

**SONOMA-MARIN AREA
RAIL TRANSIT DISTRICT**

Single Audit Report

For the Year Ended June 30, 2016



Certified
Public
Accountants

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

For the Year Ended June 30, 2016

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**Independent Auditor’s Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors
Sonoma-Marín Area Rail Transit District
Petaluma, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sonoma-Marín Area Rail Transit District (SMART), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise SMART’s basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SMART’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SMART’s internal control. Accordingly, we do not express an opinion on the effectiveness of SMART’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SMART’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 21, 2016



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

Board of Directors
Sonoma-Marín Area Rail Transit District
Petaluma, California

Report on Compliance for the Major Federal Program

We have audited Sonoma-Marín Area Rail Transit District’s (SMART) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on SMART’s major federal program for the year ended June 30, 2016. SMART’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for SMART’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SMART’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of SMART’s compliance.

Opinion on the Major Federal Program

In our opinion, SMART complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of SMART is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SMART's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SMART's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we considered to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of SMART as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise SMART's basic financial statements and have issued our report thereon dated November 21, 2016, which contained an unmodified opinion on those basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 21, 2016

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

| <u>Program Description</u> | <u>CFDA Number</u> | <u>Award Identification</u> | <u>FY 2015-16 Expenditures</u> |
|--|--------------------|-----------------------------|--------------------------------|
| U. S. Department of Transportation | | | |
| Highway Planning and Construction (Federal-Aid Highway Program) | | | |
| <i>Passed Through California Department of Transportation</i> | | | |
| Grade Crossings and Signal Upgrade | 20.205 | ISTDEML 6411(001) | \$ 9,762 |
| Black Point Bridge Automation | 20.205 | ISTDEML 6411(002) | 599,369 |
| SMART Pathway - Golf Course to East Cotati in Rohnert Park | 20.205 | RPSTPL 6411(007) | 1,787,923 |
| Total Highway Planning and Construction (20.205) | | | <u>2,397,054</u> |
| U. S. Department of Transportation | | | |
| Federal Transit Capital Investment Grants | | | |
| <i>Passed Through City of Petaluma</i> | | | |
| SMART Environmental and Design Work Project CA-03-0817 | 20.500 | E2010-NWST-017 | 1,387,373 |
| U. S. Department of Transportation | | | |
| Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research | | | |
| <i>Passed Through California Department of Transportation</i> | | | |
| SMART Stations Bicycle Parking Investment Plan | 20.505 | 2660-001-0890 | <u>94,968</u> |
| Total U.S. Department of Transportation | | | 3,879,395 |
| U. S. Department of Homeland Security | | | |
| Homeland Security Grant Program | | | |
| <i>Passed Through Marin County Sheriff's Office of Emergency Services</i> | | | |
| Automatic Vehicle Locator Equipment Purchase | 97.067 | SHSGP2014 | <u>6,637</u> |
| Total Expenditures of Federal Awards | | | \$ <u><u>3,886,032</u></u> |

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

NOTE 1 - GENERAL

The schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the Sonoma-Marín Area Rail Transit District (SMART). Federal awards passed through from other governmental agencies are included in the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The Schedule is presented using the accrual basis of accounting. SMART did not elect to use the 10% de minimis indirect cost rate as covered in 2 CFR 200.414 (F&A) costs.

NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

NOTE 4 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards and expenditures agree to or can be reconciled with the amounts reported in SMART's basic financial statements.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the basic financial statements of SMART: Unmodified

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- ◆ Material weakness(es) identified? No
- ◆ Significant deficiency(ies) identified? Yes

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

| Federal Catalog Number | Name of Federal Program or Cluster |
|------------------------------|---|
| 20.500 | Federal Transit Capital Investment Grants |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes

Section II Financial Statement Findings

No matters were reported.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

Section III Federal Award Findings and Questioned Costs

Finding 2016-001 Internal Controls over Compliance – Matching

Program Identification:

Awarding Agency: United States Department of Transportation
Passed Through: City of Petaluma
Program Name: Federal Transit Capital Investment Grants
CFDA: 20.500
Award Number: E2010-NWST-017
Award Year: FYE 6/30/2010

Criteria:

Section 2 of the grant award agreement requires the federal grant award amount of \$2,500,000 be matched by local funds of \$625,000.

Condition Identified and Perspective:

For the year ended June 30, 2016, SMART had incurred and requested reimbursement of costs totaling \$1,387,373 but did not apply a local match. Upon discussion with the grantor, SMART will be reducing future reimbursement requests in order to demonstrate and apply the full amount of the local match.

Questioned Costs:

None.

Recommendation:

We recommend that SMART review its internal controls over the preparation of reimbursement requests to ensure that all applicable local matching requirements have been appropriately accounted for prior to the submission of the request.

Management's Response:

Management agrees that reliance on verbal arrangements with granting agency led to local match compliance issue and that the issue has been addressed with the grantor. In addition, grant management internal controls have been revised to require written approval from granting agency when waiver of match requirements on certain invoices is requested.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Summary Schedule of Prior Audit Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I Financial Statement Findings

There were no financial statement findings for the year ended June 30, 2015.

Section II Federal Award Findings and Questioned Costs

There were no federal award audit findings nor questioned costs for the year ended June 30, 2015.