

Transportation Development Act Compliance Audits 2022

Summary:

Section 99245 of the Public Utilities Commission require claimants of Transportation Development Act funds (TDA) to submit compliance audits of the agencies financial statements to the Regional Planning Agency, who in turn is required to submit to the State Controller's Office (SCO). The audits are due by the end of December after the fiscal years ends however FCOG, as the local Regional Planning Agency, may extend the deadline through March. Statutorily, FCOG, may not make TDA allocations to agencies with delinquent audits.

At the creation of the Transportation Development Act back in the early 1970s, the State Controller's office had a tradition of auditing Gas Tax allocated to each local agency, so rather than incorporate this requirement into each individual agencies annual audit per the PUC statute, FCOG and member recipient agencies developed a tradition whereas FCOG hired the State Controller's office to perform the required TDA audits for all member agencies when they came out to do the Gas Tax audits. This appeared to create an economy of scale however SCO eventually withdrew from the process and FCOG hired a CPA firm to perform the audits using the format initially prescribed by SCO. This process has worked for several years.

However, during the ensuing years, the Governmental Accounting Standards Board (GASB) has not sat idle. Auditing requirements have gradually increased in complexity until what originally could be performed as a simple, routine program audit is now a full blown financial statement audit based on generally accepted accounting principles.

City of Clovis Presently FCOG is using Price Paige to perform the TDA audits under a contract that runs through the
City of Coalinga 2022 fiscal year just ended in June. However, for a variety of reasons they are still struggling to
City of Firebaugh complete several audits for 2021, which are now delinquent, citing increasingly complex audit
City of Fowler requirements, more sophisticated accounting procedures utilized by member agencies requiring
City of Fresno additional examination, coordination issues and professional accounting staff turnover at some of the
City of Huron medium to small cities. There is no issue of inappropriate expenditure of restricted funds. This is merely
City of Kerman an issue of increasing intergovernmental complexity creating unanticipated delays for all involved. The
City of Kingsburg situation has been gradually getting more critical for a number of years during which FCOG staff has met
City of Mendota several times with Price Paige to facilitate these issues. While progress has been made, Price Paige has
City of Orange gone considerably over budget at their expense in each of the years they have performed these audits.
City of Parlier They have put us on notice they will finish all delinquent audits at their cost through the 2021 fiscal year
City of Reedley however, they must regretfully cancel the contract for the 2022 TDA compliance audits. Our contract
has a provision that allows this. They have agreed to complete the FCOG and FCRTA agency audits for
the 2022 fiscal year which are already in draft form. This leaves a couple of choices.

City of San Joaquin FCOG can continue to contract for these audits, and we can roll out an RFP and hope to find a CPA firm
City of Sanger that can take these audits on short notice at a reasonable price or we can inform member agencies they
City of Selma will be responsible for submitting the 2022 compliance audit to FCOG as part of their annual audit. It is

County of Fresno

noteworthy that this second option is the method prescribed by the PUC requirement. There are issues with either approach.

Regarding the RFP option where FCOG continues the tradition, in previous years we were able to have these audits performed at a fairly reasonable price. The current budget for the TDA compliance audits is \$30,000. However, in order to provide the audit coverage required by the state code and GASB requirements, Price Paige has significantly exceeded that budget, at their cost, and it is anticipated the cost of this engagement to FCOG could easily double or more. In addition, any auditor selected will have to contend with the same issues the current firm is dealing with. Since some of the previous audits are still underway, this complicates the bid process and CPA firms may be reluctant to submit a fixed cost bid. In addition, FCOG combined the TDA audits in one contract with FCOG and FCRTA's agency audits for economy of scale. Since FCOG's and FCRTA's 2022 audits will be done, bidding the TDA audits as a stand-alone engagement loses that economy of scale. Ultimately, the decision must be based on how much one wants to pay for a full blow financial statement audit that could be handled for much less cost as a compliance audit addendum on each agency's audit.

Having the member agencies incorporate the TDA compliance statements in their financial audits would almost certainly result in an overall cost saving to FCOG, however this could also represent a nominal increase in the cost of the individual agencies audits if they are already under contract. This would also add a layer of complexity for local agency accounting staff to deal with as ultimately they would need to assure the requirements have been incorporated into their audits when they submit to FCOG to forward to SCO. Under this scenario, FCOG staff would develop audit guidelines to be provided to their CPA's to help the local agencies insure their audit satisfies the requirements of the PUC. A draft of those guidelines appears in the agenda.

This item was presented to the Policy Advisory Committee who recommended the question of Member Agencies incorporating the audit requirements into their audits should be postponed for the 2023 fiscal year as some of the members have already started their audit for 2022. Staff will proceed with an RFP for the 2022 TDA Audits.

Action: Information, direction may be given.