

Revised Agenda Item No. 3

Independent Taxpayers Oversight Committee

March 10, 2025

1:00 PM

Location:

San Bernardino County Transportation Authority
First Floor Lobby Board Room
1170 W. 3rd Street, San Bernardino, CA 92410

3. Measure I Compliance Audits for Fiscal Year 2023/2024.

Review and make a finding that the Measure I expenditures for Fiscal Year 2023/2024 and the City of Adelanto for Fiscal Year 2021/2022 are consistent with the provisions of the Measure I Expenditure Plan and Ordinance No. 04-01.

This agenda item was revised after the posting of the agenda. The revised item includes audit information for the cities of: San Bernardino and Victorville.

Minute Action

REVISED AGENDA ITEM: 3

Date: *March 10, 2025*

Subject:

Measure I Compliance Audit for Fiscal Year 2023/2024

Recommendation:

Review and make a finding that the Measure I expenditures for Fiscal Year 2023/2024 and the City of Adelanto for Fiscal Year 2021/2022 are consistent with the provisions of the Measure I Expenditure Plan and Ordinance No. 04-01.

Background:

Each year San Bernardino County Transportation Authority (SBCTA) conducts an annual comprehensive financial audit of SBCTA and provides for audits of all local jurisdictions receiving Measure I 2010-2040 Local Streets Program Funds, which are dedicated for transportation planning, design, construction, operation, and maintenance.

A financial examination is completed by an independent audit firm for activities during the previous Fiscal Year (FY), including internal control systems of checks and balances. The examination must encompass both project expenditures and projects for which funds were received but not expended. A listing of all projects comparing actual revenues and expenses to the Measure I Five-Year Capital Improvement Plan (CIP) adopted by the local governing board and reported annually to SBCTA, must be included with any interest earned. The report shall also contain an examination of expenditures, a statement of revenue and expenses, and a balance sheet for each Measure I 2010-2040 Local Streets Program Special Revenue fund.

SBCTA executed an agreement with Crowe, LLP to conduct Compliance Audits of the Measure I 2010-2040 Local Streets Program Funds for FY 2023/2024. These auditors verified compliance with California Public Utilities Code 190300 and Ordinance No. 04-01 of the SBCTA Local Streets Program that funds shall not be used to supplant existing local discretionary funds being used for street and highway purposes, also known as Maintenance of Effort (MOE). The MOE base year level was determined based on the discretionary General Fund expenditures for transportation-related construction and maintenance activities in FY 2008/2009. The MOE base year level as approved by the SBCTA Board of Directors shall remain in effect until the expiration of Measure I 2010-2040.

Measure I 2010-2040 Local Streets Program Audit reports for FY 2023/2024 and the SBCTA Annual Comprehensive Financial Report (ACFR) are being provided to the Independent Taxpayer Oversight Committee (ITOC) as a separate attachment. The recommendation for this item is for the ITOC to make a finding that Measure I expenditures for FY 2023/2024 and the City of Adelanto for FY 2021/2022 are consistent with the provisions of the Measure I Expenditure Plan and Ordinance No. 04-01.

The Measure I 2010-2040 Local Streets Program audits for the ~~Cities~~ **City** of Rialto, ~~San Bernardino, and Victorville~~ **are was** expected to be completed on or before February 28, 2025, or shortly thereafter. These audits were not finalized by the end of the initial extension period with no additional extension requests. The withholding of Measure I 2010-2040 Local Streets Program revenue will commence in March 2025 and continue until the FY 2023/2024 audit is completed. The Town of Apple Valley and the City of Adelanto have requested extensions

Entity: San Bernardino County Transportation Authority

through May 31, 2025. The audits for the City of Adelanto for FY 2022/2023 and FY 2023/2024 are not complete, thus they are currently subject to withholding.

The audits resulted in the following findings:

City of Adelanto (City) for FY 2021/2022

- Management is responsible for ensuring financial activity is recorded accurately and on a timely basis. Bank reconciliations should be performed monthly, reviewed, and approved in a timely manner. Management review over invoicing, cash receipts, and journal entries should be in place to ensure the City has the ability to initiate, record, process, and report accurate financial data consistent with generally accepted accounting principles. During substantive testing, it was noted that there was one invoice improperly recorded in FY 2022 instead of FY 2021. There was also no evidence of proper segregation controls over revenues, expenditures, journal entries, and timely preparation and review of bank reconciliations.

Corrective Action: As of May 2024, the City has hired a team of accounting consultants to assist with monthly closing and other accounting services.

City of Colton (City) for FY 2023/2024:

- The Measure I Strategic Plan states that each local jurisdiction is required to annually adopt a Five-Year CIP which details the specific projects to be funded using Measure I 2010-2040 Local Street Program Funds. Expenditures of Measure I Local Pass-Through Funds must be detailed in the Five-Year CIP and adopted by resolution of the governing body. The Measure I Strategic Plan further states that the Five-Year CIP shall be the basis for the annual audit. For a project to be eligible for Measure I 2010-2040 Local Streets Program Funds, the project must be included in the current CIP. An amended CIP should be used in instances where projects are added to the CIP during the year. The City utilized Measure I to cover costs for a certain project not included in the current CIP. The project was included in the CIP for FY 2022/2023 but not added to the CIP for FY 2023/2024. It is recommended the City review the CIP to ensure Measure I funds are only used for these projects. Management should issue an amended CIP in instances where a project needs to be added during the year.

Corrective Action: The project was listed on the CIP for FY 2020/2021 through FY 2022/2023. There were charges incurred for staff time for the final invoice and close-out documents to California Department of Transportation, resulting in a timing difference. The City will thoroughly review the project list before removing projects and their internal business process has been updated to keep the projects on the list until the completion of final reimbursement and close-out.

- Management is responsible for ensuring fund balances are properly carried forward. This includes the proper posting of audit adjusting entries to ensure accurate financial reporting. The beginning fund balance did not roll forward from the prior year because the City did not post the prior year's audit adjusting entries. Fund balance was required to be decreased by \$122,151, revenue was increased by \$120,276, and cash was decreased by \$1,875. It is recommended that the City implement internal controls to ensure all necessary audit adjustments are reviewed, approved, and posted before closing and to review balances against prior year audit reports for accuracy.

Corrective Action: The City will review the prior year audit report and audit adjustments at the beginning of each fiscal year.

- Management is responsible for accounting for the City's special revenue funds recognizing revenues when they are measurable and available. Revenue recognition for the City is 60 days after the fiscal period ends. The City recognized revenue for Measure I funds that were received more than 60 days after the end of the 2023/2024 fiscal year. It is recommended that the City review the receipt date for all revenue transactions to determine if they are both measurable and available.

Corrective Action: Management will review the receipt date for all revenue transactions to determine the appropriate recognition of revenues during the recognition period.

City of Grand Terrace (City) for FY 2023/2024:

- Pursuant to the Valley Local Street Program Measure I 2010-2040 Strategic Plan, if Measure I funds are invested, they must receive their equitable proration of interest earned on the total funds invested. There was no equitable proration of interest earned to the Measure I funds cash and investment balance. It is recommended that a distribution based on the average month-end cash balance be employed.

Corrective Action: The City concurs with the finding. The city prepared quarterly interest allocations and recorded adjusting entries that were provided to the auditors.

City of Ontario (City) for FY 2023/2024:

- Management is responsible for accounting for the City's special revenue funds recognizing revenues when they are measurable and available. Revenue recognition for the City is 60 days after the fiscal period ends. The City recognized revenue for Measure I funds that were received more than 60 days after the end of the 2023/2024 fiscal year. It is recommended that the City review the receipt date for all revenue transactions to determine if they are both measurable and available.

Corrective Action: The City acknowledges the finding and will prepare an accounting entry for the proper recognition and recording of unavailable revenues.

City of San Bernardino (City) for FY 2023/2024:

- **GAAP requires entities to record liabilities and related expenses that result from exchange transactions when goods or services have been received. Management identified prior year errors in expense accruals that required a prior period adjustment of \$532,535. It is recommended that management evaluate the understanding of the accrual process, including additional layers of review.**

Corrective Action: **The City acknowledges the oversight and is taking proactive measures to strengthen its accrual review process. This includes implementing a checklist, extending the accrual review period to 90 days, and continually reviewing invoices to ensure proper accounting.**

Town of Yucca Valley (Town) for FY 2023/2024:

- The Measure I Strategic Plan states that each local jurisdiction is required to annually adopt a Five-Year CIP which details the specific projects to be funded using Measure I 2010-2040 Local Street Program Funds. Expenditures of Measure I Local Pass-Through Funds must be detailed in the Five-Year CIP and adopted by resolution of the governing body. The Measure I Strategic Plan further states that the Five-Year CIP shall be the basis for the annual audit. For a project to be eligible for Measure I 2010-2040 Local Streets Program Funds, the project must be included in the current CIP. An amended CIP should be used in instances where projects are added to the CIP during the year. The Town utilized Measure I to cover costs for a certain project not included in the current CIP. The project was included in the CIP for FY 2022/2023 but not added to the CIP for FY 2023/2024. It is recommended that management keep projects on their current CIP in the instance there is a delay in Measure I funds reimbursing to other Town funds for project expenses. Management could also issue an amended CIP in instances where a project needs to be added during the year.

Corrective Action: Town management maintains that this was an approved project and reimbursed the identified expenditures with the understanding that this was a compliant reimbursement according to SBCTA's approval. The current policy lacks clarity on the extension or carryforward of already approved projects that either span multiple years or require reimbursement in the following year. The Town continues to monitor and improve its internal processes and reporting and will continue to prioritize excellence in financial reporting for the upcoming years.

City of Victorville (City) for FY 2023/2024:

- **Management is responsible for ensuring financial activity is recorded accurately and on a timely basis. Bank reconciliations should be performed monthly, reviewed, and approved in a timely manner. During procedures over cash and investments, it was noted that the City's bank reconciliation for June 2024 was not completed until October 2024. It is recommended that the City review the timing of its reconciliation procedures.**

Corrective Action: **The City is working toward streamlining the bank reconciliation process.**

SBCTA for FY 2023/2024:

- SBCTA's single audit (attached) includes one finding regarding revenue recognition. Internal controls over closing and financial reporting processes should be in place to ensure SBCTA has the ability to initiate, record, process, and report accurate financial data. Generally Accepted Accounting Principles (GAAP) require that governmental funds revenues should be recognized in the accounting period they become both measurable and available. SBCTA considers revenue to be available when collected within 180 days after the end of the current fiscal period. During testing, auditors identified revenues that did not meet the availability criteria. Multiple audit adjustments were posted to the financial statements to properly present SBCTA's statements in accordance with GAAP. It is recommended that management create and adopt a policy to ensure all transactions and activities are properly documented, accounted for, and maintained in the accounting

records. Specifically, it is recommended that management strengthen their review process to ensure that unavailable revenues are reconciled and recorded in accordance with GAAP.

Corrective Action: Management agrees with the auditor’s finding and has implemented an updated recognition period of 120 days. This adjustment enables SBCTA to accurately recognize revenue based on actual receipts before the audit period concludes.

Financial Impact:

This item has no financial impact on the adopted Budget for Fiscal Year 2024/2025.

Reviewed By:

This item is scheduled for review by the General Policy Committee on April 9, 2025.

Responsible Staff:

Lisa Lazzar, Chief Financial Officer

Approved
Independent Taxpayer Oversight Committee Meeting
Date: March 10, 2025

Witnessed By: