceptions noted during our engagement.

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.4. Misclassification of Expenses** – Determine if the Agency has a formal policy or procedure providing guidelines for recording expenses in the proper account and period and is adhering to the requirements of the policy.

**2008 Finding:** During our examination of cash disbursements we noted the misclassification of expenses at the account, budget unit and fund levels. Please note that the exceptions below are based upon our understanding of the nature and types of expenses booked into these classifications. We obtained this knowledge by reviewing the general ledger during our audit and performing inquiries with Agency staff. The objective of such review is to ensure consistency in how transactions are booked into the general ledger. The exceptions noted are attributed to the following circumstances:

- Account – We noted nine (9) instances where an expense was booked into the improper account number [See 2009 report for detail].

The combined effect of the aforementioned exceptions aggregated to nine (9) instances for a total dollar amount of \$109,349.89. This represents 9% of the value of our sample.

- Budget Unit – We noted two (2) instances where an expense was booked into the improper budget unit [See 2009 report for detail].

The combined effect of the aforementioned exceptions aggregated to two (2) instances for a total dollar amount of \$448.92 or less than 1% of the value of our sample.

- Fund – We noted one (1) instance where an expense was booked into the improper fund [See 2009 report for detail].

This instance represented a total dollar value of \$16.91 or less than 1% of the value of our sample.

**2008 Recommendation:** During our testing of these invoices and inquiries with Agency personnel, we noted that many of these misclassifications occurred due to a lack of clarity regarding the nature of accounts and uncertainty as to where certain transactions should be booked. Other instances were attributed to a lack of understanding by the staff regarding the importance of allocating expenses to their proper accounts and budget units.

Upon further review of the budget document utilized by staff, it was noted that it is structured primarily by project or activity. Each revenue or expense account is broken down further to describe the types of projects or nature of transactions specifically budgeted for within the fund, budget unit, and account. However, this level of detail

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.4. Misclassification of Expenses (Continued)**

**2008 Recommendation (Continued):** appeared to be inconsistent thereby creating uncertainty as to where certain revenues or expenditures should be booked. In addition, it was noted that there was no documentation detailing the funding sources of Agency revenues or the linkage between revenues and expenditures. This in turn will pose difficulties in determining whether double billing is occurring or whether funds are being utilized inappropriately.

Therefore, it is recommended that the Agency supplement the annual budget with a detailed chart describing the various sources of funding to be provided to the Agency staff during the fiscal year as well as the budgeted expenditures under each funding source. This will assist in ensuring that revenues and expenditures are appropriately matched and assist in preventing transactions from being inadvertently booked to the incorrect fund, budget unit or account. In addition, it is recommend that a procedural manual be implemented and communicated to staff emphasizing the importance of analyzing each invoice in order to properly segregate between accounts, budget units, or fund type. This will further enhance the budgeting process in providing accurate and consistent data to management and the Board for the annual budgeting process.

**2008 Management Response:** Beginning in February 2008, NCTPA staff has engaged in a rigorous program of attention to detail regarding the appropriate booking of expenses. The Fiscal Manager and Account Clerk have established daily communications and detailed review of invoices and Agency expenditures. Additionally, both the Fiscal Manager and the Account Clerk have been reviewing for accuracy and consistency NCTPA's general ledger line by line, account by account, for each Agency Fund and Department. Throughout the spring of 2008 NCTPA staff has worked to identify and reclassify current FY mis-bookings.

Through increased communication and working closely with the County of Napa's Auditor-Controller's office, NCTPA staff has become much more clear about—and certainly recognizes the importance of—accurately recording all expenses and understanding, with certainty, the nature of Agency expenses.

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Partially Implemented (85%)

In the process of examining grant compliance under section III, the analysis performed on all active grants disclosed three (3) instances of misclassification of expenses. See Section II.A.3 for details.

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.5. Marketing Related Disbursements** – Determine if the Agency has a formal policy or procedure governing the procurement and utilization of marketing related items and is adhering to the requirements of the policy.

**2008 Finding:** During our examination of cash disbursements, we selected ten (10) invoices attributed to the purchase of outreach giveaways or items to be worn by NCTPA staff, transit ambassadors or board members. The nature of the items reviewed included mugs, mint tins, baseball caps, shirts, messenger bags, fleece vests, and hand fans. Of the invoices selected for testing, we noted the following exceptions [See 2009 report for detail]:

- Inadequate documentation to justify the “fair and reasonable” pricing.
- Procurement documentation was approved by the Procurement Officer subsequent to the invoice date.
- There was no acknowledgement from Agency staff indicating receipt of goods and accuracy in billing.
- Business purpose or event for which items were utilized not apparent on the invoices.
- Invoices were booked to the NCTPA Planning Fund (2060).

**2008 Recommendation:** In order to clarify the process of the procurement and utilization of marketing related items, it is recommended that a policy be implemented and communicated to Agency staff. This policy should incorporate the following elements:

- Allowable annual expenditures for marketing items (i.e. detailed budget).
- Nature of items allowable for purchase under the marketing plan.
- Process for ensuring the reasonableness of pricing if a single vendor is primarily utilized.
- Allow for a separate marketing line item in the budget.
- The process for tracking expenditures in comparison with the allowable budget.
- Approved events for which the marketing items may be distributed.
- Require a process for tracking marketing items “in stock” if on-hand inventory is kept. Otherwise, the events for which the items are to be used should be documented on the invoice.

It is further recommended that the Executive Director designate an individual primary responsibility for ensuring the policy is followed and providing for accountability of items purchased and distributed.

**2008 Management Response:** NCTPA management understands and concurs with findings and will implement recommendations including preparing a marketing expenditure plan for FY 08-09.

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.5. Marketing Related Disbursements (Continued)**

**2009 Status:** Not Implemented

**2012 Status:** Unknown –No expenditure were incurred during the engagement period.

Marketing related disbursements are indirectly addressed in the Grant Accounting and Administration Policy (FIN 4.5), Vendor Invoice Processing Policy (FIN 6.2), and Procurement Policy (FIN 11). Based on a review of the General Ledger activity for fiscal year 2011-2012, there were no marketing related expenses during the engagement period.

**B.6. Application of Agency Policy – Procurement** – Determine if Agency is adhering to the requirements of the Procurement Manual.

**2008 Finding:** During our examination of cash disbursements, we noted ten (10) instances where the invoice documentation reviewed did not appear to be maintained in accordance with the Procurement Manual for both transit and administrative expenses. The exceptions we noted are attributed to the following circumstances [See 2009 report for detail]:

- Sole Source – There was an inadequacy of documentation supporting the justification and authorization of a sole source purchase. We noted this in one (1) instance where the total dollar amount was \$77,322.75 or 6% of the value of our sample.
- Small Purchases (Quotes) - Small purchases were made where two other quotes did not appear to be obtained as there was no documentation of such attached to the invoice. We noted two (2) instances for a total dollar amount of \$7,603.89 or less than 1% the total value of our sample.
- Small Purchases (Purchase Order) - Small purchases were made where a purchase order did not appear to be obtained as there was no indication of such attached to the invoice. We noted two (2) instances for a total dollar amount of \$7,573.73 or less than 1% of the value of our sample.
- Procurement Form (Date) - We noted seven (7) instances where the procurement form was approved by the Procurement Officer subsequent to the invoice date. These instances represented a total dollar amount of \$11,562.04 or less than 1% of the value of our total sample.
- Procurement Form (Signature) - We noted one (1) instance where the procurement form was not signed by the Procurement Officer or authorized designee. This instance represented a total dollar amount of \$123.92 or less than 1% of the value of our sample.



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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.6. Application of Agency Policy – Procurement (Continued)**

**2008 Finding (Continued):** The Agency’s Procurement Manual is designed to be consistent with federal regulations and the laws of the State of California. Accordingly, failure to follow and consistently apply the procedures within may result in potential disallowances by Federal Transportation Agencies.

The combined effect of the aforementioned exceptions aggregated to ten (10) instances for a total dollar amount of \$91,552.87. This represents 8% of the value of our sample.

**2008 Recommendation:** Policies must be implemented thoughtfully, conscientiously and consistently. A procedure will not be useful if performed mechanically without a sharp continuing focus on conditions to which the policy is directed. Per Chapter I of the Procurement Manual, the procurement procedures are designed to:

- Instill public confidence in the procurement process of NCTPA
- Ensure fair and equitable treatment for all vendors who seek to deal with NCTPA
- Ensure maximum open and free competition in the expenditure of public funds
- Provide safeguards to maintain a procurement system of quality and integrity

We noted various provisions of the policy which did not appear to be followed on a consistent basis by Agency Staff. In order to ensure that the above directives are consistently and conscientiously carried out, it is recommended that Agency staff receive additional training related to the procurement process and the specific requirements outlined in the Procurement Manual. This will ensure that all personnel are familiar with and understand the types of documentation required in order to initiate and process a purchase. In addition, Chapter II, Section B of the Procurement Manual provides for a “Quick Reference” of critical provisions of the policy. It is recommended that this section of the Manual be extracted and incorporated into an easy to view desktop reference for the staff. This will ensure that the staff is able to access necessary information in an efficient and effective manner when performing procurement activities.

**2008 Management Response:** NCTPA management recognizes the utmost importance of developing and maintaining fiscal systems upholding the highest standards of quality and integrity in the Agency. It is staff’s responsibility to exercise tight controls over financial management in order to maintain the trust of policy makers and the public at large. However, due to stretched and limited resources it appears that procurement oversight to insure compliance was overlooked during the period covered by this audit.

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.6. Application of Agency Policy – Procurement (Continued)**

**2008 Management Response (Continued):** In the spring of 2008, NCTPA staff began revisiting the Agency’s existing procurement manual to ensure compliance with all procurements being undertaken. The procurement manual has been redistributed to all staff, and the “Quick Reference” section of the manual has been extracted and given to all staff as recommended by the Auditor-Controller’s office. Additionally, in April, as recommended by NCTPA’s Fiscal Manager, in absence of an agency Deputy Director, an agency Program Manager has been appointed NCTPA’s Procurement Officer (a role formerly performed by the Deputy Director).

Finally, regular and coordinated staff review of the procurement manual began in June 2008. The Executive Director and agency Program Managers are coordinating an on-going staff education program both through staff meetings and through an upcoming staff retreat/workshop on agency procurement policies and associated staff duties and responsibilities.

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

**B.7. Lack of Formal Policies and Procedures – Petty Cash - Determine if a Petty Cash Policy has been adopted and if the Agency is complying with the requirements of the policy.**

**2008 Finding:** During our examination of cash disbursements, we noted several instances of ineligible expenses improperly reimbursed through petty cash. [See 2009 report for detail] The exceptions noted on the reimbursement are as follows:

- Reimbursement of birthday cakes and birthday cards for Agency Staff. In general, such items are considered gifts and thus prohibited in accordance with the California Constitution, Article XVI, Section 6 [See 2009 report for detail].
- Reimbursement of retirement cake and card for Agency staff. Such item is considered a gift. The California Government Code, Section 26206 governs retirement gifts [See 2009 report for detail]
- Reimbursement of other expenses where the business purpose of such expenditure was not clear from the documentation provided.

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.7. Lack of Formal Policies and Procedures – Petty Cash (Continued)**

**2008 Recommendation:** It was noted that there is no policy or procedure in place surrounding the utilization of the petty cash fund. It is recommended that a policy or procedure be put into place and communicated to Agency staff in order to ensure the propriety of petty cash usage.

It is further recommended that a standardized form be implemented in order to assist in the documentation and review of the disbursement of funds. This form is recommended to include the following elements:

- Date of request
- Employee name
- Dollar amount of request
- Basis of request (advance or reimbursement)
- Date and amount of monies returned, if on advance basis
- Purpose and nature of usage
- Supporting documentation attached (e.g. receipts)
- Signature certification of the employee requesting reimbursement

Implementation of these recommendations will assist in ensuring the accountability and proper usage of the petty cash funds, as well as assist management in reviewing the propriety of such expenditures.

**2008 Management Response:** NCTPA management understands and concurs with findings and has implemented recommendations, including the standardized form.

**2009 Status:** Partially Implemented (85%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

**B.8. Application of Agency Policy – Travel** – Determine if the requirements of the Travel Policy are being consistently applied by Agency staff.

**2008 Finding:** During our examination of cash disbursements related to travel expense reimbursement forms we noted six (6) instances where expenses were reimbursed that were not in accordance with the Agency’s Travel Policy [See 2009 report for detail].

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**II.B. Cash Disbursements/Accounts Payable (Continued)**

**B.8. Application of Agency Policy – Travel (Continued)**

**2008 Finding (Continued):** The combined effect of the exceptions aggregated to six (6) instances for a total dollar amount of \$48.17 or less than 1% of the value of our sample. It should be noted however, that we selected three (3) reimbursement forms for testing, all three (3) of which contained exceptions.

**2008 Recommendation:** The exceptions noted are indicative that a control deficiency exists within the consistency of application of Agency Policies. The underlying cause of this deficiency is noted to be the communication and consistent application of such policies to Agency Staff.

Per Section I of the Travel Policy:

*“...its intent is to establish reimbursement schedules under which employees assigned to NCTPA will receive no more than reasonable and necessary reimbursement for travel expenses...”*

In order to ensure that the directives of this policy are effectively carried out, it is recommended that the Agency provide training to Agency staff in order to assist them in obtaining a thorough understanding of the conditions under which expenses shall become reimbursable, eligibility of expenses and minimization of costs. This will ensure that staff utilizes the most cost effective travel alternatives, thus minimizing the impact on Agency funds. In addition, this training will assist in the processing and authorization of travel claims, reducing the risk of payment on ineligible expenses.

**2008 Management Response:** NCTPA management understands and concurs with findings. Review of the Agency’s Travel Policies will be part of the upcoming staff retreat/workshop.

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

**II.C. Contracts**

**C.1. Administration** – Determine if the Procurement manual is being followed for vendors utilized during the period of the engagement.

**2008 Finding:** During our examination of cash disbursements and receipts, we noted three (3) instances where a contract was noted to not be in place with a particular vendor. [See 2009 report for detail]

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**II.C. Contracts (Continued)**

**C.1. Administration (Continued)**

**2008 Finding (Continued):** The instances noted are as follows:

- AT Systems armored car services
- City Bus advertising services
- Blanket purchase orders – we noted several vendors for which a blanket purchase order was set-up as an alternative to a contract.

**2008 Recommendation:** It is recommended that the Agency perform an annual evaluation of all current vendors to ensure that the requirements of the Procurement Manual have been met. The following factors should be considered:

- Quantitative – the amount of funds expected to be expended with the vendor in the next fiscal year. If this amount is expected to exceed \$25,000, a contract or blanket purchase order should be set-up and the required approvals obtained.

In addition, documentation supporting the reasoning of why the particular vendor was selected by the Agency should be prepared and retained. This documentation should include bids/quotes, requests for proposals or cost analyses gathered or prepared during the evaluation as required by the provisions of the Procurement Manual. A letter of agreement (as required by the Procurement Manual) which details the nature and types of goods or services to be provided to the Agency should be included in the appropriate vendor file.

- Qualitative - the nature of services to be provided should be considered. Those services which pose significant risk to the Agency or are otherwise legally required (such as armored car deposit services) should have a contract set-up even though the quantitative threshold is not expected to be met.

**2008 Management Response:** In March 2008, NCTPA staff began researching the history and status of contracts which the Agency “assumed” from the City of Napa upon taking over public transportation systems. Between March and May 2008, both AT Systems and City Bus were notified that NCTPA would be issuing Requests for Proposals for providing such services to the Agency. RFPs will be issued in July 2008, and contracts will be put into place upon selection of vendors.

Also in March 2008, NCTPA staff began researching the history and status of vendors with blanket purchase orders approved by the Board. A spreadsheet has been set up to track expenditures against approved amounts to ensure the Agency does not exceed levels approved by the Board. Additionally, staff is preparing for FY 08-09 documentation, cost analyses, and bid/quotes for all blanket purchase orders to come to the Board for approval.

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**II.C. Contracts (Continued)**

**C.1. Administration (Continued)**

**2009 Status:** Partially Implemented (50%).

**2012 Status:** Partially Implemented (75%)

During our review of contracts, we noted the following:

- Alkar – The contract is Alkar’s boiler plate versus the Agency’s. Recommend that legal counsel review the contract and indicate review on the agreement.
- Garda – The contract is Garda’s boiler plate versus the Agency’s and has been in place since August 1, 2005 with automatic renewals. Recommend that legal counsel review the contract and indicate review on the agreement. We also recommend that an RFP or at a minimum quotes from other providers be obtained for the same scope of service to determine if the cost of the armor car service is still fair and reasonable.
- Go West Communications – The original contract term was from October 20, 2004 to June 30, 2006 and is automatically renewed for an additional year at the end of each fiscal year. The contract includes website development, posters, brochures, etc. We recommend terminating the contract since no amounts have been rendered during the current fiscal year as of April 24, 2012 and on November 16, 2011 staff requested the Board’s approval to issue a Request for Proposals for website design.

**C.2. Authorization** – Review Board packets and minutes to determine if the documents continue to contain sufficient clarity that a reader of the documents can ascertain the level of authorization of significant contract terms.

**2008 Finding:** During our examination of contracts, we noted three (3) instances where the summarized minutes and board agenda packets did not provide sufficient clarity regarding the scope of authority. [See 2009 report for detail]

**2008 Recommendation:** It is recommended that approval of all significant contract terms and term extensions be fully documented in the minutes and agenda packets for all Agency contracts. The documentation should include the contract description, maximum obligation under the contract, and term.

**2008 Management Response:** NCTPA management understands and concurs with the above findings and recommendations. Beginning in June 2008, Board agenda packets and meeting minutes are being modified to reflect implementation of the above recommendation.

**2009 Status:** Implemented (100%)

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**II.C. Contracts (Continued)**

**C.2. Authorization (Continued)**

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

**C.3. Monitoring** – Determine if a consistent mechanism is in place to appropriately track expenditures under a contract or blanket purchase order to ensure that the authorized limits are not exceeded and the expense is within the scope of the contract.

**2008 Finding:** During our examination of contracts, we noted that the Agency is currently not tracking expenditures under contracts or approved blanket purchase orders. Such tracking is necessary in order to perform a comparison between actual expenditures and expenditures authorized and/or per the executed contract. In addition, contract invoices should be monitored to ensure that they are within contract scope prior to payment. We noted two (2) instances [See 2009 report for detail].

**2008 Recommendation:** In order to ensure that contracts and blanket purchase orders are not expended in an amount greater than contract and/or Board authorization, it is recommended that the Agency implement a mechanism for each to properly track all expenditures. This mechanism may be implemented through the use of a running balance worksheet in each contract or vendor file. In this manner, paid invoices may be deducted from the executed or authorized dollar amount to be expended. The remaining balance may be easily identified by staff and additional approvals obtained timely, if necessary. It is further recommended that prior to payment on an invoice that is under a contract, the Agency perform the following:

- Review the nature of the invoice to ensure that the expenditure is within contract scope. This will assist in ensuring that the Agency does not remit payments for items or services that are not contractually obligated to be paid by the Agency.
- Review and re-evaluate the remaining contract balance to ensure that sufficient balance exists to make the payment and identify whether additional approvals or contract amendments will need to be made in order to complete the contract. This will ensure that these situations are identified and approved on a timely basis.

In addition, prior to entering into a contract involving blanket purchase orders, Agency staff should ensure that the amount of funds remaining under the purchase order are sufficient to honor the contract.

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**II.C. Contracts (Continued)**

**C.3. Monitoring (Continued)**

**2008 Management Response:** As noted above, Agency staff implemented in the spring of 2008 a tracking mechanism for vendors with blanket purchase orders. Additionally, staff established individual balance sheets for each vendor under contract with the Agency. These sheets include the total contract cost, a running total of payments made, and the remaining balance.

Also as noted earlier, Agency staff has been since the spring of 2008 meticulously engaged in ensuring all expenses are attributed to the proper contracts and budget lines.

**2009 Status:** Partially Implemented (75%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

**II.D. Cash Receipts**

**D.1. Identification and Accrual of Accounts Receivable** – Determine if a mechanism exists to appropriately track, analyze and identify year-end accounts receivable.

**2012 Results:** The Agency has established a year-end revenue accrual process and performs analysis quarterly to determine outstanding revenues owed to the Agency. No exceptions noted.

**D.2. Private Contributions** – Determine if the Agency is following the formal policy or procedure governing the acceptance of private contributions or donations adopted prior to February 2, 2009.

**2008 Finding:** During our examination of cash receipts, we noted one (1) instance where a private contribution was accepted without prior approval from the Board of Directors. Per California Government Code Section 25355: [See 2009 report for detail].

This contribution was related to a roundabout study being conducted by the Agency and represented a dollar amount of \$45,000 or 25% of the value of our sample.

**2008 Recommendation:** It was noted that there currently is no policy in place governing the acceptance of private contributions or donations by the Agency. Therefore, it is recommended that a policy be adopted by the Board in accordance with California Government Code Section 25355 indicating the thresholds of acceptance as well as the employee designated to accept such gifts.



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**II.D. Cash Receipts (Continued)**

**D.2. Private Contributions (Continued)**

**2008 Management Response:** NCTPA management understands and concurs with the above findings and recommendations. Beginning in spring of 2008, NCTPA staff has brought resolutions to the Board for approval to accept private contributions for specific projects. In July 2008 staff will bring to the Board for approval a resolution for approval of accepting private funds in accordance with Government Code section 25355.

**2009 Status:** Implemented (100%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

**D.3. Classification of Revenues** – Determine if the Agency has a formal policy or procedure providing guidelines for recording revenues in the proper account and period; and is adhering to the requirements of the policy.

**Misapplication of GAAP – Miscellaneous Income**

**2008 Finding:** During our examination of cash receipts we noted one (1) instance where cash received from the City of St. Helena as a loan for the Napa Valley Bike Path Project was booked to account number 48600000 *Other Contributions: Miscellaneous*. We further noted that this amount has not been paid back to the City of St. Helena at the end of fiscal year 2007.

Therefore, this receipt should have been booked as an account payable, not miscellaneous income. This exception represented a total dollar amount of \$20,000 or 11% of the value of our sample.

**2008 Recommendation:** It is noted that there are no procedures in place surrounding the process of booking cash receipts to the general ledger. Therefore, in conjunction with our recommendation below under *Misclassification of Revenues*, it is recommended that a policy be implemented and communicated to staff which assists in the identification of receipt types and proper accounts in which to book transactions. It is important that Agency staff identify receipts which must be repaid by the Agency in order to properly report accounts payable. Please refer to the Cash Disbursements section of this report *Identification and Accrual of Accounts Payable* for additional information.

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**II.D. Cash Receipts (Continued)**

**D.3. Classification of Revenues (Continued)**

Misapplication of GAAP – Miscellaneous Income (Continued)

**2008 Management Response:** As noted above, NCTPA understand and concurs with absolute importance of proper booking of revenue.

Regarding this particular \$20,000 from St. Helena, while NCTPA management agrees “miscellaneous income” was not the appropriate account to receive this money (as 45082300 is the existing account for receiving funds from St. Helena); we must note it is not a payable account. All member agencies will be returned their contributions for the Bike Path Feasibility Study directly through TDA 3 funds which will not pass through NCTPA.

**2009 Status:** Not Implemented

**2012 Status:** Implemented (100%)

The Agency provides an explanation page within their budget document that describes what the revenue and expense accounts encompass, i.e. “*Farebox – Revenue collected from farebox and taxi scrip program*”. Additional testing was performed on a sample of cash receipts. No exceptions were noted.

Misclassification of Revenues

**2008 Finding:** During our examination of cash receipts we noted the misclassification of revenues at the account and budget unit levels. Please note that the exceptions below are based upon our understanding of the nature and types of revenues booked into these classifications. We obtained this knowledge by reviewing the general ledger during our audit and performing inquiries with Agency staff. The objective of such review is to ensure consistency in how transactions are booked into the general ledger. The exceptions noted are attributed to the following circumstances [See 2009 report for detail]:

- Account – We noted four (4) instances where revenue was booked into the improper account number. All four (4) instances were attributed to the receipt of advertising revenues from City Bus. We noted that these receipts were booked into account number 46075410 Farebox.

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**II.D. Cash Receipts (Continued)**

**D.3. Classification of Revenues (Continued)**

Misclassification of Revenues (Continued)

**2008 Finding (Continued):**

- Account (Continued) - Accordingly, revenues generated from advertising do not qualify for purposes of computing the farebox ratio. As such, the revenues should have been booked to a miscellaneous revenue account, such as account number 48600000 Other Revenue. Such a misclassification may result in a potential disallowance from the Federal Transportation Authorities subject to the impact these revenues have on the farebox ratio. The aggregate dollar amount of these exceptions totaled \$2,455.00 and represents less than 1% of the value of our sample. However, these exceptions represent 100% of the advertising revenues selected for testing.
- Budget Unit – We noted five (5) instances where a cash receipt was booked into the improper budget unit.

The combined effect of the aforementioned exceptions aggregated to five (5) instances for a total dollar amount of \$5,568.00. This represents 3% of the value of our sample.

**2008 Recommendation:** During our testing of these deposits and inquiries with Agency staff, we noted that many of these misclassifications occurred due to general clerical errors. Other instances were attributed to a lack of understanding by the staff regarding the importance of allocating revenues to their proper accounts and budget units.

Therefore, it is recommended that entries made by Agency staff be reviewed by a second individual (as designated by the Executive Director) in order to ensure that the entries are made to the proper account, budget unit and fund.

In conjunction with our recommendation in the Cash Disbursements *Misclassification of Expenses* section of this report, it is recommended that a procedural manual be implemented and communicated to staff emphasizing the importance of analyzing each deposit in order to properly segregate between accounts, budget units, or fund type. This will further enhance the budgeting process in providing accurate and consistent data to management and the Board for the annual budgeting process.

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**II.D. Cash Receipts (Continued)**

**D.3. Classification of Revenues (Continued)**

Misclassification of Revenues (Continued)

**2008 Management Response:** As noted above, NCTPA management fully understands its responsibility to exercise tighter controls over financial management and further recognizes the work and intense attention to fine details required to do so. In the spring of 2008, Agency staff began implementing processes for receiving revenue similar to those for accounting for expenses. Spreadsheets have been set up to track expected revenue by fund source, and both a Program Manager and the Fiscal Officer are required to sign off on deposits to ensure they are being posted to the right funds, departments, and accounts.

Also as noted above, NCTPA management wholly concurs with the need for the development of a formal procedural manual including all significant accounting policies of the Agency. Development of this manual is in progress and is expected to be completed early in FY 08-09. Additionally, NCTPA staff is preparing to centralize all the spreadsheets and tracking mechanisms referred to in this report into one Access database.

**2009 Status:** Partially Implemented (85%)

**2012 Status:** Implemented (100%)

The Agency provides an explanation page within their budget document that describes what the revenue and expense accounts encompass, i.e. “*Federal: FTA 5303 Planning – FTA transportation planning funds*”. Additional testing was performed on a sample of cash receipts. No exceptions were noted.

**D.4. Application of Agency Policy – Transit Pass Sales** – Determine if the Agency is following a formal policy or procedures governing the process of recording cash receipts attributable to the sale of transit passes handled by the transit contractor.

**2008 Finding:** During our examination of cash receipts, we noted two (2) deposits attributed to the sale of transit passes at the VINE customer service center on Pearl Street. Sales occurring at this center are handled by the transit contractor (Veolia). We have noted that the contractor currently collects the money attributed to these sales and remits directly to County Treasury on a weekly basis. Sales logs prepared by the contractor are remitted to the Agency on a daily basis and detail the type, quantity, serial number and dollar amount of passes sold. In both instances, we noted that there was no evidence that a reconciliation had been performed by Agency staff to ensure that the monies received

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**II.D. Cash Receipts (Continued)**

**D.4. Application of Agency Policy – Transit Pass Sales (Continued)**

**2008 Finding (Continued):** by County Treasury were intact in comparison to the daily sales logs received. In addition, the passes issued to the customer service center were not reconciled with the passes sold per this daily log. The two (2) deposits selected for testing represented a total dollar amount of \$1,374.00 or less than 1% of the value of our sample. However, as noted, these exceptions represent 100% of the cash receipts selected of this nature.

**2008 Recommendation:** There are currently no procedures in place surrounding the process of recording cash receipts attributed to the sale of transit passes handled by the transit contractor.

It is recommended that a set of procedures be implemented and communicated to Agency staff governing the recording of these receipts which incorporates the following procedures:

- The daily sales logs should be reviewed and reconciled to the weekly deposit made into County Treasury by contractor personnel. Any differences should be investigated and resolved by Agency staff. This reconciliation should be retained and attached to the weekly deposit.
- The passes sold per the daily sales log should be reconciled to the passes originally issued to the customer service center. This may be achieved by utilizing an excel spreadsheet which indicates the date of issuance, pass type, serial number and corresponding date of sale. In this manner, the Agency may follow-up on passes which appear to have not been sold within a reasonable period. This will ensure that all passes issued by the Agency have been properly accounted for.

It is further recommended that an Agency manager, designated by the Executive Director, perform periodic reviews (e.g. monthly) to ensure that the reconciliations are being performed, retained and reconciling differences are followed-up and resolved on a timely basis.

**2008 Management Response:** NCTPA management understands and concurs with findings and has implemented the recommended procedures. The Fiscal and Planning Manager will ensure procedures are followed and discrepancies followed-up on in a timely matter.

**2009 Status:** Partially Implemented (85%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

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**II.D. Cash Receipts (Continued)**

**D.5. Lack of Formal Policies and Procedures – Fare Deposits** – Determine if a formal policy or procedure has been established and adhered to governing the recording of fare deposits made by the armored car contractor.

**2008 Finding:** During our examination of cash receipts, we noted seven (7) deposits attributed to the deposit of VINE fares by AT Systems (armored car service). These fares are collected on-board the VINE buses and then picked up from the transit contractor (Veolia) and deposited directly to County Treasury by AT Systems.

During our testing procedures, we noted that the Agency receives notification of the amount of deposit from County Treasury when AT Systems makes a deposit in addition to a GFI report from the contractor. This GFI report indicates the amount of fare that was collected on-board the VINE buses by demographic; however, it was brought to our attention that the GFI report is sensitive to rough roads and accuracy by the bus drivers. Based upon our testing of these deposits, we noted the following exceptions on all seven (7) deposits:

- There is no evidence that the GFI report submitted by the contractor is being reconciled to the deposit made by AT Systems to ensure that the deposit is being made intact.
- There is no evidence that the amount of fare collected per the GFI report is being reviewed for reasonableness. In addition, the amount of fare collected which is reported as unclassified should be reviewed and investigated to ensure it is not of a significant nature. Unclassified revenue occurs when either the GFI reader is not operating properly or the driver fails to input rider demographics.

The seven (7) deposits tested aggregated to a total dollar amount of \$6,293.83 or 3% of the value of our sample. However, as noted, these exceptions represent 100% of the cash receipts selected of this nature.

**2008 Recommendation:** There are currently no procedures in place surrounding the recording of fare deposits made by AT Systems. It is recommended that a procedure be implemented and communicated to staff which incorporates the following procedures:

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**II.D. Cash Receipts (Continued)**

**D.5. Lack of Formal Policies and Procedures – Fare Deposits (Continued)**

**2008 Recommendation (Continued):**

- The deposit made by AT Systems should be reviewed and reconciled to the GFI report received by the contractor or at a minimum reviewed for reasonableness. The reconciliation retained should include the following items:
  1. The AT Systems pick-up slip which exhibits the amount of money collected (based upon the GFI report) and contractor signature acknowledging the pick-up.
  2. A report by AT Systems detailing which pick-ups are associated with the deposit made at County Treasury. It was noted that several pick-ups may constitute one deposit.
  3. The GFI report received by the contractor.
  4. A reconciliation between the County Treasury Deposit and the GFI Report or at a minimum a verification of reasonableness. Large reconciling amounts over established limits in a written policy should be investigated and resolved by Agency staff.
- It is further recommended that an Agency manager, designated by the Executive Director, perform periodic reviews (e.g. monthly) to ensure that the verifications of reasonableness are being performed, retained and reconciling differences are followed-up and resolved on a timely basis.

**2008 Management Response:** In June 2008 Agency staff implemented the following new procedures for the collection, accounting, and reconciling of fares collected on board VINE buses:

1. GFI reports are printed daily for review by the Veolia transit manager. The reports indicate how much money should have been collected in the farebox.
2. When AT Systems collects the money from the fareboxes, the GFI reports are attached to the bags of money.
3. When AT Systems counts the money, a comparison is made between the GFI report and the actual amount of money is collected. Both the total amount collected and the difference in amounts between actual and expected (according to the GFI report) is communicated by email to NCTPA staff.

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**II.D. Cash Receipts (Continued)**

**D.5. Lack of Formal Policies and Procedures – Fare Deposits (Continued)**

**2008 Management Response (Continued):**

4. When AT Systems deposits money into the County Treasury, NCTPA receives a detailed invoice of the deposit. NCTPA's Account Clerk reconciles the deposit amount to the AT Systems collection amount by date.

As this process is new to the Agency, standards for reasonableness regarding reconciling differences between expected fare (per GFI report) and actual fare collected have not yet been established. Enough data will have been collected by July 31, 2008, to establish standards of reasonableness.

**2009 Status:** Partially Implemented (50%).

**2012 Status:** Implemented (100%).

No exceptions noted during our examination.

**II.E. Employee Training** – Determine if training sessions occur with Agency staff on a regular basis to ensure that staff are knowledgeable of the Agency's Policy and Procedures.

**2012 Results:** The Agency provides Policy and Procedures to new employees and requires that employees complete a form acknowledging that they have read and understand the policy and procedures. No exceptions noted.

**II.F. Fixed Assets Monitoring** – Determine if a mechanism has been established to ensure that documentation pertaining to federally funded assets is complete and meets the Federal Transportation Administration compliance requirements.

**2008 Finding:** FTA grantees must keep federally funded equipment and facilities in operating order. Accordingly, the Agency is required to perform oversight and monitoring of assets purchased with federal funds in order to be in compliance with FTA requirements. In conjunction with our examination, we reviewed the NCTPA Grant Management Guide and FTA Compliance Binder maintained by Agency Staff. We noted the following exceptions [See 2009 report for detail]:

1. Monthly and Quarterly Inspections. Inspections are not being performed on a consistent basis and/or sufficient documentation of such inspection is not being retained.



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**II.F. Fixed Assets Monitoring (Continued)**

**2008 Finding (Continued):**

1. Monthly and Quarterly Inspections. (Continued) It was specifically noted that the FTA Compliance Binder only contained documentation of site visits through 6/30/2007. Upon request, Agency staff provided the documentation of site inspections performed subsequent to this date. We noted the following:
  - The October 2006 monthly inspection was not performed
  - Documentation of quarterly site visits was not available for review
2. Written Maintenance Plan. Per the NCTPA Grant Management Guide, as outlined above, the Agency is required to obtain a comprehensive facilities and equipment maintenance plan submitted by the contractor on an annual basis.

Per review of the FTA Compliance Binder maintained by Agency staff we noted that there was no evidence of such maintenance plan retained on site by the Agency. The maintenance plan was not available for review upon our request.

3. Inventory Records. Per the FTA Legislation, Regulations & Guidance, Chapter II, Section 3e (Equipment Management) Inventory Records are required.

During our examination of the inventory records, we noted that the inventory record provided to us by Agency staff did not appear to track all of the information required by FTA regulations (such as the location, federal cost participation, project procured under, and acquisition date). In addition, the inventory record did not appear to track equipment purchased by the Agency (utilized by the contractor for bus maintenance and repairs).

We also noted that there is no evidence that the Agency staff is reconciling the actual physical inventory to inventory records as required by FTA regulations. We further noted that the inventory records provided to the Auditor-Controller's Office did not agree to the inventory records maintained by the Agency. In accordance with the sixth amendment of the "NCTPA Joint Exercise of Powers Agreement" Section 6.4.2 "*...the Napa County Auditor-Controller shall, acting as the NCTPA Auditor-Controller...maintain inventory any property of NCTPA...*"

The Auditor-Controller cannot properly maintain an inventory listing if Agency staff does not properly report purchases. We specifically noted the purchase of the following transit vehicle numbers which were not reported to the Auditor-Controller:

- 630 & 631 – Purchased in fiscal year 05/06
- 632 through 635 – Purchased in fiscal year 06/07
- 211 & 212 – Purchased in fiscal year 05/06

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**II.F. Fixed Assets Monitoring (Continued)**

**2008 Finding (Continued):** The failure to provide proper oversight of federally funded assets may result in potential disallowances by Federal Transportation Agencies.

**2008 Recommendation:** In order to ensure consistent compliance with the Agency's Grant Management Guide procedures and FTA regulations, it is recommended that all documentation be centralized in the FTA Compliance Binder. It is further recommended that an individual is designated to have primary responsibility for ensuring all such requirements have been met and completely documented in the FTA Compliance Binder. This documentation should also incorporate the contractor's annual written maintenance plan of facilities and equipment. Documentation and oversight of the performance of this plan is a key component to the Agency's compliance with FTA regulations.

It is further recommended that the inventory record maintained by the Agency include all federally funded transit vehicles, equipment and parts and include the following elements:

1. Description
2. Identification number
3. Procurement source
4. Acquisition date
5. Cost
6. Percentage of Federal participation in the cost
7. The grant project under which the item was procured
8. Location
9. Use and condition
10. Disposition data, including date of disposal and sales price
11. Who holds title

It is recommended that an annual physical observation be performed by Agency staff to ensure accountability and condition of the federally funded assets. Documentation of such physical observation and resolution of differences, if any, should be maintained in the FTA Compliance Binder. Further, these results should be provided to the Auditor-Controller's Office for verification against the inventory listing maintained in the financial records.

**2008 Management Response:** NCTPA management understands and concurs with findings and recommendations. The Agency's FTA compliance binder is being updated by staff in preparation for this summer's FTA Triennial Review.

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

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**II.G. Journal Entries - Segregation of Duties** – Determine if duties and responsibilities of the journal entry process are segregated to minimize risk.

**2008 Finding:** During our examination of journal entries made during the period under audit, we noted fourteen (14) instances where proper segregation of duties was not maintained in the approval process. Specifically, these exceptions represent situations where an individual authorized to approve journal entries both created and approved the entry. These instances represented a total value of \$475,470.86 or 84% of the value of our sample.

**2008 Recommendation:** In order to maintain proper segregation of duties, it is recommended that all journal entries require a secondary signature approval from another individual authorized to do so. This will assist in ensuring the propriety of the journal entry as well as preventing inadvertent errors.

**2008 Management Response:** NCTPA management fully understands the importance of maintaining procedures appropriately segregating duties and in the spring of 2008 implemented processes to include secondary signature approval on journal entries.

**2009 Status:** Partially Implemented (90%)

**2012 Status:** Partially Implemented (95%)

The duties and responsibilities of the journal entry process were segregated to minimize risk during our period of review; however, the following errors were noted:

- The Agency reduced expenses in the process of capitalizing assets. Expenses should not be reduced since their reduction distorts the available budget. Capitalization of assets should occur through the use of a contra expense account. Expenses were reduced in three (3) accounts that were contained in two different budget units for an aggregate amount of \$1,156,580. These reductions were in addition, to the misclassifications noted under section II.A.3.
- During the fiscal year 2011/12, the Agency recorded a receivable in the amount of \$169,500 for TDA capital funds. When the funds were received the amount set up as a receivable was not reversed. This resulted in revenues being overstated.

**II.H. Payroll - Segregation of Duties** – Determine if duties and responsibilities of the payroll process are segregated to minimize risk.

**2008 Finding:** During our examination of payroll, we noted that the individuals who are responsible for providing signatory authorization on timesheets either approved their own time sheet or approved timesheets for employees who did not report to them.

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**II.H. Payroll - Segregation of Duties (Continued)**

**2008 Finding (Continued):** We also noted that the monthly payroll journal entry to record payroll expense is approved by the Fiscal Planning Manager (authorized to approve timesheets), thus further limiting proper segregation of duties. There was no review or approval of timesheets or of the monthly payroll journal entry by the Executive Director.

**2008 Recommendation:** In order to maintain proper segregation of duties, it is necessary that a secondary signature authorization be obtained on all time sheets. It is recommended that the Executive Director provide secondary approval or for authorized individuals to approve each other's time sheets. Providing for secondary authorization will assist in ensuring accuracy and propriety of time reporting.

In addition, it is recommended that the monthly journal entry to record payroll expense be reviewed and signed-off by the Executive Director after initial review and sign-off by the Fiscal & Planning Manager.

**2008 Management Response:** NCTPA management understands and concurs with findings and will implement the above recommendations.

**2009 Status:** Partially Implemented (85%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

**II.I. Financial Manager Role** – Determine if the individuals responsible for financial transactions have the necessary background and experience to fulfill the responsibilities of Financial Manager.

**2008 Finding:** In conjunction with our audit, we have conducted interviews of all Agency staff in order to gain an understanding of the role each position has within the Agency. Based upon these inquiries, we have prepared documents which detail the observed roles and responsibilities for each fiscal position in the Agency. These documents may be found in the Appendices to this report. [See 2009 Report]

During this process, we noted that the Agency currently does not have the position of Finance Manager or a position which sufficiently satisfies the roles and responsibilities of such a position.

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**II.I. Financial Manager Role (Continued)**

**2008 Finding (Continued):** A Finance Management position would typically be responsible for the following functions:

- Provide for effective management of the day-to-day fiscal operations of an organization.
- Monitor legal and fiscal accountability.
- Prepare financial statements, reports and other fiscal analyses as required.
- Handle all of the professional level accounting functions of an organization, including accounts payable, accounts receivable, general ledger, payroll, and purchasing.
- Coordinate and work cooperatively with internal and external auditors.

**2008 Recommendation:** It is recommended that the Agency implement a position which provides for the roles and responsibilities of a Finance Manager. This may be achieved by the introduction of a new role or the shifting of existing roles to provide for an Agency staff member to be assigned with this primary responsibility. The following duties are recommended to be assigned to the designated individual [See 2009 report for detail].

In order to effectively implement these recommendations, it is critical that the designated individual possess certain skills or qualifications which will enable the individual to successfully complete assigned duties. Such typical qualifications would be [See 2009 report for detail].

The implementation of such a role will assist the Agency in ensuring that financial practices and operations are conducted in an efficient and appropriate manner.

**2008 Management Response:** NCTPA management fully understands the importance and influence of organizational structure on the Agency's fiscal administration capacity and competency.

NCTPA presently provides for the roles and responsibilities as detailed above through two Agency positions (Fiscal and Planning Manager and Account Clerk) and a contractual relationship with the County of Napa's Auditor-Controller's office. Since February 2008, Agency staff has been working closely with each other and with the Auditor-Controller's office to more clearly delineate roles and responsibilities.

Although the roles of Agency staff in conjunction with the Auditor-Controller's office all together can provide for effective internal controls, management concurs the Agency's present organizational structure may not have established the most appropriate authority and levels of responsibility to facilitate effective internal controls over financial reporting. And to the extent the Agency's structure and operating style may put the agency at risk regarding financial controls, NCTPA is committed to establishing a Finance Manager as detailed above, either through modified or shifted roles and responsibilities of existing staff or through the creation of a new position in the Agency.

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**II.I. Financial Manager Role (Continued)**

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Implemented (100%)

No exceptions noted during our examination.

**II.J. Physical Security** – Review the physical security governing the handling and accessibility of the Agency’s assets such as petty cash and transit passes.

**2008 Finding:** Based upon our inquiries with Agency staff and observations during our performance of control testing, we have noted that the key which accesses the Agency’s petty cash, cash receipts and transit pass inventory remains in the top desk drawer of the Office Assistant for use by all Agency staff.

It has been further noted that Agency staff do not perform periodic counts of the transit pass inventory on hand. We have, however, noted that the Office Assistant tracks the passes in inventory through the utilization of an Access database. This database was noted to indicate the pass type, serial number and date of issuance/sale. The primary use of this database is to assist the Agency staff with the appropriate timing of orders of new passes. However, based upon the functionality of the Access database, the Agency staff is not able to review for unissued/unsold passes in order to provide accountability for transit passes in inventory on a detailed basis.

**2008 Recommendation:** It is recommended that the Agency implement the following security measures:

1. Limit access to the filing cabinet where the petty cash, cash receipts and transit passes are kept. This may be achieved by issuing two keys: one to the designated Petty Cash Custodian as primary responsibility and one to the designated back-up. These keys should not remain unattended for use by all Agency staff.
2. Further limit access to the Agency’s petty cash by obtaining a separate locking cash box. One key should be issued to the Petty Cash Custodian as primary responsibility. This key should not remain unattended for use by Agency staff. The cash box should not be accessed by Agency staff when the Petty Cash Custodian is out of the office.
3. Conduct periodic counts of petty cash on hand and transit pass inventory (i.e. every six months) to ensure agreement with the accountability of the fund and inventory by type per the Access database, respectively. This will assist in ensuring accountability for cash and passes stored at the Agency.

Implementation of the aforementioned measures will assist in the protection and accountability of cash and transit passes on-hand at the Agency.

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**II.J. Physical Security (Continued)**

**2008 Management Response:** NCTPA management understands and concurs with findings and will implement the above recommendations.

**2009 Status:** Partially Implemented (50%)

**2012 Status:** Implemented (100%)

Based upon our inquiries and observations with Agency staff, we noted the transit passes are kept in a locked filing cabinet; however, the key is kept in the unlocked top drawer of the Office Assistant's desk. The following alternative steps have been taken to safeguard and account for the passes:

- Passes are pre-numbered
- Request Forms are completed for passes transmitted to other locations
- Release of passes are logged into a spreadsheet
- Inventory of the passes is performed

**III. Grant Compliance**

**III.A. Select two (2) grants** – one Federal and one State from the tracking mechanism and perform the subsequent steps.

**2012 Results:** We selected ARRA Grant #CA-96-X069-01 and Cal Trans Grant #640002.

**III.B.** Review contracts and grant agreements as well as related laws and regulations, including budget restrictions, if applicable.

**2012 Results:** We reviewed the ARRA Grant #CA-96-X069-01 and Cal Trans Grant #640002 agreements along with the applicable laws, regulations and related budget restrictions. At the time of our engagement the Agency had not received an operating grant for FY 11/12. In order to minimize risk we also selected Federal Grant #CA-90-Y831-00 from fiscal year 10/11.

**III.C. Budget to Actual** – Compare budgeted and actual expenses and consider whether the budget has been violated by over expenditure and the consequences, if any, of over expenditure.

**2012 Results:** No exceptions noted.

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**III. Grant Compliance (Continued)**

**III.D and E. Reimbursements** – Track expenses to supporting documents to ensure they pertain to the grant, agree with the reimbursement request and were not used for any other grant.

**2012 Results:** No exceptions noted.

**III.F. Cash Management** – Determine if effective cash management is occurring.

**2012 Results:** No exceptions noted.

**III.G. Purpose of Grant** – Determine if grants are being utilized in the manner established within the grant documents.

**2012 Results:** No exceptions noted.

**III.H. Matching** – Determine if the tracking of Match expenses conforms to the requirements in A-87 (unallowable vs. allowable).

**2012 Results:** No exceptions noted.

**IV. Compliance with Policies and Procedures adopted after December 31, 2008**

**IV.A. Identification of Policies** – Determine if any other policies or procedures have been established other than those recommended in the 2008 Internal Audit.

**2012 Results:** The following policy and procedures have been adopted since December 31, 2008 other than those recommended in the 2008 Internal Audit:

- Accounting, Audit, and Financial Management (Some components of the Policy and Procedure were requested in the 2008)
- Purchasing Cards
- Communications
- Records Management
- Budget



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**IV. Compliance with Policies and Procedures adopted after December 31, 2008  
(Continued)**

**IV.B. Compliance Determination** – Select a sample of applicable expenditures or revenues to determine if policies and procedures are being followed.

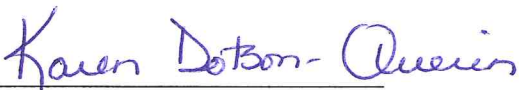
**2012 Results:** No exceptions were noted; however, we recommend that when transfers between programs exceed a set threshold that they are presented to the Agency’s Board. The Finance department is generally who prepares the transfers so having them approve their own work opens the Agency to greater risk.

**V. Conclusion**

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Agency’s management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties

Tracy A. Schulze  
Auditor-Controller

By   
Karen Dotson-Querin, CPA  
Internal Audit Manager

April 26, 2012