



CITY AUDITOR'S OFFICE

Scottsdale Transit Program's National Transit Database Financial Data Review

May 10, 2019

REPORT NO. 1916

CITY COUNCIL

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May 10, 2019

Honorable Mayor and Members of the City Council:

This attestation report, the *Scottsdale Transit Program's National Transit Database Financial Data Review*, was not included on the Council-approved FY 2018/19 Audit Plan. However, the attestation was added to the audit plan and conducted to meet a federal funding requirement of the City's Transportation 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, 2018. 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.

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". The signature is fluid and cursive.

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Paul Christiansen, CPA, CIA – 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 Paul Basha, Scottsdale Transportation 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 department's Transit program (the Organization) for the fiscal year ended June 30, 2018. Such procedures, which were agreed to by the management of the Organization and the FTA, were performed to assist the Organization and 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, 2018, 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, 2018. 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, CLEA
City Auditor
Scottsdale, Arizona
April 30, 2019

BACKGROUND

This attestation report on the *National Transit Database Financial Data Review* was performed at the request of the City of Scottsdale's Transportation department. While not on the Council-approved fiscal year 2018/19 Audit Plan, this agreed-upon procedures review was added to the audit plan and performed to meet a federal reporting requirement of the Transportation department's Transit program.

The Federal Transit Administration (FTA) requires an independent review of 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 now requires this independent financial data review to be performed at least every ten years.

The City Auditor, a certified public accountant, is independent of the City's Transportation 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 department's Transit program.¹ The sufficiency of the agreed-upon procedures is solely the responsibility of the FTA and the Transportation department is responsible for complying with the requirements.

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

- a) The department acknowledged that the 2018 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 department's FY2017/18 NTD Financial Reports were supported by a crosswalk to accumulated invoices, allocations and shared cost estimates.
- b) The department acknowledged that the 2018 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.

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 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, other than the delay in requesting and obtaining the NTD Financial Data Review, including any occurring during the period between July 1, 2018, and April 30, 2019, 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, other than the deadline extension for the delayed NTD Financial Data Review, concerning possible noncompliance with the specified requirements, including any such communications received between July 1, 2018, and April 30, 2019, 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, 2018:
 - 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 2018 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 acknowledged that the crosswalk was not derived from the accounting system. Instead, the reported amounts were based upon various other sources, such as amounts manually accumulated from purchase invoices and allocated or shared costs with limited supporting details.

Management acknowledged that the crosswalk and reported costs may not represent the full cost of providing transit service, including other costs incurred to specifically support the transit program. For example, Printing & Graphics Services costs totaling \$12,000 were not allocated to the transit program, even though a portion of these costs include services to design and print trolley brochures.

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:

The crosswalk does not reconcile total revenues reported in the accounting system to the total revenues reported on the NTD Reports. “Auxiliary Transportation Funds – Advertising” revenues of \$2,750 were omitted.

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

The Sales Tax revenue amount reported in the Local Government Funds category did not reconcile to the accounting system by \$854,120.

The crosswalk did not support the classification of Funds from Local Sources reported as 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 2018 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 reconciliation of total capital asset additions was not complete. The amount reported on Form F-20 was \$436,162 more than the crosswalk reconciliation amount but was \$11,674 less than the accounting system amount.

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

Management stated they reported the use of capital considering the predominant use rules.

The City had no Expansion of Service capital expenditures (referenced in procedures 4c and 4g).

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, all but one reported expense was based on sources other than the accounting system (such as manually accumulated invoices and unsupported allocations). Also, reported expenses included \$500,000 of estimated insurance costs not actually incurred. Further, the function categories for Purchased Transportation amounts were estimated based on the prior contract rather than being updated for the current contract. As well, approximately \$4,800 of incurred direct costs were not reported.

The cost allocation methods used to allocate certain shared operating costs across functions and object classes were not documented to demonstrate “the method is reasonable, consistent and defensible” as required by the USOA. Also, the allocation variables used were not updated annually or updated for the new purchased service contract.

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 \$496,039 higher than the total expenses from the accounting system.

Depreciation expense reported as a reconciling item was incorrectly calculated in the crosswalk and was \$151,648 more than the accounting system. Further, there was no documentation supporting the Other Reconciling Item amount.

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 Department
Transportation Director
7447 E. Indian School Rd., Suite 205
Scottsdale, Arizona 85251

PHONE 480-312-7651

Email: pbasha@ScottsdaleAZ.gov

10 May 2019

Ms. Sharron E. Walker, CPA, CFE, CLEA
City Auditor
Suite 205
7447 E. Indian School Road
Scottsdale, Arizona 85251

Subject: National Transit Database Financial Data Review Management Response Letter

Dear Ms. Walker,

Thank you for preparing an attestation report of the National Transit Database Financial Data Review at the request of the City of Scottsdale Transportation Department. This procedure's review satisfies the Federal Transit Administration requirement for a once-per-decade independent review of the financial data included in the annual National Transit Database submittal.

This engagement informed us that our National Transit Database reporting was not as complete and accurate as we would prefer. In the past two years we learned that most agencies use either their accounting or auditing divisions to prepare these documents rather than their transit divisions.

Prior to your engagement, for the 2019 / 2020 report, we had already changed the process we will use to compile the report. Our intention is to request that the various divisions and departments most familiar with the data enter the data directly rather than providing us the data to enter. We believe this process will be more expeditious and accurate. This is particularly true with the financial data. The findings of your engagement will be greatly beneficial as we revise our process.

The Scottsdale Transportation Department's Fiscal Year 2017 / 2018 National Transit Database Financial Reports were supported by a reconciliation document referred to as "crosswalk" for accumulated invoices, allocations and shared cost estimates. In addition to providing you the crosswalk, the following National Transit Database Forms were also provided to you by the Transportation Department to the City Auditor:

- Form F-10, Sources of Funds – Funds Expended and Funds Earned
- Form F-20, Uses of Capital
- Form F-30, Operating Expenses
- Form F-40, Operating Expenses Summary
- Form F-60, Financial Statement

The following comments summarize the findings of your engagement. We concur with all your findings and will ensure that we enter the data completely and accurately for the 2019 / 2020 Fiscal Year and every year thereafter.

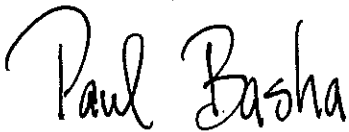
1. National Transit Database Crosswalk: The engagement found that the crosswalk did not reconcile amounts from the City accounting system to those used on the NTD reporting forms. The Transportation Department acknowledges that the crosswalk was not derived from the City of Scottsdale accounting system. Instead, the reported amounts were based upon various other sources, such as amounts manually accumulated from purchase invoices, and allocated or shared costs with limited supporting details. The Transportation Department further acknowledges that the reported costs may not represent the full cost of providing transit service, including other costs incurred to specifically support the transit program. For example, Printing & Graphics Services costs totaling \$12,000 were not allocated to the transit program, even though a portion of these costs include services to design and print trolley brochures.
2. Accrual Accounting: The Engagement found no exceptions in this category.
3. Sources of Funds(Form F-10): The engagement found that the advertising revenues of \$2,750 were omitted, that the sales tax revenue was \$854,120 more than the City accounting system stated, and that the classification of "Funds from Local Sources" was not reported as "Funds Expended on Operations" and "Funds Expended on Capital".
4. Uses of Capital (Form F-20): The engagement found that the crosswalk reconciliation of total capital asset additions was incomplete. The amount reported on Form F-20 was \$436,162 more than the crosswalk reconciliation amount but was \$11,674 less than the accounting system amount. Capital asset additions reported for type of use classification (existing service) and asset classification (revenue vehicles and other capital expenses) agreed to the crosswalk and supporting documentation. Management stated they reported the use of capital considering the predominant use rules. The City had no Expansion of Service capital expenditures.
5. Operating Expenses (Form F-30): The engagement found that the function and object of reported expense on Form F-30 traced to the crosswalk. However, all but one reported expense was based on sources other than the accounting system (such as manually accumulated invoices and unsupported allocations). Also, reported expenses included \$500,000 of estimated insurance costs not actually incurred. Further, the function categories for Purchased Transportation amounts were estimated based on the prior contract rather than the current contract. As well, \$4,796 of incurred direct costs were not reported. The cost allocation methods used to allocate certain shared operating costs across functions and object classes were not

documented to demonstrate "the method is reasonable, consistent and defensible" as required by the Uniform System Of Accounts. Also, the allocation variables used were not updated annually or updated for the new purchased service contract.

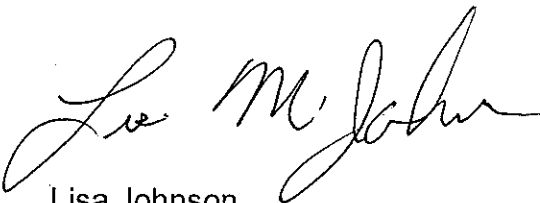
6. Procedure: Operating Expenses Summary (Form F-40) The engagement found that the crosswalk did not reconcile total reported expenses to total expenses from the accounting system. The total reported expenses were \$496,039 more than the total expenses from the accounting system. Depreciation expense reported as a reconciling item was incorrectly calculated in the crosswalk and was \$151,648 more than the accounting system. Further, there was no documentation supporting the Other Reconciling Item amount.
7. Procedure: Financial Statement (Form F-60) The Engagement found that the City of Scottsdale was not required to submit Form F-60.

Thank you again for your engagement and your findings. The Transportation Department will ensure that the 2019 / 2020 National Transit Database submittal will be complete and accurate.

Sincerely,



Paul E. Basha, P.E., P.T.O.E.
Transportation Director
City of Scottsdale



Lisa Johnson,
Transportation Planning and Transit Operations Manager
City of Scottsdale

City Auditor's Office

7447 E. Indian School Rd., Suite 205
Scottsdale, Arizona 85251

OFFICE (480) 312-7756
INTEGRITY LINE (480) 312-8348

www.ScottsdaleAZ.gov/auditor



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