

S T A F F R E P O R T

SUBJECT: 2023 Audit of LAVTA's Financial Statements

FROM: Tamara Edwards, Director of Finance

DATE: August 22, 2023

Action Requested

This is an information item for review and discussion.

Background

LAVTA has engaged an accountancy firm to audit the financial statements for each previous fiscal year. Part of that process is based on the Statement on Auditing Standards (SAS) No. 99 and 114 which requires the auditor to communicate with those charged with governance, including:

- An overview of the planned scope and timing of the audit.
- Representations the auditor is requesting from management.
- Additional guidance on the forms and timing of communication.
- An evaluation of the adequacy of the two-way communication.

Discussion

Maze and Associates is conducting the financial audit for fiscal year ending June 30, 2023. The attached agenda is provided for the Committee's review and Vikki Rodriguez of Maze and Associates will be available to discuss these items with the Committee.

Budget

No budget impact.

Next Steps

Maze and Associates will work with Staff to complete the financial audit and are available to the LAVTA Board of Directors if any questions or concerns arise.

Recommendation

This is an information item for review and discussion.

Attachments:

1. Agenda from Maze and Associates



August 22, 2023

LAVTA and Tri-Valley-San Joaquin Valley Regional Rail Authority
Finance and Administration Committee
1362 Rutan Court, Suite 100
Livermore, CA 94551

Dear Finance and Administration Committee,

We are engaged to audit LAVTA's and Tri-Valley - San Joaquin Valley Regional Rail Authority's (collectively referred to as Authorities) basic financial statements for the year ended June 30, 2023. Professional standards require that we provide you with the following information related to our audit. Topics include audit scope, management representations, fraud risk considerations and audit timing. We have presented an overview of these topics below:

Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards" and the Uniform Guidance

As stated in our engagement letters provided to the Director of Finance dated May 17, 2023, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider the Authorities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Authorities' financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the Authorities' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Authorities' compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the Authorities' compliance with those requirements.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis, pension and OPEB schedules, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because of the limited procedures do not provide us with sufficient appropriate evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on LAVTA's the Schedule of Operating Revenues and Expenses by Function, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have not been engaged to report on LAVTA's introductory section and statistical section, which accompany the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information will not be audited and we will not express an opinion or provide any assurance on it.

Planned Scope and Other

The audit scope is included in the engagement letter provided to the Director of Finance. It defines what an audit of the Authorities' financial statements is and discusses internal control, fraud considerations and management responsibilities for data contained in financial statements. It is the standard used when a financial statement audit is to be conducted. This letter is a clarification of the audit process contemplated in the contract we have entered into with the Authorities pursuant to the Board's approval.

Management Representations

We will request representations from management that data and assertions provided are complete and accurate. We rely primarily on our audit verification tests and procedures, however, management assertions and judgments unavoidably affect financial data.

Fraud Risk Considerations

Audit standards require us to have discussions with our clients to discuss both the potential for and any occurrences of fraud and the impact on financial statements. "Fraud" is defined as an intentional act that results in a *material misstatement in financial statements* that are subject to audit. In this case, fraud includes two concepts. The first is fraudulent financial reporting, including misapplication of accounting principles, the omission of data or disclosures, fictitious transactions or sham transactions and concealment of relevant data. The second concept is that of misappropriations of assets, including theft, its concealment and conversion to cash.

In accordance with audit standards, we met with management and asked:

- a. Is management aware of known instances of fraud or allegations of suspected fraud?
- b. Are there areas management believes are "Susceptible to Fraud"?
 - i. Areas presumed susceptible to fraud under audit standards:
 - i. Improper revenue recognition
 - ii. Management override of Internal Control

Audit Timing

We have met with the Authorities' staff and agreed to the following schedule:

- The interim phase of the audit (internal control review and tests) was conducted in April 2023.

- The final phase of the audit (substantive tests and financial report preparation) is scheduled for the week of August 28, 2022.
- Our plan is to finalize the reports by the end of December 2022

Communicating the Audit Process

We discussed the above topics with staff and wish to provide the Finance and Administration Committee an opportunity to participate in the audit process prior to its completion. If you could please respond to the following questions related to the Authorities and if the answer to any question is “yes,” please provide an explanation:

- a. Are you aware of any instances of fraud or allegations of suspected fraud?
- b. Are there any areas you believe are “Susceptible to Fraud”?
- c. Are you aware of any possible or actual noncompliance or waste or abuse of programs and controls?
- d. Are you aware of any related-party transactions? (Transactions between the Authorities or its component units and elected or appointed officials)

Please return your responses to the above questions via email to vikr@mazeassociates.com or respond verbally during our meeting. If you have any questions or concerns, please do not hesitate to contact me directly at (925) 228-2800.

Sincerely,

Vikki C. Rodriguez
Maze & Associates

Vikki C. Rodriguez | CPA | Audit Partner



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