

SINGLE AUDIT

**THIS AUDIT WAS APPROVED BY THE BOARD ON
JANUARY 28, 2015**



Michael Conway, CPA
Neil Conway, CPA

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INDEPENDENT AUDITOR'S 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

November 14, 2014

To the Directors of
Texoma Area Paratransit System, Inc.

Members of the Board:

We have audited, in accordance with the 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 Texoma Area Paratransit System, Inc. ("TAPS") (a nonprofit organization), which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered TAPS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TAPS' internal control. Accordingly, we do not express an opinion on the effectiveness of TAPS' internal control.

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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2013-01, 2013-02, 2013-03, 2013-04, 2013-05, 2013-6, 2013-7, and 2013-09).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TAPS'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 an instance of noncompliance or other matters (2013-08) that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

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TAPS' Response to Findings

TAPS' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. TAPS' 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

DRAFT



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 14, 2014

To Members of the Board of Directors of
Texoma Area Paratransit System, Inc.

Report on Compliance for Each Major Federal Program

We have audited Texoma Area Paratransit System, Inc.'s ("TAPS") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of TAPS's major federal programs for the year ended September 30, 2013. TAPS's major federal programs are 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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of TAPS's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 TAPS'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 each major federal program. However, our audit does not provide a legal determination of TAPS's compliance.

Bases for Qualified Opinions on FTA Federal Transit Cluster, Federal Transit Services Cluster, and Federal Rural Transit program

As described in the accompanying schedule of findings and questioned costs, TAPS did not comply with requirements regarding FTA Federal Transit Cluster spending of drawdowns within the prescribed time frame (2013-07) and providing support of local matching funds for certain draw requests (2013-09). Pass through

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funding within the Federal Transit Service Cluster and the Rural Transit Cluster was requested for reimbursement prior to expending the funds for these reimbursement programs (2013-06). Compliance with such requirements is necessary, in our opinion, for TAPS to comply with the requirements applicable to the respective programs.

Qualified Opinions for FTA Federal Transit Cluster, Federal Transit Services Cluster, and Federal Rural Transit Program

In our opinion, except for the noncompliance described in the "Bases for Qualified Opinion" paragraph, TAPS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Federal transit cluster, Federal transit Services Cluster and Federal Rural Transit Program for the year ended September 30, 2013.

Unmodified Opinion on Each of the Other Major State Programs

In our opinion, TAPS has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major state programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items (2013-01,2013-02,2013-04,2013-05,and 2013-08). Our opinion on each major federal program is not modified with respect to these matters.

TAPS's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. TAPS's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of TAPS 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 TAPS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 TAPS'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 certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 combination of

deficiencies, in internal control over compliance, such that there is a 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-06, 2013-07 and 2013-09 to be material weaknesses.

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 items 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, and 2013-08 to be significant deficiencies.

TAPS's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. TAPS's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

**TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Section I. Summary of Auditors' Results:

Financial Statements

1. Type of auditors' report issued on the financial statements Unqualified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ Yes X No
- Deficiencies identified that are not considered to be material weakness(es)? X Yes _____ No
3. Noncompliance material to financial statements noted? X Yes _____ No

Federal and State Awards

4. Internal controls over major program:
- Material weakness(es) identified? X Yes _____ No
- Deficiencies identified that are not considered to be material weakness(es)? X Yes _____ No
5. Type of auditors' report compliance for major program Qualified
6. Did the audit disclose findings that are required to be reported under Sec. 501(a)? X Yes _____ No

7. Major programs include:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Federal Transit Administration	20.507, 20.500 (cluster)
Federal Transit Administration	20.509
Federal Transit Administration	20.513, 20.516, 20.521 (cluster)
 <u>Name of State Program</u>	 <u>Program</u>
Texas Department of Transportation	5307
Texas Department of Transportation	5311

8. Dollar Threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as low-risk auditee: _____ Yes X No

**TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Section II. Financial Statement Findings

2013-01	Management did not supply critical information in a timely fashion.
Criteria:	Timely reporting is a requirement for continued Federal and State grant compliance.
Condition:	Management did not prepare financial records for the audit in a timely fashion.
Effect:	Federal and state reporting deadlines were not met.
Cause:	Management was not readily available for audit requests.
Recommendation:	Management should coordinate with auditors to provide timely reporting.
Corrective Action:	Management will work closely with audit firm for timely grant compliance.
2013-02	Client could not provide a report that accurately reflects the compensated absence liability as of year end.
Criteria:	Client must be able to provide valid backup documentation for compensated absences.
Condition:	Compensated absences cannot be proven accurate without the documentation provided by a system report.
Effect:	Compensated absences had to be recreated by auditors, and a system comparison was not available.
Cause:	Reports were not available from TAPS' general ledger system.
Recommendation:	Compensated absences should be compared regularly to system payroll reports and a reconciliation should be performed consistently and kept on record.
Corrective Action:	TAPS will consistently perform a system comparison to the general ledger and retain records concerning compensated absences.

**TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Section III. Federal Award Findings and Questioned Costs:

2013-03	Failure to file annual statements with the Federal Clearinghouse in a timely manner.
Criteria:	OMB Circular A-133, Section .320 requires that the Auditee submit its data collection form and reporting package within the earlier of 30 days from receiving the auditor's report or nine months after the end of the audit period.
Condition:	Untimely filing prevents all pertinent regulatory agencies from promptly reviewing the financial statement data.
Effect:	No monetary or financial statement effect.
Cause:	Audits have not been timely completed.
Recommendation:	All reports should be filed in a timely basis with the Federal Clearinghouse.
Corrective Action:	Management will ensure that timely reports will be filed with the Federal Clearinghouse.
2013-04	Client was not able to provide a list of eligible project activities for specific draw requests of grant funds.
Criteria:	Project activities should be easily traceable through grant requests and other grant backup.
Condition:	Client was unable to provide a list of projects when questioned about specific draw requests on grant funds.
Effect:	Project activities cannot be identified through grant draw request for \$116,810 of the draw made on 9/20/13 for contract TX-90-Y025.
Cause:	Procedures and policies regarding grant requests are not being followed.
Recommendation:	Client should be able to identify project activities associated with each grant draw request.
Corrective Action:	TAPS will monitor the grant draw request process and ensure that projects associated with each draw are easily identified.
2013-05	Client failed to file annual reports required under FTA Grants on a timely basis.
Criteria:	Per FTA Circular C 5010.1D, 11/01/08 Rev. 8/27/12, Grant Management Requirements, a grantee must submit a Federal Financial Report and, in some cases, a Milestone Progress Report annually by October 30.
Condition:	Reports were not filed with FTA.
Effect:	Client is out of compliance with reporting requirements for FTA Grants.
Cause:	Client did not file required reports with FTA.
Recommendation:	Management should ensure that reporting requirements are met in a timely fashion.
Corrective Action:	Management will ensure that reporting requirements are met in a timely fashion.

**TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

2013-06 **Client failed to pay several invoices with entity funds prior to requesting funding from Texas Department of Transportation (TxDOT) reimbursement grants.**

Criteria: Expenditures should be paid with entity funds prior to requesting reimbursement from grantor.

Condition: Invoices were paid after funding was requested from TxDOT.

Effect: Client is out of compliance with requirements for TxDOT Grants. 10 invoices tested, a total of \$422,801, were not paid before grantee requested reimbursement from TxDOT.

<u>Grant #</u>	<u>CFDA #</u>	<u>Invoice Amount</u>	<u>Program</u>
301F7124	20.500	\$ 225,000	5309
101F7210	20.509	20,769	5311
301F7036	N/A	6,022	5311 - State
301F7205	20.509	15,521	5311
101F7146	20.516	1,304	5316
201F7173	20.513	103,186	5310
301F7165	20.521	51,000	5317
		<u>\$ 422,801</u>	

Cause: Procedures and policies regarding grant requests are not being followed.

Recommendation: Management should ensure that invoices are paid with entity funds prior to requesting reimbursement from TxDOT.

Corrective Action: Management will ensure that reimbursement is not requested from TxDOT until invoices have been paid from entity funds.

2013-07 **Client failed to pay several invoices within three days of receiving funding from draws on Federal Transit Administration (FTA) grants.**

Criteria: Funding received from FTA grant draws should be expended within three days of receiving the funds.

Condition: Invoices were paid more than three days after funding was received from FTA grants.

Effect: Client is out of compliance with requirements for FTA Grants. 16 invoices tested, a total of \$1,155,722, were paid more than three days after funding was received from FTA Grants.

<u>Grant #</u>	<u>CFDA #</u>	<u>Amt not paid within 3 days</u>
TX-04-0093	20.07	\$ 1,062,840
TX-90-X922	20.07	22,856
TX-90-Y005	20.07	3,957
TX-90-X979	20.07	4,120
		<u>\$ 1,093,772</u>

Cause: Procedures and policies regarding grant draws are not being followed.

Recommendation: Management should ensure that invoices are paid with FTA grant funds within three days of receiving funding from draws.

Corrective Action: Management will ensure that invoices are paid with FTA grant funds within three days of receiving funding from draws.

**TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

2013-08 **Client received duplicate reimbursement from TxDOT for two invoices which resulted in an overpayment.**

Criteria: Grantee should request reimbursement for allowable activities and ensure invoices show as reimbursed in system.

Condition: As part of billing #7 for TxDOT grant 101F7146. Grantee reimbursement request submitted to TxDOT incorrectly included two invoices which had been reimbursed as part of billing #6.

Effect: Client was overpaid for two invoices: Southern Oklahoma for \$41,067 and Grayson Pro for \$1,405.

Cause: The closeout expenses report used to closeout the grant and prepare billing #7 reimbursement request included two invoices included in the expense transaction detail that was utilized for reimbursement request billing #6.

Recommendation: Management should ensure that the same invoices are not included in two different TxDOT reimbursement requests. The parameters of the reports run in the system should be adjusted to ensure that invoice reimbursements are not duplicated.

Corrective Action: Management will ensure that reimbursement is requested only once for each invoice.

2013-09 **Local match was not met for each separate draw request for FTA grants.**

Criteria: Grantee certifies that it has or will have available the proportionate amount of local share promptly as project costs are incurred or become due. For example, a grant project for preventive maintenance entitles a grantee to draw funds for 80% of the preventive maintenance expenses accrued at the time funds are drawn.

Condition: Grantee drew funds for 100% of the total expenses accrued at the time funds were drawn for various FTA funded grants.

Effect: Documentation could not be provided as evidence that the local share match requirement was met as part of every draw down for FTA funded grants. Match was not met for 11 draws, a total of \$524,760.

Grant #	CFDA #	Amt of Match		# of Draws
			not Met	
TX-90-X979	20.507	\$	125,114	5
TX-90-Y005	20.507		56,447	3
TX-90-Y025	20.507		343,199	2
		\$	524,760	

Cause: Management did not keep an accurate list of invoices for each draw of funds for which they did or did not meet their local match share.

Recommendation: Grantee should ensure that they draw only the federal funded portion of each invoice or list of expenses incurred to date at the time the draw is made.

Corrective Action: Management will ensure that only the federal funded portion of expenses is drawn for each draw and that the local match is met with each draw request.

**TEXOMA AREA PARATRANSIT SYSTEM, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2013**

Finding/Recommendation

- 2012-01** Management did not supply critical information in a timely fashion.
- 2012-02** Client has not maintained proper separation between themselves and subcontractor company, Transit Management of Sherman ("TMS")
- 2012-03** Expenses for subcontractor services were over budget by \$420,868. Budgets were not followed, nor were they amended.
- 2012-04** Client does not record donated assets in a manner consistent with GAAP.
- 2012-05** Client could not provide a report that accurately reflects the compensated absence liability as of year end.
- 2012-06** Failure to timely file annual statements with the Federal Clearinghouse.
- 2012-07** Client was not able to provide a list of eligible project activities for a specific draw request of grant funds.
- 2012-08** Invoices cannot be traced back to specific reimbursement requests based on invoice spreadsheets maintained by TAPS.
- 2012-09** A reimbursement request to the Texas Department of Transportation, Program 5310, Contract 201F7173, was calculated incorrectly, resulting in an overpayment.
- 2012-10** Client failed to file timely annual reports required under FTA Grant TX-04-0093-00.

Current Status

- 2012-01** Reported as a finding for September 30, 2013.
- 2012-02** This issue was not noted in September 30, 2013.
- 2012-03** This issue was not noted in September 30, 2013.
- 2012-04** This issue was not noted in September 30, 2013.
- 2012-05** Reported as a finding for September 30, 2013.
- 2012-06** Reported as a finding for September 30, 2013.
- 2012-07** Reported as a finding for September 30, 2013.
- 2012-08** This issue was not noted in September 30, 2013.
- 2012-09** This issue was not noted in September 30, 2013.
- 2012-10** Reported as a finding for September 30, 2013.

**TEXOMA AREA PARATRANSIT SYSTEM, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2013**

Management Explanation
If Not Implemented

2012-01 Management is replacing a vacant Finance Director Position and will respond to information requests in a more timely fashion.

2012-05 This is a report that can only be generated at a single point in time. Management has implemented a process where this report is generated at the end of each payroll and on September 30th of each year.

2012-06 SFFAC will be filed immediately upon completion of the annual audit. Management anticipates timely filing of SFFAC with timely completion of FY2014 annual audit.

2012-07 Management has implemented procedures which must be followed to document eligible project activities for specific draw requests of grant funds.

2012-10 Management has received clarification from FTA regarding due dates of reports and has implemented a reporting calendar with reminders to ensure reporting deadlines are met.

DRAFT

Texoma Area Paratransit System, Inc.
Schedule of Expenditures of Federal and State Awards
Year Ended September 30, 2013

Grantor Pass-Through Grantor Program Title	Federal CFDA Number	USC Number	Grantor Contract Number	Funds Expended
Federal Awards Expended				
Federal Transit Cluster				
Federal Transit Administration				
Urbanized Area Formula Program	20.507	5307	TX-90-X922-00	\$ 22,856
Urbanized Area Formula Program	20.507	5307	TX-90-X979-00	602,736
Urbanized Area Formula Program	20.507	5307	TX-90-Y005-01	879,198
Urbanized Area Formula Program	20.507	5307	TX-90-Y025	440,000
Urbanized Area Formula Program	20.507	5309	TX-04-0093	3,857,576
Federal Transit Administration Passed through Texas Department of Transportation				
Capital Assistance Program	20.500	5309	101F7167	103,540
Capital Assistance Program	20.500	5309	301F7124	225,000
Total Federal Transit Cluster				6,130,906 *
Federal Transit Administration Passed through Texas Department of Transportation				
Transit Services Programs Cluster				
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5310	101F7267	43,458
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5310	201F7173	225,889
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5310	426F7138	5,469
Job Access - Reverse Commute	20.516	5316	101F7116	64,413
Job Access - Reverse Commute	20.516	5316	101F7146	544,459
Job Access - Reverse Commute	20.516	5316	301F7159	128,653
Job Access - Reverse Commute	20.516	5316	301F7286	22,695
New Freedom Program	20.521	5317	101F7093	35,376
New Freedom Program	20.521	5317	301F7165	51,000
Total Transit Services Programs Cluster				1,121,412 *
Formula Grants for Other than Urbanized Areas	20.509	5311	101F7210	184,682
Formula Grants for Other than Urbanized Areas	20.509	5311	201F7233	155,984
Formula Grants for Other than Urbanized Areas	20.509	5311	301F7205	976,986
Formula Grants for Other than Urbanized Areas	20.509	5311	13-0006	484
Formula Grants for Other than Urbanized Areas	20.509	5311	13-P006	484
Federal Rural Public Transportation	20.509	5311	426F7162	31,844
				1,350,463 *
Total Federal Awards Expended				8,602,781

(continued)

* Major Programs

See accompanying notes to Schedule.

Texoma Area Paratransit System, Inc.
Schedule of Expenditures of Federal and State Awards
Year Ended September 30, 2013

Grantor Pass-Through Grantor Program Title	Federal CFDA Number	USC Number	Grantor Contract Number	Funds Expended
State Awards Expended				
Texas Department of Transportation				
State Urban Transportation Grant		5307	301F7061	154,824
State Urban Transportation Grant		5307	309F7294	36,969
State Urban Transportation Grant		5307	426F7064	41,359
State Urban Transportation Grant		5307	426F7065	136,195
State Rural Transportation Grant		5311	426F7035	144,663
State Rural Transportation Grant		5311	301F7036	599,566
Total State Awards Expended				<u>1,113,576 *</u>
Total Federal and State Awards Expended				<u>\$ 9,716,357</u>

* Major Programs

See accompanying notes to Schedule.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
SEPTEMBER 30, 2013

A. General

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state financial assistance programs of Texoma Area Paratransit System, Inc. ("TAPS"). TAPS' reporting is defined in Note A to the basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included in the schedule.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget ("OMB") Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

C. Clusters

Federal and state awards expended under the same program were clustered together in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

TO: Brad Underwood, CEO

FROM: Teresa Foster
CFO
TeresaFoster@tapsbus.com
(903) 868-9178 direct

RE: Audit Findings FYE 09/30/2013

DATE: January 15, 2015

cc: Tim Patton, COO



The purpose of this memo is to address the findings in the audit for the fiscal year ended 09/30/2013, why TAPS believes the auditors have given us each finding, what result each could have on future funding, and what I am implementing to prevent them from being findings in the future.

2013-01 Management did not supply critical information in a timely fashion.

Cause: TAPS has always worked with a very lean staff, and our CPA firm also is very small. We were not always able to immediately provide information to them, particularly if research was required. This particular audit was completed after Molina's termination in a very compressed time period, and at times I was unavailable due to being out of the office on business and sometimes my responses were delayed due to other pressing deadlines such as Board reports, Triennial Review, TxDOT/FTA reporting, etc.

Impact: No impact to future funding.

Action: It is my understanding from conversations with Michael Conway that this is also a finding simply due to the fact that the audit itself was delayed, which is a finding meeting the criteria for this issue. Due to the fact that we have not yet started our FY14 audit, I suspect that this will also be a finding our next audit. This audit has been delayed because we have not yet filled the Finance Director position and, therefore, do not have adequate staffing to meet the demands of an audit.

2013-02 Client could not provide a report that accurately reflects the compensated absence liability as of year end.

Cause: This is a report that TAPS' accounting software cannot produce after the fact, and can only be generated as a

snapshot as of the current date. The report can be manually calculated at any time; however staff were not given time to produce the report based on the timing of the request and the closing of the audit report.

Impact: No impact to future funding.

Action: The leave liability report is now generated and printed at the end of each payroll processing and maintained in a file. This should not be a repeat finding.

2013-03 Failure to file annual statements with the Federal Clearinghouse in a timely manner.

Cause: TAPS was unable to file the annual statements with the Federal Clearinghouse until the audit was complete.

Impact: No impact to future funding.

Action: Annual statements were entered by TAPS into the Clearinghouse immediately upon completion of the audit and have been certified by Conway and Company CPA. Due to the fact that we have not yet started our FY14 audit, I suspect that this will also be a finding our next audit.

2013-04 Client was not able to provide a list of eligible project activities for specific draw requests of grant funds.

Cause: The Finance Director, Molina Cheek, was drawing FTA funds and not going back and reconciling them to monthly billings on the draw spreadsheets as she had been trained and instructed to do.

Impact: There is a potential with this type of finding that FTA could make a grantee repay the funds. However, TAPS legitimately expended the funds and I was able during the Triennial Review process to show the reviewer documented expenses against each draw and this was not a finding on the Triennial Review. I do not feel that there will be any re-payment required by FTA.

Action: Molina Cheek was terminated when this and other similar displays of poor performance and decision-making were revealed by the Triennial Review, a TxDOT quarterly line-item review and the audit, which all were occurring at approximately the same time. Because the next audit also

covers a time period during which she was controlling billings, it is likely to be a repeat finding. All draws of FTA funds completed since her termination have been adequately documented.

2013-05 Client failed to file annual reports under FTA Grants on a timely basis.

Cause: This was a lack of understanding on the part of the CFO that even if a grant was newly awarded it still must have an annual report filed in January with all other grants. This was correctly explained to me during the Triennial Review by the reviewer who stated this is a common confusion for new grantees. I had also left old grants open because they had not been through the review process, yet. He also explained this was not necessary and they should receive final reports and be closed as soon as they are fully expended.

Impact: No impact to future funding.

Action: During the Triennial Review, the FTA reviewer expressed an opinion that since TAPS operates in the Large Urbanized area with a population of over 200,000 we should now report quarterly on all of our grants. Quarterly reports were filed timely for all grants by October 31st and have been started to be complete by the January 31st deadline. Reminders have been placed on my calendar with sufficient lead time to prepare and complete the reports in a timely manner. All complete and fully expended grants have had closeout packets completed and submitted at the same time I did the October 31st quarterly reports.

2013-06 Client failed to pay several invoices with entity funds prior to requesting funding from Texas Department of Transportation (TxDOT) reimbursement grants.

Cause: Molina was unable to give a valid explanation for this. Had she properly managed the billing process and followed procedures in place by ensuring A/P staff cut checks for all invoices at the time she submitted the billing, this would not have been a finding. Likely there were cash flow issues occurring at this time that Molina failed to disclose to upper management and this was the end result.

Impact: I have spoken with our TxDOT PTC, Greg Davis, about this. It was also a finding in a TxDOT Quarterly Line Item Review for the period covering late summer 2014. We are subject to a higher level of review and must submit invoices with billings when we submit them to TxDOT. It has not threatened future funding awards.

Action: I have retrained finance staff on TxDOT policy regarding the requirement that funds be requested only as reimbursement of funds that have already been expended. As an additional step, prior to processing the TxDOT billing, when I obtain the copies of the invoices to send I work with A/P staff to ensure that checks have been processed for all invoices that are being included in the billing. TAPS passed its most recent TxDOT Quarterly Line Item review for the period subsequent to Molina's termination with no findings. However, because the next audit will include reimbursements which were performed by Molina, it is likely to be a repeat finding.

2013-07 Client failed to pay several invoices within three days of receiving funding from draws on Federal Administration (FTA) grants.

Cause: Molina drew capital funds and used them for operating expenses, rather than for the capital (bus) invoices. She later drew operating funds and paid the bus invoices. This is related to the fact that the FY11 & 12 CCART carryforward funds have still not been awarded and TAPS was having to shift funds to cover expenses.

Impact: During the Triennial Review both the reviewer and FTA staff indicated that there were NO findings that were serious enough to threaten TAPS' future funding, including this one. TAPS will have to work with FTA to determine if we will be required to pay interest on these funds. The funds were not held in an account, and interest was not earned on them. FTA was aware this strategy was being used as the only funding available to TAPS in Collin County was a capital grant because FTA had not been able to follow through on its assurance that it would have operating funding transferred to TAPS within 90 days of taking over service.

Action: I have retrained finance staff on FTA policy regarding the requirement that invoices be paid within three days of receiving cash. As an additional step, when processing an FTA

draw, I have worked with A/P staff to ensure that checks have been processed for all invoices that are being included in the billing. However, because the next audit will include draws which were made by Molina, it is likely to be a repeat finding.

2013-08 Client received duplicate reimbursement from TxDOT for two invoices which resulted in overpayment.

Cause: The procedure for completing billings involves setting the proper date range in the MIP accounting system for pulling reports. In this instance, Molina filtered for a date range that overlapped a range that had already been billed by one day when she was conducting the closeout on a grant. The TxDOT PTC who reviews the billings, including detailed invoice listings, also did not catch the duplicate billings.

Impact: This will not impact to future funding. I will be working with TxDOT in this situation. We were overmatched on this grant, and I will be requesting to substitute other expenditures in lieu of repaying the overpayment.

Action: A procedure is in place for completing billings which outlines use of date ranges to filter invoices. A standardized report has been created and saved in the MIP accounting system for this purpose.

2013-09 Local match was not met for each separate draw request for FTA grants.

Cause: This was due to a lack of understanding of how FTA required match to be documented. TxDOT permits TAPS to document match for a program cumulatively throughout the state fiscal year, and it was our understanding that FTA's programs were similarly matched across time. We documented this match process in a fiscal-year-based match spreadsheet. During the Triennial Review I was able to sufficiently document to the reviewer that TAPS was sufficiently matching its programs, and this was not a finding in the Triennial Review. Because of how it was reflected on the match spreadsheet (matched to the timing of the expenditure vs the timing of the cash draw), however, the auditors would not remove the finding.

Impact: No impact to future funding.

Action: TAPS has always had sufficient match for its funding, it has just been a matter of how the match was entered on the match spreadsheet. Beginning with the spreadsheet for FY15, care is now being taken to ensure that match is entered in a way that reflects not only when it was earned and the grant it will match but, in the case of FTA, specifically to which draw it applies. However, because the next audit will include draws which were made by Molina, it is likely to be a repeat finding.

We are working diligently to replace the Finance Director's position with an individual who has the knowledge, skills and abilities to handle the challenges that come with managing the budgetary and cash flow complexities of a large "small" urban and rural transit district and Medicaid MTO. This has to be a person who can think creatively, has a natural curiosity, and is passionate about accuracy and integrity. With this person in place, properly trained, following procedures and communicating with upper management, the FY15 audit should not have findings.