
Capital Area Transportation Authority

**Federal Awards Supplemental Information
September 30, 2017**

Independent Auditor's Reports

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Report on Schedule of Expenditures of Federal 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, 2017 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated March 15, 2018, which contained unmodified opinions on the financial statements of the enterprise fund and fiduciary funds. 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 15, 2018.

The accompanying schedule of expenditures of federal 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 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 financial statements or to the 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 15, 2018

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 Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2017, 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 15, 2018.

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) to determine the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2017-001, 2017-002, 2017-003 and 2017-004 to be material weaknesses.

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 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*.

We also noted certain matters that we have reported to management of the Authority in a separate letter dated March 15, 2018.

To Management and the Board of Directors
Capital Area Transportation Authority

The Authority's Responses to the Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

March 15, 2018

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Directors
Capital Area Transportation Authority

Report on Compliance for the 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 its major federal program for the year ended September 30, 2017. The Authority'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 program.

Auditor's Responsibility

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

Opinion on the 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 its major federal program for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the OMB Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings 2017-005, 2017-007, and 2017-008. Our opinion on the major federal program is not modified with respect to these matters.

The Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2017-006 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2017-005, 2017-007, and 2017-008 to be significant deficiencies.

The Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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 & Moreau, PLLC

March 15, 2018

Capital Area Transportation Authority

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2017

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Project Number	State Project Number	Federal Expenditures	State Expenditures	Total Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation - Direct programs:							
Federal Transit Cluster:							
Federal Transit - Capital Investment Grants	20.500	MI-2016-002	2012-0055-P027	\$ 511,104	\$ 132,776	\$ 643,880	\$ -
Federal Transit - Capital Investment Grants	20.500	MI-04-0085	No State match	586,037	-	586,037	-
Federal Transit - Formula Grants	20.507	MI-2017-014-04	2012-0055-PXXX	612,000	153,000	765,000	-
		MI-2016-034-03					
Federal Transit - Formula Grants	20.507	MI-90-X782	2012-0055-P28C	177,306	44,326	221,632	-
Federal Transit - Formula Grants	20.507	MI-90-X647	2012-0055-P005	231,260	57,815	289,075	-
Federal Transit - Formula Grants	20.507	MI-90-X672	2012-0055-P015	4,930,028	1,232,507	6,162,535	-
Federal Transit - Formula Grants	20.507	MI-95-X105	2012-0055-P012	228,539	33,187	261,726	-
Bus and Bus Facilities Formula Program	20.526	MI-34-0001	2012-0055-P011	615,730	153,932	769,662	-
Total Federal Transit Cluster				7,892,004	1,807,543	9,699,547	-
Transit Services Program Cluster:							
Job Access and Reverse Commute Program	20.516	MI-37-X049	2012-0055-P014	105,871	105,871	211,742	-
Job Access and Reverse Commute Program	20.516	MI-37-X046	2012-0055-P004	25,438	25,438	50,876	-
Total Transit Services Program Cluster				131,309	131,309	262,618	-
U.S. Department of Transportation - Pass-through programs from Michigan Department of Transportation (MDOT)							
Metropolitan Transportation Planning & State & Non-Metropolitan Planning and Research	20.505	MI-80-X015	2012-0055-P021A	13,542	3,386	16,928	-
Metropolitan Transportation Planning & State & Non-Metropolitan Planning and Research	20.505	MI-80-0004-07	2012-0055-P021	42,781	10,695	53,476	-
Total Metropolitan Transportation Planning				56,323	14,081	70,404	-
Total Federal Awards				\$ 8,079,636	\$ 1,952,933	\$ 10,032,569	\$ -

See Notes to Schedule of Expenditures of Federal Awards.

Capital Area Transportation Authority

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal 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, 2017. 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, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or 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 minimus* 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, 2017

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? X Yes 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
20.500, 20.507, and 20.526	Federal Transit Cluster

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, 2017

Section II - Financial Statement Audit Findings

Reference Number	Finding
2017-001	<p>Finding Type - Material weakness</p> <p>Criteria - Management should have an adequate system of procedures and controls to ensure that balance sheet amounts are properly supported and transactions are reported in the proper period.</p> <p>Condition - Management did not have an adequate system of procedures and controls to ensure that balance sheet amounts are adequately supported and to ensure that expenditures and revenue are recorded in the proper period, including accruals for obligations not yet paid or revenue not yet received as of the balance sheet date.</p> <p>Context - The finance department transitioned to an entirely new team during the year. The current finance team identified a number of unsupported balance sheet accounts or balances that were incorrect and posted adjustments to zero out or adjust the balance to the current year supported ending balance. As a result of that process, the Authority posted an unsupported net adjustment to increase revenue for \$537,721. Also, the amount of clean up to be done by the Authority's finance team was so extensive that, ultimately, some year-end adjusting entries to capital assets, accounts payable and expenditures, and accounts receivable and revenue were identified by and proposed by the auditors and posted by the Authority instead of being identified by the Authority.</p> <p>Cause - Management did not maintain or was unable to locate supporting documentation for previous balance sheet accounts and did not identify the above-described journal entries prior to the start of the audit due to the significant turnover in the finance department during the year and the amount of time the team had to spend to research items and make adjustments.</p> <p>Effect - Management posted unsupported adjustments to multiple accounts that resulted in a net income statement impact of \$537,721 of income reported in the current year. Also, auditor-proposed journal entries were recorded, which were material in total the Authority.</p> <p>Recommendation - We recommend that procedures be implemented to maintain supporting documentation for all balance sheet accounts and that a second review be performed on all balance sheet accounts and year-end accruals prior to the start of the audit each year.</p> <p>Views of Responsible Officials and Corrective Action Plan - We concur with the auditor's assessment of conditions during fiscal year 2017. However, procedures were implemented towards the end of fiscal year 2017 and subsequent to year end to ensure that all balance sheet accounts are being reconciled monthly and that support exists for all balances. Consequently, it is management's belief that as of the date of this report, this internal control deficiency is fully mitigated.</p>

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-002	<p data-bbox="362 531 769 556">Finding Type - Material weakness</p> <p data-bbox="362 583 1479 789">Criteria - Management should maintain trial balances within the general ledger software year round for both pension systems and the retiree OPEB trust fund. The Authority should also obtain third-party investment statements monthly and reconcile the general ledger balances to that activity. These reconciliations should be reviewed by a second individual on a monthly basis and signed off on by both preparer and reviewer. Management should also have an adequate system of procedures and controls for providing and reviewing the census data sent to the actuary for inclusion in the pension and retiree OPEB trust funds' actuarial valuations.</p> <p data-bbox="362 816 1479 1297">Condition - The Authority does not have procedures and controls in place to review, record, and reconcile the investment statements for the pension and retiree OPEB trust funds. As a result, the ending asset balances shown in last year's financial statements in both pension funds did not reconcile to the beginning balance on current year's investment statements in total by \$1,551,406. That amount was adjusted in the fiscal year 2017 income statement in order to reconcile ending balances to the investment statement. The adjustment made by the Authority to the beginning balance is unsupported as no one is able to identify why a difference existed in the prior year's balances. Without the activity in these funds being recorded in the general ledger throughout the year, it makes it even more difficult. In addition, the Authority did not have procedures and controls in place to review the census data report provided to the actuary to prepare the actuarial valuations. We also noted that in the first quarter of the current fiscal year, the investment statement for the OPEB trust shows a redemption of an investment for \$3,047 was made out of the trust and a check was sent to the Authority. However, the Authority is unable to locate this check and, therefore, the balance is currently recorded in the OPEB trust, yet the investment statement shows a zero balance. Management of the Authority has contacted the investment advisor and is trying to rectify this discrepancy.</p> <p data-bbox="362 1325 1479 1436">Context - The Authority did not maintain a general ledger for the pension and retiree OPEB trust funds during the year or prior to this year. In addition, there were no reconciliations performed of any of the funds' activity or balances during the year or of the data provided to the actuary.</p> <p data-bbox="362 1463 1479 1549">Cause -The Authority did not have the proper accounting and control procedures in place to ensure that the activity of the pension and retiree OPEB trust funds were being accounted for appropriately and reviewed timely as well as the information that was provided to the actuary.</p> <p data-bbox="362 1577 1479 1812">Effect - As a result, the auditors proposed and the Authority agreed that the entire trial balance of both pension systems and the OPEB system had to be created and put into the Authority's general ledger system and reconciled to the investment statements in order to be audited. During this reconciliation process, the Authority identified and posted an entry to adjust the beginning balances in the pension funds to agree to the investment statements in the total amount of \$1,551,406. Also, as a result of not reviewing the data sent to the actuary, discrepancies were noted by the auditors in reviewing the census data used by the actuary, which resulted in changes that needed to be made by the actuary to the valuations.</p>

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-002 (continued)	<p>Recommendation - We recommend that procedures and controls be implemented to review, record, and reconcile pension and OPEB investment statements at least quarterly, if not monthly. We also recommend a second review and sign-off on the pension and OPEB reconciliations by both the preparer and reviewer. We recommend that a process be put in place for someone to review what has been prepared to send over to the actuary to ensure it is complete and accurate. We also recommend that when the draft of any actuarial valuation comes back to the Authority, the Authority review it and compare the data to what they submitted to the actuary for propriety.</p> <p>Views of Responsible Officials and Corrective Action Plan - We concur with the auditor's assessment of the failure to record pension transactions and reconcile balances on a monthly basis. However, it should be noted that it is common for organizations that utilize major external third-party administrators to reconcile their pension balances once each year. Although an annual reconciliation is a detectable control, it does not provide adequate assurance that errors or fraud would be discovered in such a manner as to facilitate timely corrections or recover funds. Consequently, management has requested of our pension administrator to provide statements on a monthly basis and, furthermore, management has implemented procedures to reconcile those statements to balances per the Authority's books monthly. Management anticipates that the implementation of these controls will be completed by April 30, 2018.</p>

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-003	<p>Finding Type - Material weakness</p> <p>Criteria - Appropriate segregation of duties over cash collections should exist and bank reconciliations should be performed on a timely basis.</p> <p>Condition - Lack of segregation of duties over cash collections and timely bank reconciliations of all cash accounts for a three-month period during the year</p> <p>Context - Currently, there is not adequate segregation of duties or oversight related to the daily farebox cash receipting process. The daily farebox receipts are not reconciled to GFI reports, one person counts and reports the cash, and multiple employees within the finance department have keys to the vault where physical cash is maintained. In relation to the bank reconciliation process, the finance team transitioned during the year, resulting in the untimely preparation and review of the October, November, and December 2016 bank statements. Ultimately, all bank reconciliations were completed for the year end.</p> <p>Cause - The current accounting and control procedures surrounding cash collected within the fareboxes does not include an independent review of the cash collected and counted to what is being reported as revenue through the GFI system as well as physical access controls to farebox cash on hand. The accounting and control procedures surrounding bank reconciliations were not operating effectively and timely during the transition of the finance department during the year from October 2016 through December 2016.</p> <p>Effect - Lack of accounting and control procedures surrounding cash collected within the fareboxes, lack of physical access controls to the farebox cash on hand, as well as untimely preparation and review of bank reconciliations could result in misappropriation of authority assets.</p> <p>Recommendation - We recommend that accounting and control procedures be implemented to perform a review of farebox cash and a reconciliation to the GFI system, physical access controls be implemented surrounding cash on hand, and accounting and control procedures be reviewed for adequate operating and effectiveness for timely preparation and review of bank reconciliations.</p>

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-003 (continued)	<p>Views of Responsible Officials and Corrective Action Plan - We concur with the auditor's assessment of the lack of controls over farebox revenue. However, numerous other controls are in place that help to partially, but not fully, mitigate this internal control weakness. Those controls include:</p> <ul style="list-style-type: none">• Use of the GFI farebox system that restricts operator access to the cashboxes on the vehicles.• Use of the GFI vault system that restricts employees from access to cash when it is being transferred from the farebox to the vault• A CCTV video feed of activities in the cash room. This feed is periodically monitored by finance personnel.• Bank deposits performed by armored courier• Periodic audits of farebox receipts - several times each month, the cashboxes are randomly pulled from the fareboxes and compared against the receipts as recorded in the GFI system. Few exceptions have been found by management during audit. <p>Additionally, management initiated a project subsequent to the 2017 fiscal year end to design and implement new processes to effectively control cash from fareboxes. Management anticipates that the implementation of these controls will be completed by May 31, 2018.</p>

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-004	<p>Finding Type - Material weakness</p> <p>Criteria - Appropriate IT (information technology) logical access controls, segregation of duties, or compensating controls should exist within the payroll, human resources, and purchasing systems.</p> <p>Condition - There is lack of segregation of duties, IT logical access controls or compensating controls within the payroll, human resources, and purchasing systems.</p> <p>Context - Multiple accounting and HR employees have full access, including the ability to make pay rate changes and add new employees, to the payroll and human resources systems and there is no periodic review or other compensating control in place to identify discrepancies. We selected a sample of pay rate changes from throughout the year and noted one pay rate increase in which the Authority was unable to provide written documentation of approval for the pay rate change. We reviewed the salary range listing provided by HR and noted that this individual's pay rate was within the salary range for her position. In addition, a number of accounting employees have access to create a new vendor without approval, and no periodic review or other compensating control is in place.</p> <p>Cause - The current control procedures in place do not include IT logical access controls, segregation of duties, or compensating controls within the payroll, human resources, and purchasing systems.</p> <p>Effect - Without IT logical access controls or compensating controls in place within the payroll and human resources systems, an employee could make changes to his or her pay rate or other payroll or human resources data, potentially resulting in a misappropriation of assets. In addition, without logical IT access controls or compensating controls in place within the purchasing system, an employee could create a fictitious vendor or make changes to current vendor information, which could potentially result in a misappropriation of assets. The lack of these items puts the Authority at risk for potential manipulation of data or fraudulent activities.</p> <p>Recommendation - We recommend that IT logical access controls or compensating controls be implemented so that changes within the payroll, human resources, and purchasing systems be restricted or reviewed as part of a compensating control. We are happy to review or talk through any suggested changes to the Authority's current process to ensure adequate controls are implemented by the Authority.</p> <p>Views of Responsible Officials and Corrective Action Plan - We concur with the auditor's assessment of the lack of access controls over payroll, HR and purchasing systems.</p> <p>Management initiated a project subsequent to the 2017 fiscal year end to:</p> <ul style="list-style-type: none">• Review and modify, as necessary, user access to all modules within the payroll, HR, and ERP systems.• Establish procedures that require managerial review of all access changes to these systems and modules. <p>Management believes that this project will be completed by September 30, 2018.</p>

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
2017-005	<p>CFDA Number, Federal Agency, and Program Name - 20.507 U.S. Department of Transportation Federal Transit Cluster; Federal Transit - Formula Grants</p> <p>Federal Award Identification Number and Year - MI-90-X672 2017</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency and material noncompliance with laws and regulations</p> <p>Repeat Finding - No</p> <p>Criteria - Costs for which reimbursement is requested shall be paid prior to the date of the reimbursement request (2 CFR 200.305(b)(3)).</p> <p>Condition - Costs of \$30,641 were submitted for reimbursement from the FTA. However, the expenditure had not yet been paid by the Authority as of the date of the reimbursement request. Also, of this amount, \$19,748 was never paid by the Authority to a vendor.</p> <p>Questioned Costs - \$30,641</p> <p>Identification of How Questioned Costs Were Computed - Questioned costs were determined based on actual expenditures submitted for reimbursement prior to being paid by the Authority.</p> <p>Context - Of the two cash management drawdown requests selected for testing, one included \$30,641 of expenditures that was not paid prior to the date of the reimbursement request. A total of four drawdown requests were made during the year ended September 30, 2017 for the Federal Transit Cluster.</p> <p>Cause and Effect - The current control procedures in place do not include an effective review of supporting documentation for each reimbursement request to ensure expenditures have been incurred and paid prior to submission for reimbursement. As a result, reimbursement requests during the year included \$30,641 of expenditures, for which an expenditure had not yet been paid by the Authority as of the date of the reimbursement request.</p> <p>Recommendation - We recommend that procedures and controls be implemented to ensure that expenditures are incurred prior to request for reimbursement.</p>	\$30,641

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding	Questioned Costs
2017-005 (continued)	<p>Views of Responsible Officials and Corrective Action Plan - The grant draw process was fully re-engineered during the first quarter of fiscal 2018. The re-engineering included the adoption of administrative rules (policies) and procedures to ensure adequate controls over draws.</p> <p>Administrative Rule 0005 (AR0005) was adopted by the Authority on November 28, 2017. AR0005 states "All draws of Federal Grant funds shall be performed in accordance with Federal Grant award rules governing such draws. Draws on Federal Grant awards shall be prepared by the Grants Accountant, shall be reviewed and approved by the Grants Administrator, and either the Deputy Executive Director or Executive Director of the Authority prior to the actual draw, and shall be performed by the Director of Finance or his/her designee. However, in no case shall the person performing the draw be the preparer or approver. A detailed schedule shall be prepared by the Grants Accountant reflecting the expenditures and corresponding grants associated with each draw. Documentary evidence, including but not limited to, the detailed grant schedule, copies of vendor invoices that gave rise to the draw, approvals for the draw, and the documentation obtained from the Federal Grant website evidencing the draw, shall be retained in electronic format within the grants folder.... Responsibility for the accuracy of the draws and the retention of the proper documentation rests with the Director of Finance."</p> <p>The Authority has made more than a dozen draws since the adoption of this administrative rule, and each was performed in accordance with the rule. Consequently, management believes that this finding has been fully remediated as of the date of this report.</p>	

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding	Questioned Costs
2017-006	<p>CFDA Number, Federal Agency, and Program Name - Federal Transit Cluster (CFDA 20.500, 20.507, 20.526), Transit Services Program Cluster (CFDA 20.516), and Metropolitan Transportation Planning & State & Non-Metropolitan Planning and Research (CFDA 20.505)</p> <p>Federal Award Identification Number and Year - Various - Federal expenditures in total for each grant noted above were incorrect when the initial version of the SEFA was provided to the auditors and the federal expenditures in total did not reconcile to the general ledger federal revenue in the final version of the SEFA. The errors did not relate to one particular federal award identification number and year.</p> <p>Pass-through Entity - N/A, except for CFDA 20.505 passed through Michigan Department of Transportation</p> <p>Finding Type - Material weakness</p> <p>Repeat Finding - No</p> <p>Criteria - 2 CFR Section 200.502(a) requires organizations to properly reflect federal expenditures in the schedule of expenditures of federal awards (SEFA)</p> <p>Condition - The SEFA required adjustments related to expenditures and other transactions that occurred at year end, resulting in revisions to correct the SEFA. The expenditures presented on the SEFA for Federal Transit Cluster (CFDA 20.500, 20.507, 20.526), Transit Services Program Cluster (CFDA 20.516), and Metropolitan Transportation Planning & State & Non-Metropolitan Planning and Research (CFDA 20.505) were adjusted by approximately \$610,000. The adjustment was made as a result of expenditures that were identified during year-end reconciliations that should have been included on the SEFA. The final SEFA expenditures did not reconcile to the related general ledger revenues by approximately \$300,000, with amounts relating to various federal award identification numbers and years.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - The adjustments that have been made to the expenditures reported on the schedule of expenditures of federal awards required updating of grant amounts used for major program determination. The remaining reconciliation variance still exists. The changes to the schedule of expenditures for federal awards and remaining variance did not impact major program determination.</p> <p>Cause and Effect - Internal control procedures related to the identification of federal expenditures to be reported on the SEFA did not operate effectively. The Authority's schedule of expenditures of federal awards provided to the auditors was inaccurate on a program and total expenditure basis.</p>	None

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding	Questioned Costs
2017-006 (continued)	<p>Recommendation - Internal control procedures should be implemented to ensure the accuracy of the expenditures reported in the schedule of expenditures of federal awards.</p> <p>Views of Responsible Officials and Corrective Action Plan - Procedures were implemented subsequent to the Authority's 2017 fiscal year end to ensure that all state and federal reports are being properly reviewed by management prior to the submission of the report to the governing agency and that documentation supporting the reported values be retained for audit purposes. Consequently, it is management's belief that this finding has been fully remediated as of the date of this report.</p>	

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding	Questioned Costs
2017-007	<p>CFDA Number, Federal Agency, and Program Name - 20.507 U.S. Department of Transportation Federal Transit Cluster; Federal Transit - Formula Grants</p> <p>Federal Award Identification Number and Year - MI-90-X672 2017</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency and material noncompliance with laws and regulations</p> <p>Repeat Finding - No</p> <p>Criteria - Recipients must require that, as a condition to bid on a transit vehicle procurement in which FTA funds are involved, each transit vehicle manufacturer certify that it has complied with the requirements of 49 CFR section 26.49.</p> <p>Condition - A contract was entered into with a transit vehicle manufacturer where the certification of FTA compliance was not required as a condition to bid or obtained as part of the procurement process.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - Of the sample of six contracts that were procured this year that we selected for testing, one was a contract with a transit vehicle manufacturer where the procurement documentation did not include transit vehicle manufacturer certification of FTA compliance.</p> <p>Cause and Effect - Internal control procedures related to the procurement of transit vehicle manufactures did not operate effectively. During audit testing, adequate certifications were obtained from the transit vehicle manufacturer selected for testing. However, without the proper processes in place, the Authority could have awarded a contract to a vendor that did not comply with FTA regulations.</p> <p>Recommendation - Internal control procedures should be implemented to ensure that transit vehicle manufacturer certifications are obtained during the procurement process.</p> <p>Views of Responsible Officials and Corrective Action Plan - Purchasing processes, including requests for quotes and requests for proposals processes were re-engineered during the first quarter of fiscal 2018. Under the new processes, there are numerous managerial reviews that should mitigate the risk of failure to comply with required conditions. The new processes went into effect on January 1, 2018. Numerous purchases have been performed using the new processes, and no issues have been noted by the Authority. Consequently, it is management's belief that this finding has been fully remediated as of the date of this report.</p>	None

Capital Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding	Questioned Costs
2017-008	<p>CFDA Number, Federal Agency, and Program Name - 20.507 U.S. Department of Transportation Federal Transit Cluster; Federal Transit - Formula Grants</p> <p>Federal Award Identification Number and Year - MI-90-X672 2017</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency and material noncompliance with laws and regulations</p> <p>Repeat Finding - No</p> <p>Criteria - Recipients must have procedures in place for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded (2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; 48 CFR section 52.209-6).</p> <p>Condition - A contract was entered into with a vendor where the verification that the entity was not debarred, suspended, or otherwise excluded did not take place.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - Of the sample of six contracts that were procured this year that we selected for testing, one of the procurements did not include adequate documentation regarding review that the vendor was not debarred, suspended, or otherwise excluded.</p> <p>Cause and Effect - Internal control procedures related to procurement did not operate effectively. During audit testing, adequate evidence was obtained to indicate that this vendor was not debarred, suspended, or otherwise excluded. However, without the effective procedures in place, the Authority could have awarded the contract to a vendor that was suspended or debarred.</p> <p>Recommendation - Internal control procedures should be implemented to ensure that all procurements include verification that an entity with which it 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>Views of Responsible Officials and Corrective Action Plan - Management believes that this was an isolated incident as procedures are in place that govern compliance with FTA purchasing guidelines.</p>	None