STAFF REPORT

MEETING DATE:	**September 30, 2026**
SUBJECT:	**Receive Fiscal Year 2024/25 Financial Statements and Fiscal, Compliance, and Single Audit Reports**
AGENDA ITEM:	**7-6**
STAFF CONTACT:	**Jessica Carlson, Chief Fiscal Officer**

SUMMARY:

Davis Farr LLP completed draft audit reports for Fiscal Year (FY) 2024/25 and provided them to SRTA on September 17, 2026. Because these reports are significantly delayed, the State Controller's Office (SCO) has temporarily withheld regional State Transit Assistance (STA) allocations; which was anticipated. Davis Farr issued the following findings:

- A "qualified opinion" on SRTA's financial statements, identifying two material weaknesses in internal control over financial reporting – 1) SRTA's accounting system has limitations, which does not maintain a self-balancing set of accounts for each governmental fund; and 2) a continued finding on separation of duties as SRTA's hiring of an accounting clerk did not offset the prior issue for the entire year.
- SRTA's financial statements present fairly, in all material respects, SRTA's financial position and changes in financial position in accordance with generally accepted accounting principles.
- The Single Audit results were favorable, with an unmodified opinion on compliance with SRTA's major federal program and no federal award findings.

Staff concurs with the audit recommendations and is developing corrective actions to strengthen year-end financial close procedures, improve journal-entry review controls, and evaluate the limitations of the current accounting system (e.g., QuickBooks). Staff recommends the SRTA Board of Directors receive and approve the FY 2024/25 financial statements and audit reports, direct staff to submit the reports to the State Controller's Office and other applicable agencies, and review staff's proposed actions to address the audit findings.

STAFF RECOMMENDATION:

It is recommended that the board of directors:

1. Receive and approve the FY 2024/25 audited financial statements and related audit reports;
2. Authorize staff to submit the completed reports to the State Controller's Office and other applicable agencies; and,
3. Review SRTA staff's corrective actions addressing Findings 2025-001 and 2025-002.

DISCUSSION:

Background – Each year an independent auditor performs a fiscal and compliance audit and reports on the agency's financial statements. A single audit is required when expenditures of federal awards are greater than $750,000 during the fiscal year. The single audit is also included in this report. Davis Farr LLP has completed drafts of the fiscal and compliance audit reports and the single audit report for the fiscal year ending June 30, 2025. SRTA received a qualified audit opinion. Except for the matter giving rise to the qualification, the financial statements present fairly, in all material respects, SRTA's financial position and changes in financial position in accordance with Generally Accepted Accounting Principles (GAAP).

The qualification relates to limitations within SRTA's existing accounting system, which does not maintain a self-balancing set of accounts for each governmental fund. As a result, the auditors were unable to obtain sufficient audit evidence to determine whether all assets, liabilities, fund balances, revenues, expenditures, and transfers were properly classified among SRTA's governmental funds.

Delayed Submission and Allocation Withholding - The fiscal and compliance audit for FY 2023/24 was not completed until December 2025 — 18 months after the fiscal-year closed — due to factors outside staff's control. FY 2024/25 was the first year with new Certified Public Accountant (CPA) and auditing firms. Staff secured multi-year CPA and audit contracts for FY 2024/25 and beyond and worked with the consultants to adjust processes to meet future audit submittal deadlines and to improve timeliness so that future audits may be submitted on time (See Table 2 for projected timeline).

The delay resulted in the State Controller's Office withholding FY 2025/26 fourth quarter and FY 2026/27 first-quarter STA payments in accordance with TDA regulations. Board approval and submission of the FY 2024/25 audits is required before the SCO can release the STA allocations.

Table 1: Audit Completion Timeline

Item / Activity	Expected Timing	Actual Timing	Notes
FY 2023/24 Audit Completion	FY 2024/25	**Dec 2025 (FY 2025/26)**	18-month delay; consultant procurement
FY 2024/25 Financial Statements	Early FY 2025/26	**Delayed, work started March 2026**	Significant adjustments to the FS delayed completion of drafts
FY 2024/25 Financial Statements Audit	March 2026	**Delayed, work started May 2026**	Required offer to second proposer to contract auditor
SCO Release of STA Payments	FY 2025/26 Q4 and FY 2026/27 Q1	**Withheld; payment expected Nov 2026**	Pending board approval of FY 2024/25 audits

Table 2: Projected FY 2025/26 Audit Timeline

Item / Activity	Expected Timing	Notes
FY 2025/26 Financial Statements	January 2027	Preparation of the FY 2025/26 financials has begun.
2025/26 Fiscal and Compliance Audits	February 2027	Audits subsequent to the first year should be more expeditious and efficient.
FY 2025/26 Audit Completion and Board Approval	April 2027	Submit audited financials by SCO deadline June 30, 2027
FY 2026/27 Q4 STA Payment	August 2027	Pending April board approval of FY 2025/26 audits

Financial Statement Audit Findings – The fiscal and compliance audit identified two material weaknesses in internal control over financial reporting. Neither finding relates to federal award compliance. The findings relate to: 1) financial reporting and 2) segregation of duties. Both findings were also reported in the prior-year audit, and SRTA staff has implemented or is developing corrective actions to address them.

Standard procedure for government audits is to let the board know what accounting risks the consultants are reviewing and which of those risks are significant enough to warrant a more in-depth look (Attachment A, page 2). The auditors performed additional procedures over identified significant risk areas and did not report findings arising from those procedures. A summary of each finding is discussed below.

Financial Reporting (2025-001) – The finding relates to material errors in the accounting records that required audit adjustments to fund classifications, revenue recognition, accrued liabilities, receivables, deferred revenue, and other year-end balances. The auditors noted that SRTA maintains three governmental funds, while its accounting system is designed to account for only one fund and operates on a full-accrual basis. Staff and consultants therefore rely on manual processes to allocate activity among funds and convert the records to the modified-accrual basis required for governmental fund reporting. The auditors recommended strengthening year-end closing and reconciliation procedures and evaluating whether the existing accounting system adequately supports SRTA's governmental financial reporting needs. The prior-period adjustments made during FY 2024/25 affected multiple program funds, including Local Transportation Funds (LTF), State Transit Assistance (STA), and Regional Surface Transportation Program (RSTP) funds. The adjustments were necessary to correct prior-period accounting and reporting and are disclosed in the financial statements. The adjustments, together with other year-end accounting corrections identified during the audit, are addressed in this finding.

Per Fiscal & Policy Committee recommendations, SRTA staff retained an independent CPA to improve financial statement preparation and quality control before future audits. This would minimize the potential for errors and provide objective expertise. The CPA was responsible for reviewing and evaluating applicable account entries, as well as compiling the FY 2024/25 financial statements used in the audit.

Segregation of Duties (2025-002) – This item is a repeat from the FY 2023/24 audit. Due to SRTA's small staff size, similar to other small agencies, many financial duties are the exclusive responsibility of the chief fiscal officer (CFO). In previous fiscal years, a few tasks were conducted by the executive assistant, with most by the CFO. Auditors found that agency procedures in place in prior fiscal years were insufficient to eliminate the risk of error and/or fraud when an accounting task was completed from start to finish by the same individual. SRTA updated some of the related procedures to address the deficiencies in internal controls to the extent possible. However, due to SRTA's small staff, the near-term segregation of all financial duties was not possible. The auditors identified instances in which the same individual initiated and approved journal entries and recommended an independent review and approval process, or a documented compensating review where full segregation of duties is not practical.

The executive director reviewed agency activities, policies, and budgets to identify steps that could be taken to remediate this finding in future audits. A new accounting clerk was hired in January 2025, who provides necessary relief to the CFO and the financial workload. Staff has implemented a documented independent review of journal entries and is currently training staff in additional accounting procedures and controls, separating specific financial duties between the CFO and designated staff, and hiring accounting consultants. These actions are intended to strengthen segregation of duties and remediate the finding.

Additionally, staff is exploring financial reporting options, including reviewing available accounting software solutions, that could smooth out deficiencies with workflow timelines, increase collaboration between planning and finance staff, and automate grant program and financial statements reporting processes. SRTA's current accounting software has limitations in supporting multi-fund governmental accounting and financial reporting, requiring staff and consultants to perform manual reconciliations and adjustments. Implementing an accounting platform designed for governmental fund accounting may cost significantly more than SRTA's current QuickBooks software, but may reduce the administrative burden associated with manual processes, improve the organization of financial activity among funds, and reduce staff time required for year-end financial reporting.

Single Audit Findings – SRTA's Single Audit results were favorable. The auditors issued an unmodified opinion on compliance with SRTA's major federal program, reported no material weaknesses or significant deficiencies in internal control over federal compliance, and identified no federal award findings or questioned costs. The audit also disclosed no reportable instances of noncompliance under Government Auditing Standards.

ALTERNATIVES:
The board of directors may approve the audit reports and financial statements with clarifications.

FISCAL AND POLICY COMMITTEE REVIEW:
//The Fiscal & Policy Committee met on September 21, 2026, to review and discuss draft financial statements and available audit reports.//

FISCAL IMPACT:
The findings in the FY 2024/25 draft audit reports did not identify questioned costs, financial loss, or federal grant repayment obligations. However, weaknesses in financial reporting controls increase the risk of errors requiring future corrections. Separately, the delayed completion and submission of the FY 2024/25 audit resulted in the temporary withholding of FY 2025/26 fourth quarter and FY 2026/27 first quarter STA allocations. Staff anticipates release of the withheld allocations following board of directors approval and submission of the completed audit reports. Changing to a new accounting software may result in significantly more costs but may result in efficiencies, better financial reporting, and faster auditing of agency financials.

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Sean Tiedgen, AICP, Executive Director

Attachments:
A: The Davis Farr LLP fiscal and compliance audit governance letter, draft received September 17, 2026
B: The Davis Farr LLP Independent Auditor's Report, draft received September 17, 2026
C: The Davis Farr LLP Single Audit Report on Federal Awards, draft received September 17, 2026
D: The audited financial statements and supplementary information are available online at:
https://srta.ca.gov/wp-content/uploads/2026/09/SRTA_DRAFT_Financial_Statements-FY-2024-25.pdf

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Board of Directors
Shasta Regional Transportation Agency
Redding, California

We have audited the financial statements of the governmental activities and each major fund of Shasta Regional Transportation Agency (the Agency) as of and for the year ended June 30, 2025, and have issued our report thereon dated September __, 2026 Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 4, 2026, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the Code of Professional Conduct.

We identified self-review threats to independence as a result of non-attest services provided. Those non-attest services included proposing journal entries. To mitigate the risk, journal entries are reviewed by management and approved prior to posting. We believe these safeguards are sufficient to reduce the independence threats to an acceptable level.

Significant Risks Identified

We have identified the following significant risks:

- Government Accounting Standards Board Statement No. 101 (Compensated Absences): We reviewed the Agency's calculations to ensure the financial statements and footnotes are accurate and complete.
- Risk of noncompliance with Federal grant requirements: We performed required procedures over applicable compliance areas and evaluated the Agency's compliance with the requirements of the federal grant programs tested.
- Risk of noncompliance with Transportation Development Act (TDA) requirements: We performed required procedures to evaluate the Agency's compliance with the applicable TDA provisions.
- Revenue recognition: We tested a sample of revenues to ensure proper revenue recognition accounting standards and cutoff periods are being applied.
- Management override of controls: In accordance with professional auditing standards, we identified the risk of management override of internal controls as a significant risk. We performed testing of non-routine journal entries to identify unusual or inappropriate entries and evaluated the business purpose, supporting documentation, and authorization of selected entries.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Agency is included in Note 1 to the financial statements. As described in Note 1 to the financial statements during the year, the Agency changed accounting policies related to compensated absences and by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 101, Compensated Absences. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are Management's estimate of transactions related to OPEB and pension liabilities based on actuarial information. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive noted disclosures affecting the financial statements. The financial statement disclosures are neutral, consistent, and clear.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no significant unusual transactions identified as a result of our audit procedures.

Significant Difficulties Encountered during the Audit

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements The uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole in include recording an adjustment to investment fair value and correcting payroll clearing account balances. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were material corrected misstatements as a result of our audit procedures that impacted cash, receivables, payables, revenues, expenses, and fund balance.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Agency's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated September ____, 2026.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Agency, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Agency's auditors.

Existence of a Material Misstatement that Affects the Financial Statements of a Prior Period in Which There Was a Predecessor Auditor

We have identified the existence of a material misstatement that affects the prior period financial statements on which the predecessor auditor had previously reported without modification.

There were errors in the classification of certain restricted and unrestricted fund balances reported in the prior year, which resulted in the misclassification of amounts between restricted and unrestricted categories. Management corrected the misstatement, resulting in restated beginning net position and fund balance, as disclosed in Note 13.

Modification of the Auditor's Report

We have modified the auditor's report and issued a qualified opinion based on the accounting system's inability to provide a self-balancing set of accounts for each fund.

This report is intended solely for the information and use of the Board of Directors, and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Irvine, California
September___, 2026

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Independent Auditor's Report

Board of Directors
Shasta Regional Transportation Agency
Redding, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities, and each major fund of Shasta Regional Transportation Agency (the Agency), as of and for the year June 30, 2025, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, except for the effects, of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence regarding the accounting records and balances of certain governmental funds because the Agency's internal records do not contain a self-balancing set of accounts for each fund. As a result, we were unable to determine whether assets, liabilities, fund balances, revenues, expenditures, and transfers were properly recorded and classified within the appropriate governmental funds. Accordingly, we were unable to determine whether any adjustments to the individual governmental funds and related disclosures were necessary.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Emphasis of Matter

The financial statements for the year ended June 30, 2025, reflect certain prior period restatements as described further in note 13 to the financial statements. Additionally, as described further in note 1 to the financial statements, during the year ended June 30, 2025, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 101. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

The Agency's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, proportionate share of the net pension liability/(asset), schedule of the pension contributions, schedule of changes in the net other postemployment benefits (OPEB) liability and related ratios, schedule of OPEB contributions, and budgetary comparison schedules* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the schedules of allocations and disbursements, schedule of cost allocation plan reconciliation and indirect cost rate carryover, and the schedule of cost allocation plan reconciliation and indirect cost allocation carryover but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Summarized Comparative Information

The financial statements of Shasta Regional Transportation Agency for the year ended June 30, 2024 were audited by other auditors whose report dated February 27, 2026 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September __, 2026 on our consideration of the Agency'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 solely 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 the effectiveness of 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 the Agency's internal control over financial reporting and compliance.

Irvine, California
September ___, 2026

SHASTA REGIONAL TRANSPORTATION AGENCY

Single Audit Report on Federal Awards

Year Ended June 30, 2025

SHASTA REGIONAL TRANSPORTATION AGENCY

Single Audit Report on Federal Awards

Year Ended June 30, 2025

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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*

Independent Auditor's Report

Board of Directors
Shasta Regional Transportation Agency
Redding, California

We have audited, 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, the financial statements of the governmental activities, and each major fund of Shasta Regional Transportation Agency (the Agency) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September_______2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in accompanying schedule of findings and questioned costs as items 2025-001 and 2025-002 to be material weaknesses.

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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including §6666 of Title 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* including §6666 of Title 21 of the California Code of Regulations.

The Agency's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Agency's response to the findings identified in our engagement and described above*.* The Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 audit performed 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.

Irvine, California
September____, 2026

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of Directors
Shasta Regional Transportation Agency
Redding, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Shasta Regional Transportation Agency's (the Agency's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2025. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Agency's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Agency's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Agency's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Agency's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Agency's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Agency's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, and each major fund of the Agency as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon, dated September___2026, which contained a qualified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Irvine, California
September____, 2026

SHASTA REGIONAL TRANSPORTATION AGENCY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2025

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Program Identification Number	Program Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation				
Passed through the California Department of Transportation				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	74A0821	$1,003,455	-
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	74A1622	585,624	-
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			1,589,079	-
Total U.S. Department of Transportation			1,589,079	-
Total Expenditures of Federal Awards			$ 1,589,079	-

See Accompanying Notes to Schedule of Expenditure of Federal Awards

SHASTA REGIONAL TRANSPORTATION AGENCY

Note to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Shasta Regional Transportation Agency (the Agency) that are reimbursable under programs of federal agencies providing financial awards. For the purposes of this schedule, federal financial assistance includes the Metropolitan Planning and Research Funds passed through the California Department of Transportation. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. The Agency did not use the 15% de minimis indirect cost rate covered in section 200.414 of the Uniform Guidance.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Agency.

Summary of Significant Accounting Policies

Expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred. Such expenditures are recognized following the cost principles contained in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Subrecipients

During the fiscal year ended June 30, 2025, there were no payments made to subrecipients.

SHASTA REGIONAL TRANSPORTATION AGENCY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2025

Section I - Summary of Auditor's Results

<u>Financial Statements</u>

1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Modified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	2025-001 2025-002
b. Significant deficiency(ies) identified?	None reported
3. Noncompliance material to the financial statements noted?	No

<u>Federal Awards</u>

1. Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified?	None reported
2. Type of auditor's report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	No
4. Identification of major programs:	

CFDA Number	Name of Federal Program or Cluster
20.505	Metropolitan Planning and Research

5. Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
6. Auditee qualified as a low-risk auditee?	No

Section II - Financial Statement Findings

(2025-001) Errors in Accounting Records and Financial Reporting

Condition

Our audit procedures identified material errors in the accounting records that required correcting journal entries. The adjustments related to fund classifications, revenue recognition, accrued liabilities, accounts receivable, deferred revenue, and other year-end balances, including prior period adjustments. These adjustments delayed completion of the audit and impacted the timeliness of financial reporting.

The Agency has three governmental funds that report on the modified accrual basis of accounting. However, the accounting system is only capable of accounting for one fund and accounting is maintained on a full accrual basis of accounting. To compensate, Agency staff and consultants use work arounds to track the activities of each fund and manual adjustments are made to balance each fund and convert the accounting from the full accrual basis to the modified accrual basis. We believe the system limitations and manual work arounds are the primary reason for the errors we detected during the audit.

Potential Effect

The financial statements could be materially misstated, which could impact reliance on the financial information for decision-making and could affect compliance with reporting requirements.

Recommendation

We recommend that management strengthens year-end closing procedures to ensure accounts are properly reconciled, adjustments are accurately recorded, and financial activity is recorded in the appropriate funds and basis of accounting prior to commencement of the annual audit.

We also recommend that management evaluate whether the current accounting system is adequate to support the financial reporting needs of a multi-fund governmental agency.

Management Response

Management agrees with the recommendation and will ………………………………….

Section II - Financial Statement Findings (Continued)

(2025-002) Segregation of Duties

Condition

We identified instances in which journal entries were initiated and approved by the same individual. This results in a lack of segregation of duties over the journal entry process and increases the risk that errors or inappropriate entries may go undetected.

Potential Effect

Insufficient segregation of duties increases the risk that errors or inappropriate journal entries may go undetected, resulting in inaccurate financial reporting.

Recommendation

We recommend that management implement an independent review and approval process for journal entries. If segregation of duties is not feasible, a documented compensating review should be performed by an independent individual.

Management Response

Management agrees with the recommendation and will ……………………………….

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings noted for the year ended June 30, 2025.

Prior Year Findings

(2024-001) Financial Reporting

Condition

Management identified and corrected misstatements related to intergovernmental and unearned revenues, resulting in a prior-period adjustment. Several additional audit adjustments were also required.

Current Status

Repeated in the current year. See 2025-001

(2024-002) Segregation of Duties

Condition

There were instances in which journal entries were initiated and approved by the same individual.

Current Status

Repeated in the current year. See 2025-002