CITY OF NOVATO

MEASURE A COMPLIANCE REPORT

June 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Transportation Authority of Marin
781 Lincoln Ave., Suite 160
San Rafael, California

Compliance

We have audited the City of Novato's (City) compliance with the types of compliance requirements described in the Measure A Expenditure Plan and the respective funding agreement with the Transportation Authority of Marin (Authority), for the fiscal year ended June 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Management of the City of Novato is responsible for compliance with the Measure A Expenditure Plan and requirements of its funding agreement with the Transportation Authority of Marin. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Measure A Expenditure Plan issued by the County of Marin, and the respective funding agreement between the City and the Authority. An audit includes examining, on a test basis, evidence about the City'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. Our audit does not provide legal determination on the City's compliance with those requirements.

In our opinion, the City complied, with the exception of Finding 2012-1, in all material respects, with the compliance requirements referred to above for funding allocated during the fiscal year ended June 30, 2007 and June 30, 2008 and for expenditures on projects utilizing those funds for the fiscal year ended June 30, 2010 and June 30, 2011.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Measure A funded programs. In planning and performing our audit, we considered the City's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, 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 City's internal control over compliance.

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. We noted no deficiencies that we considered to be material weaknesses.

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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 noted one deficiency that we consider to be a significant deficiency, see Finding 2012-1.

This report is intended solely for the information of the Board of Commissioners, City Council, Citizens' Oversight Committee, Management of the Transportation Authority of Marin, and Management of the City, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA
November 7, 2012

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Notes to the Compliance Report

June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City is an incorporated City that receives funding under the Measure A Expenditure Plan as a member of the County of Marin.

Basis of Accounting

The City utilizes the economic resources measurement focus basis of account, whereby revenues are recognized when measurable and available. The City considers all revenues reported to be available if the revenues are collected within sixty days after the fiscal year end. Expenditures are recorded when the related fund liability is incurred. Capital assets acquisitions are reported as expenditures in the governmental funds.

NOTE 2 MEASURE A SALES TAX

The Measure A sales tax is a ½ cent set forth by voters as a step in implementing a 1.6 billion dollar "transportation vision" set forth by the County of Marin as a plan to alleviate traffic congestion, reinvent the public transportation system, provide addition pedestrian and bike pathways, provide safer routes to school and many other additional transit related goals. Citizens' Advisory Committees in each part of the County, representing the many diverse interests in Marin, provided input that result in a draft expenditure plan. The draft plan was presented to each of Marin's City/Town Councils and to numerous stakeholder groups. Their comments prompted refinements reflected in the Final Measure A Transportation Sales Tax Expenditure Plan (Plan).

The Plan is administered by the Transportation Authority of Marin (Authority). Its 16 member board consists of the Board of Supervisors and a council member of each incorporated City/Town. The Authority is accountable to a 12 member Citizens' Oversight Committee (Committee), created with the assistance of the League of Women Voters. The Committee reviews all expenditures and reports annually to the public.

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Attachment A – Procedures Performed

June 30, 2012

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1. Obtained original Funding Agreement/Contract, Allocation Request, and Funding Agreement/Contract Amendments for the audit period or for the period during which funding was utilized for an approved project.

2. Reviewed Funding Agreement/Contract, Allocation Request, and Funding Agreement/Contract Amendments to determine total funding provided by the applicable Strategy for the audit period or for the projects being audited.

3. Interviewed finance staff regarding internal controls in the following areas, specific to, but not limited to, accounting for Measure A funding, to obtain an understanding of the entity's operations:

    a. Cash Disbursements – Reviewed policies and procedures regarding approval, defacements, accounts payable check processing, and other matters related to the disbursement of funds.
    b. Cash Receipts – Reviewed policies and procedures regarding cash handling of over-the-counter receipts and cash receipts received through the mail, bank deposits, bank reconciliations, and other matters related to the receipt of funds.

4. Obtained all invoices submitted to the Authority for reimbursements, if applicable.

5. Obtained supporting documentation for all invoices submitted to the Authority for reimbursements, including construction, personnel, project management, consultants, and other related costs.

6. Obtained general ledger detail for revenue and expenditures charged to the Measure A funding source or equivalent reports where income and expenses associated with Measure A funds can be clearly identified.

7. Reviewed remittances from the Authority to ensure that all revenues are correctly coded to the specific cost center or fund code designated for Measure A funding.

8. For reimbursement-based agreements, we reviewed all invoices submitted to the Authority to ensure that the costs being billed on the invoices reconcile with the ones being charged to the specific Measure A cost center in the entity's financial accounting system.

9. For reimbursement-based agreements/contracts, expenditures charged to the specific cost center or fund code designated for Measure A funding were selected on a random basis were and tested for the following attributes:

    a. Approval – Reviewed invoices and supporting documentation to ensure that the proper review and approval process occurred and is documented on the invoice.
    b. Invoice – Reviewed invoices and supporting documentation to ensure that they are mathematically accurate, properly addressed to the auditee, and have sufficient detail to justify the amounts being charged and the cost center or fund code to which it is being charged to.
    c. Coding – Reviewed invoices and supporting documentation to ensure that they have been correctly coded to the specific cost center or fund code designated for Measure A funding.
    d. Allowable – Reviewed invoices and supporting documentation to ensure that the costs being charged to the specific cost center or fund code designated for Measure A funding are allowable costs based on the Measure A Expenditure Plan, the entity's funding agreement with the Authority, and specific requirements of the Strategy for which the funds were restricted for. Also reviewed expenditures to ensure that all costs are direct costs and not indirect costs or allocations of any kind.

10. For entities receiving funding in advance for Strategy 3 under a Measure A funding agreement, we reviewed, in summary form, various invoices to verify that expenditures being charged to the specific cost center or fund code restricted for Measure A are reasonable for the project. In addition, expenditures are also tested in the same fashion as outlined in step 9 of this list.

11. For entities where capital construction projects were funded utilizing Measure A Strategy 3 and 4 funding, we obtained the necessary project files and reviewed them for the following requirements:

    a. Procurement Process – Reviewed procurement process of the project to ensure that the project was properly advertised in publications, internet, trade journals and/or other acceptable means. If other means of procurement, such as selective RFP submittals were followed, we determined whether the process is adequate in regards to the project. Reviewed any other evidence of procurement when appropriate, such as fax logs or mailing lists.
    b. Bids and Proposals – Reviewed bids and proposals received to ensure that sufficient bids were received in regards to the project.
    c. Bid Award – Reviewed City/Town Council Agendas and Minutes along with Staff Reports in regards to the bid award to ensure that the contract for the project was properly approved by Department Heads and the City/Town Council and was properly documented in a public forum. Also, we reviewed bidding results to ensure that the lowest bid was selected, and if the lowest bid was not selected, that there is sufficient documentation for any other selection process utilized.

12. For entities where professional service contracts were paid utilizing Measure A funding, with regards to construction projects or other purposes, we reviewed the policies and procedures of the entity in question to ensure that internal policies and procedures were followed in regards to the selection of professional service firms.

13. For entities where capital construction projects were paid utilizing Measure A Strategy 3 and 4 funding, we reviewed any applicable environmental review requirements and reviewed documentation to verify that all reports and reviews were performed prior to the start of any construction.

14. For entities where personnel costs were charged to the specific cost center or fund code designated for Measure A funding, we selected a representative sample of charges for personnel costs and tested for the following:

    a. Recalculation – Reviewed and reconciled wage rates from personnel costs charged to Measure A cost center or fund code to the entity's payroll registers to ensure that wage rates being charged were accurate and properly approved; reviewed all benefits and fringe costs being allocated in addition to wage rates to ensure that they are accurate and appropriate; recalculated personnel costs utilizing wage rates and hours being charged to ensure that the amounts are mathematically accurate; review the calculation to ensure no indirect costs are included in the reimbursement request.
    b. Timesheet – Reviewed timesheets for selected personnel costs to ensure that hours being charged to Measure A are properly supported with an approved timesheet. All charges to Measure A funding must be clearly documented on timesheets, detailing the number of hours and the funding source, on a daily basis. We also reviewed timesheets for selected personnel costs to ensure that signatures of both the employee and supervisor are present. Electronic time documentation methods must also have similar electronic signatures.

15. Obtained close-out reports, from completed capital construction projects, submitted to the Authority.

16. Reviewed close-out reports to ensure that they were submitted within 90 days and were properly certified in accordance with the entity's funding agreement/contract with the Authority.

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Attachment B - Findings and Observations

June 30, 2012

2012-1 Finding – Indirect personnel costs charged to Measure A funded projects:
During the review of personnel costs, it was noted that the "cost recovery billing" wage rate that is charged to Measure A funded projects includes city-wide, departmental and divisional indirect overhead rates.

Questioned Cost:
The total indirect overhead charge used to calculate the "cost recovery billing" wage rate was 99% which resulted in $38,072 of unallowable costs charged to the Measure funds, based on the sample cost items tested.

Effect:
The City of Novato was not in compliance with the funding agreement between the City and the Authority which does not allow indirect costs to be charged to Measure A funding.

Recommendation:
We recommend that the City of Novato ensure that all costs charged to Measure A programs are direct costs.

Management's Response:
This finding was the result of oversight on the part of the City. The same noncompliance was noted during last year's compliance audit process for Stretgy3.2, Local Streets and Roads fund. City staff informed TAM staff during last year's process that the City also invoiced for unallowable indirect cost under two of the Strategy 3.1, Major Road projects, Novato Boulevard Segment 2 and Segment 3. To address this issue, the City has taken a proactive approach and requested a "swap" of the billed unallowable indirect cost for other, unbilled reimbursable costs under Novato Boulevard Segment 1. The City has identified all unallowable indirect cost billed under Segment 2 and Segment 3 and has been under-billing Segment 1 accordingly.

Follow-up Meeting and Action:
TAM staff followed up with Novato staff on this issue and City staff provided documents to show the actions taken to remedy this noncompliance. Staff also recommends that the funding agreement between the City and TAM be revised to reflect the under-reimbursement necessary under Segment 1 to assure the over-reimbursement of unallowable indirect costs under Segment 2 and 3 will be fully recovered.

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Attachment C – Schedule of Funding Allocations and Expenditures

June 30, 2012

Measure A Allocation

Allocation Period	Agreement Number	Measure A Strategy	Agreement Date	Available Amount
FY 07/08	2007-20	3.1	9/27/2007	$ 155,000
FY 08/09	2008-25	3.1	9/28/2008	462,000
Total Project Funding				$ 617,000

Measure A Expenditures

Project Name	Phase	Measure A Strategy	Date of Completion	Amount
Measure A Street Improvements	Construction	3.1	Various	$ 617,000
Total Project Cost				$ 617,000