



CITY AUDITOR'S OFFICE

Scottsdale Transit Program's National Transit Database Financial Data Review FY 2019/20

November 25, 2020

REPORT NO. 2110

CITY COUNCIL

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November 25, 2020

Honorable Mayor and Members of the City Council:

This attestation report, the *Scottsdale Transit Program's National Transit Database Financial Data Review FY 2019/20*, was included on the Council-approved FY 2020/21 Audit Plan. The attestation was conducted to meet a federal funding requirement of the City's Transportation & Streets department for its Transit program.

This attestation report comprises agreed-upon procedures for the City's transit program data submitted to the National Transit Database (NTD) program for fiscal year ended June 30, 2020. These procedures, which review the Transit program's compliance with the NTD Uniform System of Accounts requirements, were agreed to by the Federal Transit Administration (FTA) and the City's Transit program. We make no representation of the sufficiency of these procedures.

We performed this attestation in accordance with the United States Government Accountability Office's *Government Auditing Standards* and the American Institute of Certified Public Accountants' attestation standards. This report is intended solely for the information and use of the FTA in evaluating the City's compliance with its NTD Uniform System of Accounts requirements. However, this report is a public record.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE
City Auditor

Audit Team:

Paul Christiansen, CPA, CIA – Senior Auditor
Cathleen Davis, CIA, CFE – Senior Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES



To the Scottsdale City Council,
the Federal Transit Administration, and
Mark Melnychenko, Scottsdale Transportation & Streets Director

We performed the procedures enumerated below, on the application of the requirements of the Federal Transit Administration (FTA) as set forth in its applicable National Transit Database (NTD) Uniform System of Accounts (USOA) by the Scottsdale Transportation & Streets department's Transit program (the Organization) for the fiscal year ended June 30, 2020. Such procedures, which were agreed to by the management of the Organization and the FTA, were performed to assist the Organization and the FTA in determining conformance with USOA requirements based on the following assertion by the Organization's management:

The accounting system from which the NTD reports for the year ended June 30, 2020, were derived, uses the accrual basis of accounting and is directly translated, using a clear audit trail, to the accounting treatment and categories specified by the USOA.

The Organization's management is responsible for conformance with the requirements described above. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described on pages 5 through 9 either for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with U.S. generally accepted government auditing standards, which incorporate the attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Organization's conformance with the requirements described above, for the year ended June 30, 2020. Accordingly, we do not express such an opinion or conclusion. 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 management of the Organization and the FTA and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE
City Auditor
Scottsdale, Arizona
November 25, 2020

BACKGROUND

This attestation report on the *National Transit Database Financial Data Review FY 2019/20* was performed at the request of the City of Scottsdale's Transportation & Streets department to meet a federal reporting requirement of the program.

The Federal Transit Administration (FTA) requires an independent review the Transit program's conformance with uniform reporting standards, including the Uniform System of Accounts, when submitting required data to the National Transit Database (NTD) program. The FTA requires this financial data review to be performed at least every ten years.

The City Auditor, a certified public accountant, is independent of the City Transportation & Streets department and its Transit program based on applicable independence standards issued by the U.S. Government Accountability Office and the American Institute of Certified Public Accountants (AICPA). As established in Scottsdale City Charter, the City Auditor is appointed by and reports directly to the City Council.

The AICPA guidance for this engagement enumerates the procedures agreed to by the FTA and the Transportation & Streets department's Transit program.¹ The sufficiency of the agreed-upon procedures is solely the responsibility of the FTA and the City's Transportation & Streets department is responsible for complying with the requirements.

As required by the standards applicable to agreed-upon procedures engagements, the Scottsdale City Transportation & Streets department provided the following representations:²

- a) The department acknowledged that the 2020 NTD Policy Manual requires the transit accounting system from which the NTD Financial Reports are derived to use the accrual basis of accounting and to directly translate, using a clear audit trail, to the accounting treatment and categories specified by the NTD Uniform System of Accounts (USOA). The Scottsdale Transportation & Streets department's FY 2019/20 NTD Financial Reports were supported by a crosswalk to accumulated invoices, allocations and shared cost estimates.
- b) The department acknowledged that the 2020 NTD Policy Manual requires an independent auditor to determine if a transit agency's accounting system meets the USOA requirements by reviewing all submitted NTD financial forms. The FTA has reviewed and agreed to the enumerated procedures in the referenced AICPA guidance for the NTD Financial Data Review. The FTA is, therefore, a specified party to this agreed-upon procedures engagement.

The main purpose of the Uniform System of Accounts (USOA) is to ensure that data definitions are uniform for all transit agencies. Each transit agency must maintain the accounts and records necessary to meet its own internal information requirements as well as those specified in the USOA.

Source: Federal Transit Administration
Uniform System of Accounts

¹ *Illustrative Agreed-Upon Procedures for Full Reporter to Meet the Requirements of the 2018 National Transit Database (NTD) Policy Manual for a Financial Data Review*, dated October 11, 2018, the most current version.

² The applicable standards are those issued by the U.S. Government Accountability Office and the American Institute of Certified Public Accountants for attestation engagements.

- c) The department acknowledged its responsibility to follow the FTA's USOA requirements and to certify the accuracy of its data submitted to the NTD. The Transportation & Streets department is, therefore, a specified party to this agreed-upon procedures engagement.
- d) The department stated that there has been no known noncompliance with the specified requirements, including any occurring during the period between July 1, 2020, and November 25, 2020, the auditor's report date.
- e) The department has made available to the auditors all accounting records and other documentation related to this agreed-upon procedures engagement and its compliance with the specified requirements.
- f) The department stated that there have been no communications from the Federal Transit Administration or others concerning possible noncompliance with the specified requirements, including any such communications received between July 1, 2020, and November 25, 2020, the auditor's report date.

AGREED-UPON PROCEDURES AND ASSOCIATED FINDINGS

1. Procedure: NTD Crosswalk

- a. Obtain the following NTD Reporting Forms prepared by management for the year ended June 30, 2020:
 - NTD Form F-10, Sources of Funds – Funds Expended and Funds Earned (USOA Section 2)
 - NTD Form F-20, Uses of Capital (USOA Section 3)
 - NTD Form F-30, Operating Expenses (USOA Section 4, 5, and 6 and Appendix A)
 - NTD Form F-40, Operating Expenses Summary
 - NTD Form F-60, Financial Statement
- b. Obtain the reconciliation documentation management prepares (referred to as “the crosswalk” throughout this report) to reconcile the chart of accounts, general ledger, and/or trial balance and other supporting documents such as Excel spreadsheets (collectively referred to as the accounting system) to the respective NTD Reporting Forms identified above.
- c. Inquire of management as to whether the crosswalk obtained in procedure 1.b is supported by the accounting system.
- d. For a transit agency that is part of a larger reporting entity, inquire of management as to whether the crosswalk includes the full cost of providing transit service, including costs incurred by the larger reporting entity to specifically support the agency’s transit service.
- e. Inspect the crosswalk to determine that it incorporates NTD reporting using the applicable modes and types of service identified in the bulleted list below:
 - Sources of Funds, Form F-10 – Funding sources, passenger fares by mode and service type, passenger fares by passenger paid or by organization paid fares, revenue object class, and funds expended on operations and capital fund types
 - Uses of Capital, Form F-20 - Type of use, asset classifications, and modes and service types
 - Operating Expenses, Form F-30 - Modes, service types, object classes and functions
 - Operating Expenses Summary, Form F-40 - Expense reconciling items
 - Financial Statement, Form F-60 - Current assets, non-current assets, deferred outflows of resources, current liabilities, non-current liabilities, and deferred inflows of resources.

FINDINGS:

The NTD Forms F-10, F-20, F-30 and F-40 prepared by management were obtained. Because the transit program is a part of a larger reporting entity, Form F-60 was not required.

Management provided the crosswalk documentation used to prepare the NTD Reporting forms. While the 2020 NTD Policy Manual requires “transit accounting systems [to] follow or directly translate to the USOA,” the crosswalk did not reconcile amounts from the City’s accounting system to those used on the NTD reporting forms.

Management represented that the crosswalk was derived from the accounting system.

Management stated that the crosswalk and reported costs include some indirect costs, such as facilities and risk management. However, certain other indirect costs incurred by the City, such as legal and human resources, and the full-accrual cost of paid absences are not included.

The crosswalk incorporated NTD reporting using the applicable modes and types of service.

2. Procedure: Accrual Accounting

- a. Obtain the most recent audited financial statements that include the transit agency and inspect the notes to the financial statements to determine whether the accrual basis of accounting was used.
- b. Inquire of management as to whether the accrual basis of accounting has continued to be used since the last audited reporting period and that it is used for NTD reporting in the current period.
- c. If the notes to the financial statements indicate that an accrual basis of accounting is not being used, or the results of the inquiry to management in procedure 2.b indicate the accrual basis of accounting is not being used in the current period, inspect the crosswalk to determine that the transit agency made adjustments to convert to an accrual basis for NTD reporting.

FINDINGS:

No exceptions were noted as a result of applying these procedures.

3. Procedure: Sources of Funds (Form F-10)

- a. Trace and agree total sources of funds from Form F-10 to revenue reported in the accounting system using the crosswalk.
- b. Inspect the crosswalk for a written reconciliation between total revenues reported in the audited financial statements or the accounting system and the total revenues reported on Form F-10.
- c. Trace and agree the two largest directly generated fund passenger fare revenue modes (all service types) from Form F-10 to the accounting system.
- d. Trace and agree the largest revenue object class (other than passenger fares) in the following major categories of funds from Form F-10 to the accounting system: (1) Local Government; (2) State Government; (3) Federal Funds; and (4) Other Directly Generated Funds (i.e., 4100 and 4200 combined).
- e. Inspect the crosswalk to determine that it identifies, evaluates, and classifies financial transactions into categories of funds expended on operations and funds expended on capital (USOA Section 2) for the reporting year.

FINDINGS:

Total revenues reported traced to the accounting system.

The crosswalk included a reconciliation of revenues; however, reconciliation misclassified \$31,149 in Local Government funds as Sales Tax contributions rather than General Revenue contributions.

The City had no directly generated fund passenger fare revenue modes.

While revenue recorded in the State Government, Federal Funds, and Other Directly Generated Funds traced to the crosswalk, \$31,149 in Local Government Funds was incorrectly classified as Sales Tax contributions rather than General Revenue contributions.

The crosswalk classified financial transactions into categories of funds expended on operations and funds expended on capital.

4. Procedure: Uses of Capital (Form F-20)

- a. Obtain accounting system documentation on capital asset additions for the reporting period.
- b. Trace and agree total uses of capital from Form F-20 to the crosswalk reconciliation of total capital asset additions.
- c. Trace and agree types of use (existing service and expansion of service) from Form F-20 to the crosswalk or other supporting documentation reflecting the nature of the uses of capital.
- d. Trace and agree asset classifications (guideway, revenue vehicles, etc.) from Form F-20 to the crosswalk or other documentation reflecting the assets classes of capital additions.
- e. For the largest mode/service type, trace and agree the type of use classification and asset classification from Form F-20 to the crosswalk or other documentation reflecting the uses of capital.
- f. If capital projects support multiple modes/types of services and/or asset classifications, inquire of management as to whether management reported the use of capital considering the predominant use rules as described in the “Predominant Use” section of the NTD Policy Manual.
- g. If capital projects involve: 1) Rehabilitation/Reconstruction/Replacement/Improvement for Existing Service; and 2) Expansion of Service; inquire of management as to whether project costs were allocated between the two project purposes and whether such allocation was documented in the crosswalk or other supporting documentation.

FINDINGS:

Accounting system documentation on capital asset additions for the reporting period was obtained.

The crosswalk did not reconcile total capital asset additions to reported capital additions. The amount reported on Form F-20 was \$15,936 less than total capital asset additions in the accounting system.

Capital asset additions reported for type of use classification (existing service) and asset classification (other capital expenses) agreed to the crosswalk and supporting documentation.

The reported capital projects did not include multiple modes/types of service and/or asset classifications, so procedure 4f is not applicable.

The City had no Expansion of Service capital expenditures, so procedure 4g is not applicable.

5. Procedure: Operating Expenses (Form F-30)

- a. For the two largest modes/type of services, trace and agree functions (vehicle operations, vehicle maintenance, etc.) from Form F-30 to the crosswalk or other written documentation of functional expenses.
- b. For the two largest modes/type of services, trace and agree object classes (natural expenses) from Form F-30 to the crosswalk or other written documentation of object class categories.
- c. If management allocated shared operating expenses, inquire of management as to whether (1) the operating expenses are split between direct and shared costs; (2) shared costs were allocated across modes, services types and functions, (3) the allocation was documented in the crosswalk or other supporting documentation; and (4) the driving variables used are updated annually.

FINDINGS:

The function and object of reported expense on Form F-30 traced to the crosswalk. However, 14 of the 26 amounts included in reported expenses were based on undocumented allocation methods. Also, one amount of \$12,541 was duplicated.

The cost allocation method used to allocate certain shared operating costs across modes was not documented to demonstrate “the method is reasonable, consistent and defensible” as required by the USOA.

6. Procedure: Operating Expenses Summary (Form F-40)

- a. Obtain total expenses from the accounting system for the reporting period. Trace and agree total expenses from Form F-40 to the accounting system using the crosswalk.
- b. Trace and agree the reconciling items appearing on Form F-40 through the crosswalk to the accounting system.

FINDINGS:

The crosswalk did not reconcile total reported expenses to total expenses from the accounting system. The total reported expenses were \$15,736 higher than the total expenses in the accounting system.

The Other Reconciling Items amount agreed to the crosswalk but \$2,127 was not supported by the accounting system.

7. Procedure: Financial Statement (Form F-60)

- a. Trace and agree (1) Current Assets; (2) Non-Current Assets; (3) Deferred Outflows of Resources; (4) Current Liabilities; (5) Non-Current Liabilities; and (6) Deferred Inflows of Resources appearing on Form F-60 to the crosswalk or other supporting documentation.

FINDINGS:

The City was not required to submit Form F-60.

MANAGEMENT RESPONSE



Transportation and Streets Department


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INTERNAL MEMO

11-24-2020

From: Mark Melnychenko, 
Transportation and Streets Director

To: Sharron E. Walker, CPA, CFE
City Auditor

Subject: **SCOTTSDALE TRANSIT PROGRAM'S NATIONAL TRANSIT DATABASE
FINANCIAL DATA REVIEW**

Background

During the past 3-months the Auditor's Office conducted an independent review of the City of Scottsdale Transportation and Streets department's National Transit Database (NTD) Financial reports for the fiscal year ended June 30, 2020. The audit team performed the agreed-upon procedures and identified some issues. Throughout this comprehensive process the audit team and Ratna Korepella worked cooperatively to address issues to strengthen the recent submittal to the Federal Transit Administration (FTA) as well as those required in the future.

Report Review Comments

After Transportation and Streets department review of the draft auditor's report, there remains a short list of items that need to be revised and/or clarified before inclusion in the next follow up submittal to FTA. Staff will continue to address these remaining details which include:

- Updating minor statistical gaps
- Eliminating any duplication
- Inclusion of Legal and Human Resources information into future year NTD reports, and
- Review process to better ensure the reports meet the NTD Policy Manual Requirements.

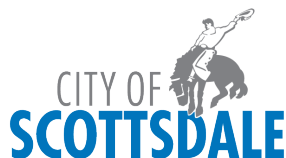
As shown in the NTD submittal and its review by the City Auditor's Office, the City of Scottsdale has taken strides in improving this process and the documentation submitted to the federal government and will continue to do so as part of our continuing process improvement.

City Auditor's Office

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The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability and integrity.