



BROWN ARMSTRONG

Certified Public Accountants

AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING

Board of Directors
Santa Barbara Metropolitan Transit District
Santa Barbara, California

BAKERSFIELD OFFICE (MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

In planning and performing our audit of the basic financial statements of the Santa Barbara Metropolitan Transit District (the District) as of and for the fiscal year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 discussed below, 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 entity'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.

The results of our audit disclosed one finding and recommendation. We are providing the disposition of the year's recommendation.

Current Year Findings and Recommendations

Finding 1 – Inventory Observation

Finding

We were unable to observe the taking of the physical inventory as of June 30, 2020, since the District elected not to perform for the fiscal year ended June 30, 2020. We were unable to satisfy ourselves regarding inventory quantities and adjustments by means of other auditing procedures. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Recommendation

We recommend the District follow its policies and procedures for performing an inventory count at year-end.

Management Response

The District did not conduct the annual bus parts inventory this fiscal year due to health and safety concerns related to the COVID-19 pandemic. Social distancing protocols and work area occupancy requirements per Santa Barbara County Health Officer Orders 2020-08 and 2020-10 would have been extremely difficult to maintain. Even with the use of personal protective equipment, the duration of “close contact” needed to conduct the inventory presented concerns of greater risk for exposure to COVID-19. Additionally, District staff would have been in confined and enclosed spaces with other District staff and employees of the inventory contractor that would not provide ventilation at the levels recommended by the CDC to minimize exposure risks. The District will be carrying out partial inventories that comply with County and CDC recommendations during the 2020-21 fiscal year. When conditions allow, the year-end bus parts inventories will resume.

Prior Year Findings and Recommendations

Finding 1 – Unearned Revenues and Net Position

Finding

During our audit, we noted the District’s unexpended grant funds were recorded as restricted net position as opposed to unearned revenues. The amount of unexpended grant funds were improperly recognized as grant revenue, rather than unearned revenues (liabilities). This resulted in a prior period adjustment for the fiscal year 2017/18 for \$1,072,509 and reclassifications of current year revenues to unearned liabilities.

Recommendation

The District has identified the error in accounting related to unexpended grant funds and made appropriate corrections to the basic financial statements. We recommend the District implement a policy and internal control activities, i.e., procedures to continue to track the receipt and expenditure of grant funds, and classify unexpended funds as liabilities as opposed to restricted net position.

Management Response

The District will implement a policy and internal control activity to ensure that, where appropriate, grant funds received in advance by the District are recorded as a liability and recognized as revenue when associated grant expenditures have been incurred. Furthermore, the District will review government accounting standards to determine the conditions, if any, in which advance grant revenues are immediately recognized as revenue and recorded as restricted net position until associated grant expenditures have been incurred, as has been the District’s past practice.

Current Year Status

Resolved.

This communication is intended solely for the information and use of management, the Board of Directors and others within Santa Barbara Metropolitan Transit District, and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
November 11, 2020