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# Capital Area Transportation Authority

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**Federal Awards Supplemental Information  
September 30, 2020**

### **Independent Auditor's Reports**

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

**Independent Auditor's Report**

To the Board of Directors  
Capital Area Transportation Authority

We have audited the financial statements of the enterprise fund and fiduciary funds of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated March 5, 2021, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to March 5, 2021.

The accompanying schedule of expenditures of federal and state awards is presented for the purpose of additional analysis, as required by the 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Moran, PLLC*

March 5, 2021

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*

**Independent Auditor's Report**

To Management and the Board of Directors  
Capital Area Transportation Authority

We have audited, in accordance with 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 enterprise fund and fiduciary funds of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 5, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2020-001, that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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 financial statements. 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*.

**The Authority's Response to the Finding**

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

To Management and the Board of Directors  
Capital Area Transportation Authority

**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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

March 5, 2021

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance  
Required by the Uniform Guidance

**Independent Auditor's Report**

To the Board of Directors  
Capital Area Transportation Authority

**Report on Compliance for Each Major Federal Program**

We have audited the Capital Area Transportation Authority's (the "Authority") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2020. The Authority's major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs 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* (the "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 the Authority'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 each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major federal programs for the year ended September 30, 2020.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the OMB Uniform Guidance, which is described in the accompanying schedule of findings and questioned costs as Finding 2020-002. Our opinion on each major federal program is not modified with respect to this matter.

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

To the Board of Directors  
Capital Area Transportation Authority

### **Report on Internal Control Over Compliance**

Management of the Authority 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 the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the 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 the Authority'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 a 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 of 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 identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2020-002, that we consider to be a material weakness.

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

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.

*Plante & Moran, PLLC*

March 5, 2021

# Capital Area Transportation Authority

## Schedule of Expenditures of Federal and State Awards

Year Ended September 30, 2020

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Project Number	State Project Number	Pass-through Entity Identifying Number	Federal Expenditures	State Expenditures	Total Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation - Direct programs:								
Federal Transit Cluster:								
Federal Transit - Formula Grants	20.507	MI-2017-014-04	2017-0027-P03D		\$ 275,237	\$ 68,809	\$ 344,046	\$ -
Federal Transit - Formula Grants	20.507	MI-0090-X782	2012-0055-P28C		281,543	70,386	351,929	-
Federal Transit - Formula Grants	20.507	MI-0095-X127	2012-0055-P28A		53,632	9,640	63,272	-
Federal Transit - Formula Grants	20.507	MI-0090-X672	2012-0055-P015		120,755	30,189	150,944	-
Federal Transit - Formula Grants	20.507	MI-0095-X105	2012-0055-P012		20,375	-	20,375	-
Federal Transit - Formula Grants	20.507	MI-0090-X805	2017-0027-P06D		859,951	214,988	1,074,939	-
Federal Transit - Formula Grants	20.507	MI-0090-X819	2017-0027-P11D		436,836	109,209	546,045	-
Federal Transit - Formula Grants	20.507	MI-0090-X855	2017-0027-P013D		800,000	200,000	1,000,000	-
Bus and Bus Facilities Formula Program	20.526	MI-0034-0057	2017-0027-P06B		57,313	14,328	71,641	-
Bus and Bus Facilities Formula Program	20.526	MI-0034-0074	2017-0027-P11B		171,939	42,985	214,924	-
Bus and Bus Facilities Formula Program	20.526	MI-0034-0074	2017-0027-P11B		<u>2,941</u>	<u>735</u>	<u>3,676</u>	<u>-</u>
Total Federal Transit Cluster					3,080,522	761,269	3,841,791	-
Transit Services Program Cluster -								
Formula Grants for Enhanced Mob of Sr & Ind. W Disab	20.513	MI-16-X010	2012-0055-P013		322,320	80,580	402,900	-
U.S. Department of Transportation - Pass-through programs from Michigan Department of Transportation (MDOT) -								
Formula Grants for Rural Areas:								
Section 5311 Operating Formula Grant	20.509	MI-2017-027-P12-R1	No State match	MI-2017-027-P12-R1	533,017	-	533,017	-
COVID-19 Section 5311 Operating Formula Grant	20.509	MI-2017-027-P12-R1	No State match	MI-2017-027-P12-R1	<u>264,537</u>	<u>-</u>	<u>264,537</u>	<u>-</u>
Total - Formula Grants for Rural Areas - Section 5311 Operating Formula Grant					<u>797,554</u>	<u>-</u>	<u>797,554</u>	<u>-</u>
Total federal awards					<b>\$ 4,200,396</b>	<b>\$ 841,849</b>	<b>\$ 5,042,245</b>	<b>\$ -</b>

## Capital Area Transportation Authority

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# Notes to Schedule of Expenditures of Federal and State Awards

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Year Ended September 30, 2020

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal grant activity of the Capital Area Transportation Authority (the "Authority") under programs of the federal government for the year ended September 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The Authority has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

**Capital Area Transportation Authority**

**Schedule of Findings and Questioned Costs**

**Year Ended September 30, 2020**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   Yes  X  None reported

Noncompliance material to financial statements noted?   Yes  X  None reported

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   Yes  X  None reported

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 Section 2 CFR 200.516(a)?  X  Yes   No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.507, 20.526 20.509	Federal Transit Cluster Formula Grants for Rural Areas program

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

Auditee qualified as low-risk auditee?   Yes  X  No

# Capital Area Transportation Authority

## Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2020

### Section II - Financial Statement Audit Findings

Reference Number	Finding
2020-001	<p data-bbox="362 531 773 556"><b>Finding Type</b> - Material weakness</p> <p data-bbox="362 581 1479 821"><b>Criteria</b> - The Authority should obtain monthly third-party investment and activity statements for the retiree OPEB trust fund. Management should maintain a trial balance year-round for the retiree OPEB trust fund and follow their established practice of reconciling the general ledger balances to that third-party activity periodically throughout the year. These reconciliations should be reviewed by a second individual and signed off on by both a preparer and a reviewer. Additionally, the Authority should review the assumptions annually that are utilized by the actuary for the OPEB valuation to ensure that the assumptions both reasonable and consistent.</p> <p data-bbox="362 846 1479 993"><b>Condition</b> - The Authority did not follow its current procedures and controls in place to record, reconcile, and review the investment statements and trust activity for the retiree OPEB trust fund throughout the year. Additionally, management did not have an adequate system of procedures and controls in place to review the assumptions used in the OPEB actuarial valuation for reasonableness and consistency.</p> <p data-bbox="362 1018 1479 1224"><b>Context</b> - The Authority did not reconcile the retiree OPEB trust fund to the general ledger during the year. It was reconciled once this year as of September 30, 2020. We should note that there were no discrepancies found during this reconciliation process. In the current year, the OPEB actuarial valuation included assumptions about the future projected claims that were not consistent with the future expectations for those claims. The internal controls over the review of the actuarial valuation did not lead the Authority to assess the reasonableness of the increase in the projected liability in the current year.</p> <p data-bbox="362 1249 1479 1337"><b>Cause</b> - The Authority was unable to readily obtain the third-party benefit statements timely throughout the year, and internal controls were not established that would require management to assess the reasonableness of the assumptions used by the actuary.</p> <p data-bbox="362 1362 1479 1568"><b>Effect</b> - As a result, the Authority reconciled the full year of retiree OPEB trust fund activity subsequent to year end. Although there were no discrepancies identified in reviewing the reconciliation performed by management, the potential effect could have resulted in a misappropriation of assets. Additionally, the claims experience difference overstated the total OPEB liability by approximately \$14 million, resulting in material auditor-proposed journal entries that were recorded and an adjustment that needed to be made to the actuarial valuation.</p> <p data-bbox="362 1593 1479 1799"><b>Recommendation</b> - We recommend that the Authority's preestablished procedures and controls be followed to obtain the trust activity statements timely in order to review the activity and related actuarial assumptions, as well as to record and reconcile OPEB investment trust activity at least quarterly, if not monthly. We also recommend a second review and signoff on the retiree OPEB reconciliations by both the preparer and reviewer. Additionally, we recommend that a formal process be put into place related to the review of the annual OPEB valuation for reasonableness and consistency.</p>

# Capital Area Transportation Authority

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## Schedule of Findings and Questioned Costs (Continued)

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Year Ended September 30, 2020

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2020-001 (Continued)	<b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority will refine its existing procedures in order to ensure timely reconciliation of the OPEB trust account during the year. In addition, the Authority is currently in the process of upgrading its financial accounting software and will include the OPEB trust as part of the general ledger within the new system. Regarding the controls over the review of the assumptions used in the actuarial valuation, in 2020, the Authority did conduct a formal review of the OPEB actuarial valuation, but the Authority will make adjustments to that review in order to ensure the assumptions are reasonable in the future.

# Capital Area Transportation Authority

## Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2020

### Section III - Federal Program Audit Findings

Reference Number	Finding
2020-002	<p><b>CFDA Number, Federal Agency, and Program Name</b> - Formula Grants for Rural Areas - Section 5311 Operating Formula Grant (CFDA 20.509)</p> <p><b>Federal Award Identification Number and Year</b> - MI-2017-027-P12-R1</p> <p><b>Pass-through Entity</b> - Michigan Department of Transportation (MDOT)</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws and regulations</p> <p><b>Repeat Finding</b> - No</p> <p><b>Criteria</b> - Recipients must have procedures in place for verifying that an entity with which they plan to enter into a covered transaction is not debarred, suspended, or otherwise excluded (2 CFR Section 200.318(h); 2 CFR Section 180.300).</p> <p><b>Condition</b> - Contracts were entered into with contractors without verification that the entity was not debarred, suspended, or otherwise excluded.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Identification of How Questioned Costs Were Computed</b> - N/A</p> <p><b>Context</b> - Of the sample of 25 contracts procured this year that we selected for testing, 4 of the contracts did not include adequate documentation regarding review that the contractor was not debarred, suspended, or otherwise excluded. The Authority has since confirmed, as of the date of the audit, that these 4 contractors were not on the suspended and debarred list.</p> <p><b>Cause and Effect</b> - Internal control procedures related to compliance with suspension and debarment did not operate effectively. As a result, the Authority did not perform procedures to ensure that a contractor is not suspended, debarred, or excluded from entering into contracts with federal funding. The Authority has since confirmed, as of the date of the audit, that these three contractors were not on the suspended and debarred list, and, therefore, there are no questioned costs.</p> <p><b>Recommendation</b> - Internal control procedures should be implemented to ensure that all contracts include verification that an entity with which the Authority plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded and maintain documentation of this review in the contract file.</p> <p><b>Views of Responsible Officials and Corrective Action Plan</b> - The Authority will expand its existing procedures for all applicable contracts to ensure they are not debarred, suspended, or otherwise excluded prior to entering into a contract. This is already occurring for the vast majority of federal award program expenditures.</p>