

***TEXOMA AREA
PARATRANSIT SYSTEM, INC.***

***AUDITED FINANCIAL STATEMENTS
For the Years Ended
September 30, 2015 and 2014***

TEXOMA AREA PARATRANSIT SYSTEM, INC.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Texoma Area Paratransit System, Inc. (the "Organization"), which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with 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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Organization underwent significant changes in the Board of Directors and management in March 2016, including key members of financial management. The books and records, including journal entries, for the years ended September 30, 2015 and 2014, and for prior periods that were created and maintained by previous management were incomplete and missing key supporting documentation. Because of the pervasiveness of these conditions, we were unable to obtain sufficient, competent evidential matter over substantially all elements of the financial statements as of and for the period ended September 30, 2014. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in the financial statements and the elements making up the financial statements.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

We were engaged to audit the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. It is presented for purposes of additional analysis and is not a required part of the financial statements.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2016 on our consideration of the Texoma Area Paratransit Systems, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Texoma Area Paratransit Systems, Inc.'s internal control over financial reporting and compliance.

CF + Co L.L.P.

CF & Co., L.L.P.

Dallas, Texas
July 29, 2016

TEXOMA AREA PARATRANSIT SYSTEM, INC.

STATEMENTS OF NET POSITION

For the Years Ended September 30, 2015 and 2014

	ASSETS	
CURRENT ASSETS	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 109,740	\$ 731,456
Accounts receivable	495,674	181,803
Due from other government	<u>391,157</u>	<u>905,805</u>
TOTAL CURRENT ASSETS	<u>\$ 996,571</u>	<u>\$1,819,064</u>
NONCURRENT ASSETS		
Capital assets, non-depreciable	211,780	211,780
Capital assets, net of depreciation	<u>8,292,706</u>	<u>7,563,631</u>
TOTAL NONCURRENT ASSETS	<u>8,504,486</u>	<u>7,775,411</u>
TOTAL ASSETS	<u>\$9,501,057</u>	<u>\$9,594,475</u>
	LIABILITIES AND NET POSITION	
CURRENT LIABILITIES		
Accounts payable	\$3,803,753	\$2,691,186
Loan payable	1,157,930	1,754,779
Accrued liabilities	2,708	35,704
Current portion compensated absences	<u>18,118</u>	<u>19,145</u>
TOTAL CURRENT LIABILITIES	<u>4,982,509</u>	<u>4,500,814</u>
NONCURRENT LIABILITIES		
Compensated absences	<u>42,271</u>	<u>44,673</u>
TOTAL LIABILITIES	<u>5,024,780</u>	<u>4,545,487</u>
NET POSITION		
Net invested in capital assets	8,504,486	7,775,411
Unrestricted	<u>(4,028,209)</u>	<u>(2,726,423)</u>
Total Net Position	<u>4,476,277</u>	<u>5,048,988</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$9,501,057</u>	<u>\$9,594,475</u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Federal financial assistance	\$7,404,649	\$9,194,657
State financial assistance	850,892	1,769,824
Medicaid	5,249,923	447,145
Program income	1,670,378	1,429,561
Fare revenue	469,719	482,847
Public contributions	157,325	136,050
In-kind contributions	104,937	185,379
Other income	<u>3,659,374</u>	<u>504,767</u>
TOTAL OPERATING REVENUES	<u>19,567,197</u>	<u>14,150,230</u>
OPERATING EXPENSES		
Salaries and employee benefits	3,803,324	2,664,862
Vehicle expenses	2,421,969	2,313,854
Building maintenance	38,108	147,285
Communications	795,876	682,919
Subcontractor expense	8,359,149	5,761,312
Travel	1,726,917	219,716
Supplies	93,246	404,161
Rent	201,483	563,813
Utilities	92,603	73,575
Insurance	(17,941)	11,434
Professional fees	211,209	287,667
Marketing	104,902	69,487
Depreciation	1,965,970	1,625,608
Other operating costs	<u>277,974</u>	<u>2,125,637</u>
TOTAL OPERATING EXPENSES	<u>20,074,789</u>	<u>16,951,330</u>
OPERATING LOSS	(507,592)	(2,801,100)
NON-OPERATING REVENUES (EXPENSES)		
Interest	(78,984)	(19,174)
Gain (loss) on asset sales	<u>13,865</u>	<u>528</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(65,119)</u>	<u>(18,646)</u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Capital Contributions	<u> --</u>	<u>815,378</u>
CHANGE IN NET POSITION	(572,711)	(2,004,368)
NET POSITION - BEGINNING OF YEAR	<u>5,048,988</u>	<u>7,053,356</u>
NET POSITION - END OF YEAR	<u>\$4,476,277</u>	<u>\$5,048,988</u>

See Notes to Financial Statements.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 6,262,510	\$ 2,605,355
Federal and state financial assistance	13,505,464	11,799,043
Payments to suppliers	(13,192,928)	(11,871,167)
Payment to employees	(3,837,347)	(2,643,302)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,737,699	\$ (100,071)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from capital contributions	--	815,378
Proceeds from sale of fixed assets	54,538	528
Purchase of fixed	(2,735,718)	(1,737,394)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,681,180)	(921,488)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Payments	(78,984)	(19,174)
Compensated absences	(2,402)	12,353
Payments on line of credit	(596,849)	1,754,779
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(678,235)	1,747,958
NET DECREASE IN CASH AND CASH EQUIVALENTS	(621,716)	727,399
BALANCES- BEGINNING OF YEAR	<u>731,456</u>	<u>5,057</u>
BALANCES - END OF YEAR	<u>\$ 109,740</u>	<u>\$731,456</u>
RECONCILIATIONS OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (507,592)	\$(2,801,000)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	1,965,970	1,625,608
(Increase) Decrease in accounts receivable	(313,871)	(123,249)
(Increase) Decrease in due from other government	514,648	387,417
Increase (Decrease) in accounts payable	1,112,567	789,693
Increase (Decrease) in accrued liabilities	(32,996)	4,677
Increase (Decrease) in compensated absences	<u>(1,027)</u>	<u>16,883</u>
NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES:	<u>\$2,737,699</u>	<u>\$ (100,071)</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
NON-CASH CONTRIBUTIONS RECEIVED IN KIND	<u>\$ 104,937</u>	<u>\$ 185,379</u>

See Notes to Financial Statements.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

ORGANIZATION

Texoma Area Paratransit System, Inc. ("TAPS") was incorporated on July 14, 1986 as a Texas nonprofit corporation. Its purpose is to provide coordinated transportation services to the public in several North Central Texas counties. Services are directed primarily toward meeting the needs of the elderly, handicapped and economically disadvantaged.

The Texas legislature enacted the Rural and Urban Transit Act in 1995 which created transit districts that can receive public transportation funds through the Texas Department of Transportation. Although TAPS meets the requirements of the Act, it operates as a nonprofit corporation, but retains the option to elect to implement the act and operate as a rural transit district by action of its Board of Directors.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements of TAPS have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. TAPS is reported as a stand-alone entity as defined by GASB Statement No. 14, as amended by GASB Statement No. 61, *The Financial Reporting Entity*. TAPS is fiscally dependent on the federal and state governments for financial assistance. However, it does not provide specific financial benefits to or impose specific financial burdens on the governments. No other potential component units meet the criteria for inclusion in the financial statements of TAPS.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Accounting

TAPS operations are accounted for in a proprietary fund type – the enterprise fund. The proprietary fund type is accounted for using the flow of economic resources measurement focus. With this measurement focus all assets and liabilities associated with the operations are included on the statement of net position. Fund equity is segregated into contributed capital and net position. The operating statement presents increases (revenues) and decreases (expenses) in net total position.

TAPS operations are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges. The measurement focus emphasizes the determination of net income.

TAPS follows the accrual basis of accounting for its proprietary fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Investments

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, TAPS may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Texas law and national banks having their principal offices in Texas.

Change in Presentation

During 2014 TAPS determined that it met the requirements of GASB Statement 55, and must present the financial statements as a governmental organization, rather than as a not-for-profit organization as in prior years.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets

TAPS defines capital assets as those with an individual cost of \$5,000 or more and a useful life exceeding five years. They are included on the Statement of Net Position at cost and are generally depreciated over their useful life, using the straight-line method.

All capital assets are depreciated using the straight-line method over the following useful lives.

<u>Description</u>	<u>Estimated Lives</u>
Building and improvements	40 years
Furniture, fixtures and equip	5-7 years
Vehicles	5-12 years

Leasehold improvements are depreciated over the applicable lease term.

Contributed Services

Necessary services donated by persons with specialized skills are reported as unrestricted support at the fair market value of those services during the period services are provided. These services are reported as in-kind donations. The amount of in-kind donations recognized in 2015 was \$104,937 and the amount for 2014 was \$185,379.

Revenue Recognition

Grants – Support received under grant contract agreements with various federal and state agencies are recorded as revenue when the costs are incurred. Grants receivable at September 30, 2015 and 2014 represents amounts due for expenses incurred prior to the respective fiscal year end.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue Recognition, continued

Contributions—Contributions received from the public, corporations, intercounty agencies, and local governments are recognized as support when received and are reported as unrestricted net assets.

In-kind contributions represent the estimated fair value of contributed assets, facilities, fuel, equipment, and professional and administrative fees. Contributions of services are only recognized if the services received require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

Income Taxes

TAPS operates under Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal, state and local income taxes. Accordingly, no provision for income taxes is included in the financial statements.

Compensated Absences

TAPS employees earn vacation and sick leave beginning with the month following the probationary period. Accrued leave is based on eight hours per day for full-time employees working 40 hours per week and a pro-rata share for those working 30 or more hours per week. Sick leave is accrued at the rate of one day per month. Vacation leave is accrued annually based on length of service at rates ranging from 5 – 20 days. The maximum amount of vacation and sick leave that can be earned is 200 hours and 264 hours, respectively. Sick leave is not vested and unused hours are forfeited upon termination of service. Accumulated unused vacation is fully vested and is paid upon termination of service and the liability has been recorded in the accompanying financial statements.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Position

In proprietary fund financial statements, equity is classified as net position and displayed in three components:

- A. Net invested in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- B. Restricted net position consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- C. Unrestricted net positions are all other net assets that do not meet the definition of restricted or net invested in capital assets.

TAPS considers restricted net position to be spent for expenses first when both restricted and unrestricted resources are available.

Risk Management

TAPS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. Management is of the opinion that any such losses would be covered by the existing insurance of TAPS. In addition, TAPS carries a separate insurance policy for environmental liability.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Commitments and Contingencies

TAPS receives a substantial amount of its support from federal and state grant programs, the funding of which is subject to the political process. Additionally, the programs are periodically audited for compliance by the granting agencies. The amount, if any, of expenditures which may be disallowed or repayments required by the granting agencies cannot be determined at this time.

Litigation

During the period of TAPS financial difficulties, the agency was unable to regularly pay all its vendors and accumulated significant debt. As a result, numerous litigation cases are pending, some of which may ultimately result in settlements. The estimated liabilities for these cases are \$1,254,500 and are included in "Accounts Payable" on the Statement of Net Position.

NOTE 2 – CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, TAPS considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and cash equivalents are covered by Federal Deposit Insurance Corporation "(FDIC)".

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, TAPS's deposits may not be returned to it. At September 30, 2015, TAPS had \$109,740 on deposit. All of this balance was secured from risk by the \$250,000 federal deposit insurance.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 3 – ACCOUNTS RECEIVABLE

TAPS believes that sufficient detail of receivable balances is provided in the notes to the financial statements to avoid the obscuring of significant components by aggregation. Management has evaluated the necessity of providing for an allowance for doubtful accounts and has concluded that no such allowance is required for September 30, 2015 or 2014.

NOTE 4 – DUE FROM OTHER GOVERNMENTS

The \$391,157 and \$905,805 due from other governments at September 30, 2015 and 2014, respectively, represent the amount uncollected from state and federal financial assistance.

Following is a summary of federal and state financial assistance by contracting source:

	<u>September 30, 2015</u>		
	<u>Federal</u>	<u>State</u>	<u>Total</u>
Federal Transit Administration	\$ --	\$ --	\$ --
Texas Department of Transportation	<u>390,395</u>	<u>762</u>	<u>391,157</u>
Total Due from other Governments	<u>\$ 390,395</u>	<u>\$ 762</u>	<u>\$ 391,157</u>

	<u>September 30, 2014</u>		
	<u>Federal</u>	<u>State</u>	<u>Total</u>
Federal Transit Administration	\$ --	\$ --	\$ --
Texas Department of Transportation	<u>438,939</u>	<u>466,866</u>	<u>905,805</u>
Total Due from other Governments	<u>\$ 438,939</u>	<u>\$ 466,866</u>	<u>\$ 905,805</u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 5 – CAPITAL ASSETS

Capital assets for 2015 consist of the following:

	Balance at			Balance at
	<u>10/01/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/15</u>
Capital assets not being				
Depreciated:				
Land	\$ 211,780	\$	\$	\$211,780
Construction in progress	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other Capital Assets				
Buildings	812,950			812,950
Leasehold Improvements	277,999			277,999
Equipment	720,623	83,659		804,282
Vehicles	<u>9,892,110</u>	<u>2,611,386</u>	<u> </u>	<u>12,503,496</u>
TOTAL CAPITAL ASSETS	<u>11,703,682</u>	<u>2,695,045</u>	<u> </u>	<u>14,398,727</u>
ACCUMULATED DEPRECIATION	<u>4,140,050</u>	<u>1,965,970</u>	<u> </u>	<u>6,106,021</u>
TOTAL CAPITAL ASSETS, NET	<u>\$7,775,411</u>	<u>\$ 729,074</u>	<u>\$ </u>	<u>\$8,504,486</u>

Capital assets for 2014 consist of the following:

	Balance at			Balance at
	<u>10/01/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/14</u>
Capital assets not being				
Depreciated:				
Land	\$ 211,780	\$	\$	\$211,780
Construction in progress	<u> </u>	<u> </u>	<u> </u>	<u> </u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 5 – CAPITAL ASSETS, continued

	Balance at			Balance at
	<u>10/01/13</u>	Additions	Deletions	<u>9/30/14</u>
Other Capital Assets				
Buildings	1,945,830		1,132,880	812,950
Leasehold Improvements	208,350	69,649		277,999
Equipment	430,238	290,385		720,623
Vehicles	<u>8,112,888</u>	<u>1,779,223</u>		<u>9,892,110</u>
TOTAL CAPITAL ASSETS	<u>10,697,305</u>	<u>2,139,257</u>	<u>1,132,880</u>	<u>11,703,682</u>
ACCUMULATED DEPRECIATION	<u>3,245,460</u>	<u>894,590</u>	--	<u>4,140,050</u>
TOTAL CAPITAL ASSETS, NET	<u>7,663,625</u>	<u>\$1,244,667</u>	<u>\$1,132,880</u>	<u>7,775,411</u>

Depreciation expense for the years ended September 30, 2015 and 2014, totaled \$1,965,970 and \$1,625,608, respectively. TAPS owns the maintenance building and related land which are used for its operations.

NOTE 6 – LINE OF CREDIT

TAPS had a \$300,000 unsecured operating line of credit with a bank that matured May 14, 2015 at an interest rate of 7% per annum based on a year of 360 days. The balance owing under the line of credit as of September 30, 2015 and 2014 was \$299,779. The debt was subject to a forbearance agreement until it was settled subsequent to year end.

A second line of credit was entered into with a bank on August 7, 2014 in the amount of \$1,500,000 that will mature on August 1, 2017 at an interest rate of 4.57% per annum based on a year of 360 days. The balance owing under this line of credit as of September 30, 2015 and 2014 were \$858,151 and \$1,455,000, respectively.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events were evaluated through July 29, 2016. Due to financial difficulties during FY15, the TAPS Board of Directors replaced the management of TAPS in March of FY16. The current management is in the process of restructuring operations to alleviate the financial difficulties.

**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***

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

We were engaged to audit, 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), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise TAPS's basic financial statements and have issued our report thereon dated July 29, 2016. Our report disclaims an opinion on such financial statements because the books and records, including journal entries, for the year ended September 30, 2015, and for other prior periods that were created and maintained by previous management were incomplete and missing key supporting documentation. Because of the pervasiveness of these conditions, we were unable to obtain sufficient, competent evidential matter over substantially all elements of the financial statements as of and for the year ended September 30, 2015. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in the financial statements and the elements making up the financial statements.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of TAPS, we considered TAPS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TAPS's internal control. Accordingly, we do not express an opinion on the effectiveness of TAPS's 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 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. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items 2015-001 through 2015-002 that we consider to be material weaknesses.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of TAPS, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-003 through 2015-007. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

TAPS's Response to Findings

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

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 entity's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CF & Co., L.L.P.

CF + Co L.L.P.

July 29, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We were engaged to audit 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 direct and material effect on each of TAPS's major federal programs for the year ended September 30, 2015. 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.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence about the compliance of TAPS's for each major federal program regarding the compliance requirements discussed above, nor were we able to satisfy ourselves as to TAPS compliance with those requirements by other auditing procedures.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis of Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on compliance. Accordingly, we do not express an opinion on TAPS compliance with the specific program requirements referred to in the first paragraph.

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 2015-003 through 2015-007.

TAPS's response to the noncompliance 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.

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.

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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first 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. We did identify certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-003 through 2015-007 that we consider to be material weaknesses.

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.

CF & Co., L.L.P.

CF + Co L.L.P.

July 29, 2016

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2015

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	<u>Expenditures</u>
Federal Awards Expended			
Federal Transit Cluster			
Federal Transit Administration			
Urbanized Area Formula Program	20.507	TX-90-Y109-01	\$ 1,121,099
Urbanized Area Formula Program	20.507	TX-90-Y111-00	106,392
Urbanized Area Formula Program	20.507	TX-90-Y112-00	235,000
Urbanized Area Formula Program	20.507	TX-90-Y125-00	1,714,383
Urbanized Area Formula Program	20.507	TX-90-Y132-01	810,175
Urbanized Area Formula Program	20.507	TX-90-Y134-01	1,438,138
Total Federal Transit Cluster			5,425,187
Federal Transit Administration passed Through Texas Dept of Transportation			
Transit Services Programs Cluster			
Job Access - Reverse Commute	20.516	301F7159	63,378
Job Access - Reverse Commute	20.516	301F7296	500,230
Job Access - Reverse Commute	20.516	101F7116	19,335
Bus and Bus Facilities Program	20.526	426F7251	96,563
Bus and Bus Facilities Program	20.526	426F8606	180,939
Bus and Bus Facilities Program	20.526	426F7262	189,333
Bus and Bus Facilities Program	20.526	426F7267	263,919
Total Transit Services Programs			1,313,697
Formula Grants for Rural Areas	20.509	426F7164	2,709
Formula Grants for Rural Areas	20.509	426F7203	294,503
Formula Grants for Rural Areas	20.509	RPT 1504	368,553
Total Federal Awards Expended			7,404,649
State Awards Expended			
State Rural Transportation Grant		426F7039	576,713
State Urban Transportation Grant		426F7068	173,889
State Urban Transportation Grant		426F7069	93,249
Scholarships			7,041

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2015

Total State Awards Expended			850,892
Total Federal and State Awards Expended			\$ 8,255,541

Note 1. General

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state financial assistance programs of TAPS. TAPS' reporting is defined in Note 1 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.

Note 2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting, which is described in Note 1 to the basic financial statements.

Note 3. Reconciliation of Federal Awards to the Statement of Revenues, Expenses and Changes in Net Position

The following is a reconciliation of federal awards to revenues as reported on the statement of revenues, expenses and changes in net position:

	<u>9/30/2015</u>
Federal Financial Assistance	\$7,404,649
State Financial Assistance	<u>850,892</u>
	<u>\$8,255,541</u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

1. SUMMARY OF AUDITORS' RESULTS

- a. The type of report issued on the basic financial statements: Disclaimer of Opinion.
- b. Significant deficiencies in internal control were disclosed by the audit of the financial statements: None reported: Material weaknesses: Yes.
- c. Noncompliance which is material to the financial statements: Yes.
- d. Significant deficiencies in internal control over major program: None reported: Material weaknesses: Yes.
- e. The type of report issued on compliance for major program: Disclaimer of Opinion.
- f. Any audit findings which are required to be reported under Section 510 (a) of OMB Circular A-133: Yes.

g. Major Programs Include:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Federal Transit Cluster	20.507, 20.526
Formula Grants for Rural Areas	20.509
Transit Services Program Cluster	20.513, 20.516

<u>Name of State Program</u>	<u>Program</u>
Texas Dept of Transportation	5311

- h. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- i. Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: No.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

2014-001

Criteria

Governmental entities are subject to generally accepted accounting principles (GAAP) for state and local governments. In accordance with GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, the AICPA Industry Audit and Accounting Guide, *State and Local Governments* (the Guide), provides authoritative accounting guidance described in category (b) of the hierarchy of GAAP for state and local governmental entities. The Guide states other entities are governmental entities if they have one or more of the following characteristics:

- Popular election of officers (or approval) of a majority of the members of the organization's governing body by officials of one or more state or local governments
- The potential for unilateral dissolution by a government with the net assets/position reverting to a government
- The power to enact and enforce a tax levy
- Have the ability to issue directly debt that pays interest exempt from federal taxation.

Entities are governmental or nongovernmental for accounting, financial reporting, and auditing purposes based solely on the application of the preceding criteria; other factors are not determinative. For example, the fact that an entity is incorporated as a not-for-profit organization and exempt from federal income taxation under the provisions of Section 501 of the Internal Revenue Code is not a criterion in determining whether preceding criteria; other

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS, continued

factors are not determinative. For example, the fact that an entity is incorporated as a not-for-profit organization and exempt from federal income taxation under the provisions of Section 501 of the Internal Revenue Code is not a criterion in determining whether an entity is governmental or nongovernmental for accounting, financial reporting, and auditing purposes.

Condition

During our audit, we noted that TAPS is incorporated and operates as a non-profit. In prior years, for accounting, financial reporting and auditing purposes their information was presented as a non-profit. However, their Board of Directors is appointed by local governments and by definition, as noted above, the entity may need to be considered a governmental entity for accounting, financial reporting and audit purposes.

Effect

TAPS may not be following the appropriate authoritative guidance for accounting, financial reporting or audit purposes.

Cause

Management was not aware of the authoritative literature governing GAAP for governmental entities.

Recommendation

We recommend that TAPS review the GAAP authoritative guidance applicable to their entity and determine the appropriate accounting treatment.

Management's Response

See Management's Corrective Action Plan.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS, continued

2014-002

Criteria

TAPS has on file the *TAPS Public Transit Policies & Procedures* manual which documents all necessary policies and procedures to maintain an effective and efficient internal control system over major transaction classes, the financial accounting system, and to ensure compliance with all federal and state standards, laws and regulations governing federal and state grant programs.

Condition

During our audit we noted the following:

- Bank reconciliations were not performed in a timely manner
- A complete and accurate general ledger was not maintained
- Journal entries lack supporting documentation
- Detail of key accounts were not maintained
- Insufficient documentation available to support expenditures
- Many instances of no signatures approving purchases
- Payroll was not consistently approved
- Lack of a segregation of duties: same person requesting and approving purchase
- Grant accounting module of software was not utilized
- Checks written to cash

Cause

Management was not following their internal control policies and procedures.

Effect

Noncompliance with federal and state standards, laws and regulations governing federal and state grant programs, which may jeopardize future grant funding. In addition, the lack of internal controls increases the potential for the misappropriation of assets due to fraud or error.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS, continued

Recommendation

We recommend that TAPS immediately implement their internal control policies and procedures to ensure compliance with all federal and state standards, laws and regulations governing federal and state grant programs.

Management's Response

See Management's Corrective Action Plan.

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

2014-003

Criteria

OMB Circular A-133, Section .320 requires that the Auditee submit its reporting package and data collection form to the Federal audit Clearinghouse within the earlier of 30 days from receiving the auditor's report or nine months after the end of the audit period.

Condition

During our audit, we noted TAPS did not submit their reporting package and data collection form to the Federal Audit Clearinghouse in a timely manner.

Cause

Audit has not been timely completed.

Effect

TAPS was not in compliance with federal and state reporting deadlines.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS,
continued

Recommendation

We recommend TAPS management implement internal control processes to ensure timely completion and submission of the audit reporting package and data collection form as required by OMB Circular A-133.

Management's Response

See Management's Corrective Action Plan.

2014-004

Criteria

The Federal Transit Administration (FTA) requires grantees to follow 49 CFR Part 18 "*Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*" (Common Rule), Section 18.20, "Standards for Financial Management Systems". Management is to maintain effective internal control over compliance with FTA financial management system requirements. The following standards apply:

- 49 CFR 18.20(b)(1) Financial Reporting states, "Accurate, current and complete disclosure of financial results of financially assisted activities must be made in accordance with financial reporting requirements of the grant or sub-grant."
- 49 CFR 18.20(b)(2) Accounting Records states, "Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income."

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS,
continued

- 49 CFR 18.20(b)(3) Internal Control states, “Effective control and accountability must be maintained for all grant and sub-grant cash, real property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.”
- 49 CFR 18.20(b)(5) Allowable Cost states, “Grantees must have procedures to provide reasonable assurance that “Office of Management and Budget (OMB) Circular A-87 (2 CFR Part 225) cost principles are incorporated within 49 CFR 18.22, agency program regulation, and the terms of grant and sub-grant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.”
- 49 CFR 18.20(b)(6) Source Documentation states, “Accounting records must be supported by source documentation as canceled checks, paid bills, payrolls, time and attendance records, contracts and sub-grant award documents, etc.”
- 49 CFR 18.20(b)(7) Cash Management states, “Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursements by grantees and sub-grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on sub-grantees’ cash balances and cash disbursements in sufficient time of making disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.”

Condition

During our testing we noted the following:

- TAPS did not maintain a record of each ECHO drawdown to track the federal funds requested to the costs incurred for each project.
- TAPS was not able to provide supporting documentation to reconcile the FFRs and ECHO drawdowns for funds received under each grant.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS,
continued

- Due to the lack of supporting documentation for expenses and the inability to reconcile to each drawdown, we were unable to determine if all costs were allowable under each grant and OMB Circular A-87.
- We were unable to determine if TAPS was able to provide the correct state or local match due to insufficient documentation and incomplete accounting records.
- Expenses allocated across grants did not include documentation supporting the allocation percentages or process for determining allocated amounts.
- FFRs and Milestone reports were not submitted timely.
- TAPS does not maintain fixed asset records that provide detail for assets purchased under a grant.
- TAPS was not able to provide supporting documentation to determine compliance with applicable procurement standards.
- Lack of segregation of duties: same person requested and approved the disbursement.
- Payroll was not consistently approved by a manager.
- An accurate and complete financial system was not maintained. Grant funding and expenses were not properly recorded, or in some instances, not recorded at all in the TAPS' financial system.
- A significant number of journal entries were identified, either recording or moving expenses between grants or line items, which had no supporting documentation or explanation.

Effect

Noncompliance with federal and state standards, laws and regulations governing federal and state grant programs, which may jeopardize future grant funding. In addition, the lack of internal controls increases the potential for the misappropriation of assets due to fraud or error.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS,
continued

Cause

Management did not follow internal control policies or procedures as defined by their Policies and Procedures Manual or comply with the applicable federal and state standards, laws and regulations governing federal and state grant programs.

Recommendation

TAPS should review their internal control procedures, revise and implement accordingly to ensure compliance with all applicable federal, state and local rules and regulations which govern FTA grant programs.

Management's Response

See Management's Corrective Action Plan.

2014-005

Criteria

Federal and state laws require that the State and sub-recipients meet certain contract standards relating to the management and administration of state and federal funds. The Texas Department of Transportation's (TxDOT), *Public Transportation Master Grant Agreement #512XXF7135* documents these standards.

Condition

During our testing we noted the following relating to state and federal pass through funding:

- TAPS did not maintain a record of each Request for Reimbursement (ROR) to track the funds requested to the costs incurred for each project.
- TAPS did not complete and submit the quarterly Operating Report in a timely manner.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
continued

- TAPS was not able to provide supporting documentation to reconcile the RORs to funds received under each grant.
- Due to the lack of supporting documentation for expenses and the inability to reconcile to each ROR, we were unable to determine if all costs were allowable under each grant and OMB Circular A-87.
- We were unable to determine if TAPS was able to provide the required state or local match due to insufficient documentation and incomplete accounting records.
- Expenses allocated across grants did not include documentation supporting the allocation percentages or process for determining allocated amounts.
- TAPS does not maintain fixed asset records that provide detail for assets purchased under a grant or perform a physical inventory at least once every two years.
- TAPS was not able to provide supporting documentation to determine compliance with applicable procurement standards.
- Lack of segregation of duties: same person requested and approved the disbursement.
- Payroll was not consistently approved by a manager.
- An accurate and complete financial system was not maintained. Grant funding and expenses were not properly recorded, or in some instances, not recorded at all in the TAPS' financial system.
- A significant number of journal entries were identified, either recording or moving expenses between grants or line items, which had no supporting documentation or explanation.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
continued

Effect

Noncompliance with federal and state standards, laws and regulations governing federal and state grant programs, which may jeopardize future grant funding. In addition, the lack of internal controls increases the potential for the misappropriation of assets due to fraud or error.

Cause

Management did not follow internal control policies or procedures as defined by their Policies and Procedures Manual or comply with the applicable federal and state standards, laws and regulations governing federal and state grant programs.

Recommendation

TAPS should review their internal control procedures, revise and implement accordingly to ensure compliance with all applicable federal, state and local rules and regulations which govern state and federal grant programs.

Management's Response

See Management's Corrective Action Plan.

2015-006

Criteria

TAPS is required to comply with all applicable laws and regulations for federal awards from the United States Department of Transportation Federal Transit Administration (FTA).

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Continued

Condition

During our audit we noted the FTA conducted an on-site triennial review and issued a report on November 13, 2014. Included in the report were the following findings:

- Excess cash problems
- Insufficiently effective control
- Single audit submissions deficient
- Ineligible expenses charged to grant
- Late MPRs/FFRs
- Vehicle maintenance plan incomplete or out of date
- Late vehicle preventive maintenance
- Violations of procedures to ensure maintenance of accessibility features
- ADA complementary paratransit service not provided
- Title VI service standards and/or policies lacking
- Pre-award and/or post-delivery certification lacking
- DBE uniform reports not submitted semi-annually
- Inadequate equipment records
- Elements missing in POP public participation procedures
- POP public notice deficiencies
- EEO program not submitted or expired

Cause

Management was not complying with all applicable laws and regulations.

Effect

Noncompliance with federal laws and regulations may jeopardize future grant funding. In addition, the lack of internal controls increases the potential for the misappropriation of assets due to fraud or error.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Continued

Recommendation

We recommend that TAPS implement the policies and procedures outlined in its response to the FTA to ensure funding is adequately supported and expended in accordance with federal laws and regulations.

Management's Response

See Management's Corrective Action Plan.

2015-007

Criteria

TAPS is required to comply with all applicable laws and regulations for federal awards from the United States Department of Transportation Federal Transit Administration (FTA).

Condition

During our audit we noted the FTA conducted an on-site Financial Management Oversight review and issued a report on August 24, 2015. Included in the report were the following findings:

- TAPS was unable to provide supporting documentation for FFR's and ECHO drawdowns performed during the review.
- TAPS does not maintain a record of each ECHO drawdown to ensure funds requested are reconciled to cost incurred.
- FFRs were not complete and filed on a timely basis.
- TAPS does not have an accounting process that conforms with 49 CFR art 18.20, Standards for Financial Management Systems and the corresponding FTA requirements of Circular 5010.1D, Rev.1: August 17, 2012, Chapter 3(a).
- TAPS fare revenue is currently not counted in a secure location.
- Invoices are not properly coded to grants.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Continued

- The September 30, 2013 Single Audit Report was due on June 30, 2014 but was not completed until November 14, 2014. The report had not been submitted to the Federal Audit Clearinghouse. The Single Audit for the period ending September 30, 2014 has not commenced.
- Monthly bank reconciliations have not been prepared since September 30, 2014. Additionally, monthly bank reconciliations that were available and prepared by the Director of Finance did not indicate evidence of review or approval by the CFO.
- Federal participation percentages for fixed assets were not provided in the fixed asset records.
- TAPS procurement policy does not contain required information per 42201F.

Cause

Management was not complying with all applicable laws and regulations.

Effect

Noncompliance with federal laws and regulations may jeopardize future grant funding. In addition, the lack of internal controls increases the potential for the misappropriation of assets due to fraud or error.

Recommendation

We recommend that TAPS implement the policies and procedures outlined in its response to the FTA to ensure compliance in accordance with federal laws and regulations.

Management's Response

See Management's Corrective Action Plan.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2015

Finding/Recommendation

2014-001 TAPS may not be following the appropriate authoritative guidance for accounting, financial reporting or audit purposes.

2014-002 Management was not following their internal control policies and procedures.

2014-003 TAPS was not in compliance with federal and state reporting deadlines.

2014-004 Management did not follow internal control policies and procedures as defined by their Policies and Procedures Manual or comply with the applicable federal and state standards, laws and regulations governing federal and state grant programs.

2014-005 Management did not follow internal control policies and procedures as defined by their Policies and Procedures Manual or comply with the applicable federal and state standards, laws and regulations governing federal and state grant programs.

Current Status

2014-001 Reported as a finding for September 30, 2015

2014-002 Reported as a finding for September 30, 2015

2014-003 Reported as a finding for September 30, 2015

2014-004 Reported as a finding for September 30, 2015

2014-005 Reported as a finding for September 30, 2015

Management Explanation If not Implemented

TO: Board of Directors

FROM: Shellie White
Finance Manager
Shellie.white@transdev.com
(903) 357-5792 direct



RE: Corrective Action for Audit
Findings FYE 09/30/2015

DATE: July 30, 2016

The purpose of this memo is to address the findings in the audit for the fiscal year ended 09/30/2015.

2015-001 TAPS may not be following the appropriate authoritative guidance for accounting, financial reporting or audit purposes.

Response: The TAPS Board of Directors has entered into a Public Private Partnership Agreement with Transdev Services, Inc. to manage and directly operate the Transit System. Transdev has been in the business of mobility for 100 years and is committed to providing resources and training to its management team. Management has reviewed the generally accepted accounting principles (GAAP) guidelines for state and local governments as well as discussed the options with the auditors. The FY14 AND FY15 Audited Financial Statements were prepared in conformity with GAAP as applied to governmental units.

2014-002 Management was not complying with all applicable laws and regulations.

Response: The TAPS Board of Directors has entered into a Public Private Partnership Agreement with Transdev Services, Inc. to manage and directly operate the Transit System. Transdev has been in the business of mobility for 100 years and is committed to providing resources and training to its management team. Management has prepared internal control policies and procedures over grants management as well as financial reporting to comply with all federal and state standards, laws and regulations. Management will ensure these policies and procedures are followed.

2014-003 Audit was not completed timely. TAPS was not in compliance with federal and state reporting deadlines.

Response: The TAPS Board of Directors has entered into a Public Private Partnership Agreement with Transdev Services, Inc. to manage and directly operate the Transit System. Transdev has been in the business of mobility for 100 years and is committed to providing resources and training to its management team. Management has provided reporting deadlines in the new grants management policies and procedures manual

as well as implementing a new grants management calendar in outlook to ensure all deadlines are met.

2014-004 Management did not follow internal control policies and procedures or comply with applicable federal and state standards, laws and regulations governing federal and state grant programs.

Response: The TAPS Board of Directors has entered into a Public Private Partnership Agreement with Transdev Services, Inc. to manage and directly operate the Transit System. Transdev has been in the business of mobility for 100 years and is committed to providing resources and training to its management team. Management has provided reporting deadlines in the new grants management policies and procedures manual as well as implementing a new grants management calendar in outlook to ensure all deadlines are met. Management has also created files for each grant that contains the program agreement, each request for reimbursement (signed by the Board Treasurer) with invoices, trial balances and other documents for backup, proof that checks cleared the bank and proof of federal or state disbursements.

2014-005 Management did not follow internal control policies and procedures or comply with applicable federal and state standards, laws and regulations governing federal and state grant programs.

Response: The TAPS Board of Directors has entered into a Public Private Partnership Agreement with Transdev Services, Inc. to manage and directly operate the Transit System. Transdev has been in the business of mobility for 100 years and is committed to providing resources and training to its management team. Management has provided reporting deadlines in the new grants management policies and procedures manual as well as implementing a new grants management calendar in outlook to ensure all deadlines are met. Management has also created files for each grant that contains the program agreement, each request for reimbursement (signed by the Board Treasurer) with invoices, trial balances and other documents for backup, proof that checks cleared the bank and proof of federal or state disbursements.

2014-006 Management was not complying with all applicable laws and regulations.

Response: The TAPS Board of Directors has entered into a Public Private Partnership Agreement with Transdev Services, Inc. to manage and directly operate the Transit System. Transdev has been in the business of mobility for 100 years and is committed to providing resources and training to its management team. Management has prepared internal control policies and procedures over grants management as well as financial reporting to comply with all federal and state standards, laws and regulations. Management will ensure these policies and procedures are followed.

2014-007 Management was not complying with all applicable laws and regulations.

Response: The TAPS Board of Directors has entered into a Public Private Partnership Agreement with Transdev Services, Inc. to manage and directly operate the Transit System. Transdev has been in the business of mobility for 100 years and is

committed to providing resources and training to its management team. Management has prepared internal control policies and procedures over grants management as well as financial reporting to comply with all federal and state standards, laws and regulations. Management will ensure these policies and procedures are followed.