



Dave Yost • Auditor of State

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

We have audited the accompanying basic financial statements of the South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South East Area Transit, Muskingum County, Ohio, as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the Authority is experiencing financial difficulties. Note 13 to the financial statements describes management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential 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 other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Authority's basic financial statements taken as a whole. The Federal Awards Expenditures Schedule provides additional information required by the 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. The Federal Awards Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

September 10, 2012

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

As management of South East Area Transit ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- ⤴ The Authority has net assets of \$1,290,682. These net assets result from a difference between total assets of \$2,176,449 and total liabilities of \$885,767.
- ⤴ Current assets of \$616,140 primarily consist of Cash and Cash Equivalents of \$11,689; Accounts Receivable of \$7,867 and Intergovernmental Receivable of \$562,589.
- ⤴ Current liabilities of \$838,433 primarily consist of Notes Payable of \$291,096, Accounts Payable of \$363,911, and Payroll related items of \$129,155.

Basic Financial Statements and Presentation

The financial statements presented by the Authority are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The Statement of Net Assets presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase in liabilities results in increased net assets which indicate improved financial condition.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Authority's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. In addition, this statement lists capital grant revenues received from the federal government.

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Financial Analysis of the Authority

Table 1 provides a summary of the Authority's net assets for 2011 and 2010:

Table 1		
Condensed Summary of Net Assets		
	2011	2010
Assets:		
Current Assets	\$ 616,140	\$ 604,938
Capital Assets (net of accumulated depreciation)	1,560,309	1,837,519
Total Assets	2,176,449	2,442,457
Liabilities:		
Current Liabilities	838,433	803,874
Long-Term Liabilities	47,334	45,373
Total Liabilities	885,767	849,247
Net Assets:		
Invested in Capital Assets	1,560,309	1,837,519
Unrestricted	(269,627)	(244,309)
Total Net Assets	\$ 1,290,682	\$ 1,593,210

Current Assets increased \$11,202 primarily due to increases in receivables and reductions in cash.

Capital assets decreased \$277,210 as a result of the annual depreciation of assets.

Current liabilities increased \$34,559 primarily due to increased accounts payable.

The largest portion of the Authority's net assets reflect investment in capital assets consisting of buildings, buses, and equipment less any related debt used to acquire these assets still outstanding. The Authority uses these capital assets to provide public transportation services for the counties of Muskingum and Guernsey; consequently, these assets are not available for future spending.

The Authority maintains a line of credit to pay current operating expenses. At December 31, 2011, the balance of the line of credit was \$291,096, and unrestricted net assets had a deficit balance of \$269,627.

Working capital is an organization's current assets less its current liabilities. Working capital is an indicator or liquidity or an organization's ability to pay current operating expenses on time. At December 31, 2011, the Authority had a negative working capital balance of \$222,293.

The Board of Trustees is working to improve working capital balances.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Table 2 shows the highlights of the Authority's revenues and expenses. These two main components are subtracted to yield the changes in net assets. This table uses the full accrual method of accounting.

Table 2		
Condensed Summary of Revenues, Expenses and Changes in Net Assets		
	2011	2010
Operating Revenues (Expenses)		
Operating Revenues	\$ 2,375,681	\$ 2,627,106
Operating Expenses (excluding depreciation)	(2,619,828)	(2,950,804)
Depreciation Expenses	(339,759)	(346,442)
Operating Loss	(583,906)	(670,140)
Non Operating Revenues		
Capital Grant Revenue	273,462	825,996
Other Non-Operating Income	7,916	4,074
Total Non-Operating Revenues	281,378	830,070
Change in Net Assets During Year	(302,528)	159,930
Net Assets, Beginning of Year	1,593,210	1,433,280
Net Assets, End of Year	<u>\$ 1,290,682</u>	<u>\$ 1,593,210</u>

Financial Operating Activities

Operating revenues decreased by \$251,425 due mainly to decreases in local grants and assistance.

Non-Operating Revenues decreased by \$548,692 due to decreases in capital grant revenue. 2010 included federal ARRA funds mainly used to replace transit vehicles.

Operating expenses decreased \$330,976 which is consistent with operational cuts made to offset reductions in revenues.

The Board of Trustees is working to improving operating performance. Service adjustments designed to closer match revenues and expenditures were implemented in early 2011. During 2011, a management change was made and a comprehensive service analysis was planned to allow decisions to be made on how best to meet the transit needs of area residents within available funding limits.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Capital Assets and Debt Administration

The Authority's investment in capital assets as of December 31, 2011 is \$1,560,309 (net of accumulated depreciation). This investment in capital assets includes land, buildings, buses, and equipment.

Additional information concerning the Authority's capital assets can be found in Note 5 of the Notes to the Basic Financial Statements.

As of December 31, 2011, long term liabilities consist entirely of compensated absences for accrued sick pay of \$47,334.

The Authority has no long-term debt, but does have a line of credit of which \$291,096 was outstanding at December 31, 2011.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Transit Director at 375 Fairbanks Street, Zanesville, Ohio 43701.

**South East Area Transit
Muskingum County
Statement of Net Assets
For the Year Ended December 31, 2011**

Assets

Current Assets:

Cash and Cash Equivalents (including \$40,000 restricted by ODOT)	\$ 11,689
Accounts Receivable	7,867
Intergovernmental Receivable	562,589
Materials & Supplies Inventory	33,995
Total Current Assets	<u>616,140</u>

Non-Current Assets:

Property, Facilities and Equipment	
Land - Non Depreciable	334,255
Operating Facilities	1,657,538
Buses & Other Vehicles	2,558,872
Furniture, Fixtures, & Equipment	483,510
Subtotal	<u>5,034,175</u>
Less Accumulated Depreciation	<u>(3,473,866)</u>
Total Property, Facility and Equipment (net of accumulated depreciation)	<u>1,560,309</u>
Total Assets	<u><u>\$ 2,176,449</u></u>

Liabilities

Current Liabilities

Notes Payable	\$ 291,096
Accounts Payable	363,911
Accrued Payroll	22,989
Accrued Payroll Taxes & Withholdings	57,924
Accrued Vacation Time	48,242
Restricted Funds - Future Bus Purchase	40,000
Unredeemed Fares	14,271
Total Current Liabilities	<u>838,433</u>

Long-Term Liabilities

Accrued Sick Time	<u>47,334</u>
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Total Liabilities	885,767
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Net Assets

Invested in Capital Assets	1,560,309
Unrestricted	<u>(269,627)</u>
Total Net Assets	<u><u>\$ 1,290,682</u></u>

See Accompanying Notes to the Basic Financial Statements

**South East Area Transit
Muskingum County
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011**

Operating Revenues	
General Public Fares	\$ 110,320
Special Transit Fares	853,126
Intergovernmental Funding	1,319,687
Advertising Revenue	17,284
Maintenance Services	31,585
Other Operating Revenue	43,679
Total Operating Revenues	<u>2,375,681</u>
Operating Expenses	
Labor	855,471
Fringe Benefits	695,989
Services	180,934
Materials & Supplies	299,794
Utilities	55,737
Casualty & Liability Insurance	92,279
Taxes	1,465
Purchased Transportation	357,478
Miscellaneous Expenses	34,796
Interest Expense	28,485
Leases & Rentals	17,400
Total Operating Expenses	<u>2,619,828</u>
Operating Gain/Loss Excluding Depreciation	(244,147)
Depreciation	<u>339,759</u>
Operating Gain/Loss	(583,906)
Non-Operating Revenues (Expenses)	
Federal Capital Maintenance Grant	212,832
Federal Grant - Capital	60,630
Other Non-Operating Income	7,916
Total Non-Operating Revenue	<u>281,378</u>
Net Gain/Loss	(302,528)
Net Assets, Beginning of Year	<u>1,593,210</u>
Net Assets, End of Year	<u><u>\$ 1,290,682</u></u>

See Accompanying Notes to the Basic Financial Statements

**South East Area Transit
Muskingum County
Statement of Cash Flows
For the Year Ended December 31, 2011**

Operating Activities

Cash Received From Customers	\$ 978,986
Cash Received From Grants for Operating	1,119,811
Cash Received From Advertising Fees	17,284
Cash Received From Maintenance Services	31,585
Cash Received From Other Receipts	43,679
Cash Payments for Operating and Administrative Expenses	<u>(2,533,811)</u>
Net Cash Used	<u>(342,466)</u>

Non-Capital Financing Activities

Increase (Decrease) on Line of Credit	(43,807)
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Capital and Related Financing Activities

Proceeds From Capital Grants and Assistance	273,462
Proceeds From Sale of Equipment / Other	7,916
Payments For The Purchase of Capital Assets	<u>(62,549)</u>
Net Cash Provided	218,829

Investing Activities

Cash Received From Interest	<u>-</u>
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Net Increase in Cash & Equivalents

(167,444)

Cash & Equivalents - Beginning of Year

179,133

Cash & Equivalents - End of Year

\$ 11,689

Reconciliation of Operating Gain (Loss) to Net Cash Used in Operating Activities

Operating Gain (Loss)	\$ (583,906)
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Used in Operating Activities	
Depreciation	339,759
Changes in Assets & Liabilities	
(Increase) Decrease in Accounts Receivable	(183,491)
(Increase) Decrease in Inventories	4,845
Increase (Decrease) in Accounts Payable	50,938
Increase (Decrease) in Payroll Liabilities	24,208
Increase (Decrease) in Compensated Absences	6,026
Increase (Decrease) in Unredeemed Fares	<u>(845)</u>
Net Cash (Used) in Operating Activities	<u><u>\$ (342,466)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY

Description of the Authority

The Muskingum Authority of Public Transit which is doing business as the South East Area Transit (hereinafter referred to as the "Authority") was created pursuant to Sections 306.30 through 306.54 of the Ohio Revised Code for the purpose of providing public transportation in the City of Zanesville, Muskingum County, City of Cambridge, and Guernsey County, as well as the Southeast Ohio Area. The Authority is an independent political subdivision of the State of Ohio and thus is not subject to federal or state income taxes.

At December 31, 2011 the Authority had 27 full-time equivalent employees and 2 part-time employees. Approximately 73% of the Authority's employees at December 31, 2011 are subject to a collective bargaining agreement expiring on May 31, 2013.

Description of the Reporting Entity

The accompanying financial statements comply with the provisions of the Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions, and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. The Authority does not have financial accountability over any entities.

The Authority is managed by a ten member Board of Trustees, who establishes policies and sets direction for the management of the Authority. Six members are appointed by the Mayor of Zanesville with the consent of City Council, two members are appointed by the Muskingum County Commissioners, and the remaining two members are appointed by the Guernsey County Commissioners and the Mayor of South Zanesville. Board Members serve overlapping three-year terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations issued before the close of the current report fiscal year, to its business-type activities and enterprise funds, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Authority's accounting policies are described below.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The measurement focus is on determination of net income, financial position, and cash flows. All transactions are accounted for in a single enterprise fund.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before the close of the current report fiscal year, that do not conflict with or contradict GASB pronouncements.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Accounting and Control

The Authority's annual budget is prepared on the accrual basis of accounting as permitted by law.

Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in checking accounts and are stated at cost, which approximates market value. Cash and cash equivalents represent the funds that are used for the general operations. For the purpose of the statement of cash flows, the Authority considers all highly liquid instruments with a maturity of three months or less at the time they are purchased to be cash and cash equivalents.

Recognition of Receivables and Revenues

Passenger fares are recorded as revenue at the time services are provided and revenues pass through the farebox.

Grants and assistance revenues are received from reimbursable, non-reimbursable, and entitlement type grant programs. These grant programs involve transactions that are categorized as either government-mandated or voluntary non-exchange transactions. Grants and assistance revenues from government-mandated and voluntary non-exchange transactions are recorded as a receivable and revenue when all eligibility requirements are met. Grants and assistance revenues received before the eligibility requirements are met are deferred.

Inventory of Materials and Supplies

Inventory items are stated at the lower of cost or market. Inventory generally consists of maintenance parts and supplies for rolling stock and other transportation equipment.

Capital Assets

Property, facilities, and equipment are stated at historical cost. The cost of normal maintenance and repairs are charged to operations as incurred. Improvements and interest are capitalized and depreciated over the remaining useful lives of the related properties, with the exception of land which is non-depreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

<u>Description</u>	<u>Years</u>
Buildings and Improvements	5-20
Transportation Vehicles	4-12
Furniture, Fixtures and Equipment	3-15

Depreciation and losses on the disposal of capital assets acquired or constructed through grants externally restricted for capital acquisition are closed to net assets. Net income (loss) adjusted by the amount of depreciation (and losses) on capital assets acquired in this manner is closed to net assets.

Operating Revenues and Expenses

The Authority has classified its revenues as either operating or non-operating. Operating revenues are those that are generated directly from the primary activities. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Authority. Revenues and expenses not meeting this definition are reported as non-operating.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Restricted Assets consist of monies and other resources, the use of which is legally restricted for capital acquisition and construction.

Net Assets

Equity is displayed in three components as follows:

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets".

Compensated Absences

GASB Statement No. 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

- The compensated absence is earned on the basis of services already provided by the employees; and
- It is probable that the compensated absence will be paid in a future period.

The Authority records compensated absences for vacation and sick leave in accordance with GASB No. 16. The Authority accrues vacation benefits as earned by its employees. Unused vacation benefits are paid to the employee upon separation from the Authority. Vacation days are limited to a maximum of twenty days. Upon voluntary termination, the Authority pays the employee 50% of accrued sick pay for a maximum of 80 days. An employee cannot carry over vacation to the following year; however, the Authority pays an employee with one or more years of service his or her accrued vacation upon termination of employment.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

3. CASH AND INVESTMENTS

The investments and deposits of the Authority are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest in monies in certificates of deposits, saving accounts, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

3. CASH AND INVESTMENTS (Continued)

The Authority may also enter in repurchase agreements with any eligible depository for a period not extending 30 days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities with a market value equal to 105% of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require that security maintained for public deposits and investments be held in the Authority's name.

The Authority is prohibited from investing in any financial instrument contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a "derivative"). The Authority is also prohibited from investing in reverse repurchase agreements.

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

At December 31, 2011, the bank balance of all Authority deposits was \$87,070, and the book balance was \$11,689. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of December 31, 2011, none of the Authority's funds were exposed to custodial risk.

Investments

The Authority held no investments at December 31, 2011.

4. ACCOUNTS RECEIVABLE

Receivables at December 31, 2011 consisted of accounts (billings for user charges for services) and intergovernmental grants. Management estimated allowances for bad debt based on a review of accounts receivable at year end and it was determined that most accounts were collectable and in good standing and a small allowance was established based on prior year data.

A summary of the principal items of intergovernmental receivables at December 31, 2011 consisted of the following amounts: Ohio Department of Transportation \$475,241, Ohio Department of Taxation \$21,321, Guernsey County Job and Family Services \$31,799 and Muskingum County Job and Family Services \$23,903.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

5. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

Asset Type	Balance at 12-31-2010	Additions	Deletions	Balance at 12-31-2011
Nondepreciable Capital Assets:				
Land	\$334,255	\$0	\$0	\$334,255
Depreciable Capital Assets:				
Buildings	1,657,538	-	-	1,657,538
Buses & Vehicles	2,496,321	62,551	-	2,558,872
Furniture, Fixtures and Equipment	483,510	-	-	483,510
Total Depreciable Capital Assets	4,637,369	62,551	-	4,699,920
Accumulated Depreciation				
Buildings	1,032,688	51,182	-	1,083,870
Buses & Vehicles	1,570,818	285,533	-	1,856,351
Furniture, Fixtures and Equipment	530,601	3,044	-	533,645
Total Accumulated Depreciation	3,134,107	339,759	-	3,473,866
Net Depreciable Capital Assets	1,503,262	(277,208)	-	1,226,054
Capital Assets - Net	\$1,837,517	(\$277,208)	\$0	\$1,560,309

6. NOTE PAYABLE

In 2011, the Authority renewed and increased a line of credit from a local bank in the amount of \$350,000 to be used as a source of short-term operating funds and to pay-off the line of credit balance outstanding of \$334,903 as of December 31, 2010. The outstanding balance at December 31, 2011 is \$291,096. The loan is un-secured. The interest rate is 4.25%. A member of the Board of Trustees is an officer of the bank.

7. DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

- The Traditional Pension Plan (TP) – cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year.) Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The Combined Plan (CO) – is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to, but less than, the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed plan.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

OPERS provides basic retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by a statement statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Public Employee Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members are required to contribute 10.00% for 2011 of their annual covered payroll to fund pension obligations and the Authority was required to contribute 14.00% for 2011 of covered payroll. The Authority's required contribution for the years ended December 2011, 2010, and 2009 were \$119,766, \$149,769, and \$137,765 respectively. For fiscal year 2011, 86 percent has been contributed with the balance being reported as a payable. The full amount has been contributed for fiscal years 2010 and 2009.

8. POST-EMPLOYMENT BENEFITS

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 during calendar year 2011.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan. The Authority's contributions allocated to fund post-employment health care benefits for the year ended December 31, 2011 was \$34,219; 86 percent has been contributed for 2011.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

9. GRANTS, REIMBURSEMENTS, AND SPECIAL FARE ASSISTANCE

Grants, reimbursements, and special fare assistance in the statement of revenues, expenses, and changes in equity for the year ended December 31, 2011 consist of the following:

Federal:	
FTA Capital Assistance	\$ 273,462
FTA Operating Assistance	1,115,310
	<u>\$ 1,388,772</u>
State:	
ODOT Operating Assistance	\$ 99,549
ODOT Elderly Fare Assistance	12,328
	<u>\$ 111,877</u>
Local:	
City of Zanesville	\$ 80,000
Village of South Zanesville	2,500
Muskingum County	10,000
City of Cambridge	-
Muskingum County Job and Family Services	303,712
Guernsey County Job and Family Services	437,446
	<u>\$ 833,658</u>

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, flood and earthquake, errors and omission, employment related matters, injuries to employees and employee theft and fraud. The Authority joined together with certain other transit authorities in the State to form Ohio Transit Insurance Risk Pool Association, Inc. (OTRIP). OTRIP is a joint self-insurance pool pursuant to Section 2744.081 of the Ohio Revised Code, currently operating as a common risk management and insurance program for 10 member transit agencies. The Authority pays an annual premium to OTRIP for its general insurance coverage and makes quarterly payments into a loss and administration fund pursuant to OTRIP's bylaws. The Agreement of Formation of the OTRIP provides that OTRIP will be self-sustaining through member premiums. Per occurrence, catastrophic loss coverage is maintained by OTRIP equal to \$200,000,000 for qualified property losses (including auto physical damage) and \$10,000,000 for automobile liability.

The Authority continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. CONTINGENCIES

The Authority receives a substantial amount of support from federal, state, and local governments. A significant reduction in this level of support, if such were to occur, would have a material effect on the Authority's programs and activities.

12. FUNDS HELD FOR BUS PURCHASE

In 2006, one of the Authority's buses was totaled in an accident. The insurance proceeds of \$40,000 are restricted by the terms of a capital grant received from the Ohio Department of Transportation (ODOT) that the Authority used towards the original purchase of the bus. The \$40,000 is included on the balance sheet as Cash and Cash Equivalents and Funds Held for Bus Purchase. Management plans to use these funds towards the purchase of a replacement bus sometime in the future.

13. FINANCIAL DIFFICULTIES

As shown in these financial statements, the SEAT Board of Trustees is experiencing financial difficulties. The Board is taking the following steps to raise the revenues necessary to retire the line of credit, to pay the outstanding accounts payable and to improve overall operations:

- 1) The Board has discussed the line of credit with Century National Bank officials and made arrangements to repay the line of credit back on a monthly payment schedule of \$10,000 plus interest.
- 2) Requested from the Ohio Department of Transportation (ODOT) an additional \$423,194 in federal funds related to 2010 operations. The Authority received \$250,000 of these federal funds from ODOT on July 19, 2012. This receipt is included as part of Accounts Receivable at December 31, 2011.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

13. FINANCIAL DIFFICULTIES (Continued)

- 3) The Board and the Interim General Manager met with agencies that contract with SEAT to provide transportation services for their clients and increased contract rates to be more in line with the actual costs associated with the provision of those services.
- 4) The Board and the Interim General Manager also met with representatives from Muskingum and Guernsey Counties and the cities of Zanesville and Cambridge to discuss the importance of local funding to match federal and state transit grants. Local funding for 2012 will remain constant from Muskingum County (\$10,000), the City of Zanesville (\$80,000) and the City of South Zanesville (\$2,500). Guernsey County will provide \$25,000 and the City of Cambridge will provide \$5,000.
- 5) Arrangements were made for SEAT to participate in the online auction site GovDeals.com to sell excess equipment and furnishings. Funds from sales are earmarked to retire the line of credit debt.
- 6) The Board hired a General Manager with strong community ties. He started with SEAT on April 23, 2012.

The SEAT Board of Trustees will revisit the debts and re-evaluate its efforts to retire said debts as often as once per month.

14. SUBSEQUENT EVENTS

On January 25, 2012, the Board approved a new line of credit not to exceed \$290,000 to pay off the previous line of credit used for operating expenses.

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**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Number	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed Through Ohio Department of Transportation:</i>			
Formula Grants for Other Than Urbanized Areas	OH-18-X029	20.509	\$ 1,075,310
Formula Grants for Other Than Urbanized Areas	OH-18-X031	20.509	212,832
Formula Grants for Other Than Urbanized Areas	OH-18-X027	20.509	40,000
Formula Grants for Other Than Urbanized Areas	OH-18-X030	20.509	56,265
Total Formula Grants for Other Than Urbanized Areas			<u>1,384,407</u>
Total U.S. Department of Transportation			<u>1,384,407</u>
Total Federal Awards Expenditures			<u>\$ 1,384,407</u>

The Notes to the Federal Awards Expenditures Schedule is an integral part of the Schedule.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Authority prepares its Schedule of Federal Awards Expenditures on the same basis of accounting used to prepare its financial statements, which is described in Note 2, Summary of Significant Accounting Policies.

NOTE B - MATCHING REQUIREMENTS

The Authority is required to contribute non-federal funds (matching funds) to support federally funded programs. The expenditure of non-federal matching funds is not included in this Schedule.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

We have audited the financial statements of the South East Area Transit, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2011, and have issued our report thereon dated September 10, 2012, wherein we noted the Authority is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Authority's internal control over financial reporting.

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 over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. 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 timely corrected. We consider finding 2011-05 described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-04 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items: 2011-01 through 2011-03 and 2011-05 through 2011-06.

We also noted certain matters not requiring inclusion in this report that we reported to the Authority's management in a separate letter dated September 10, 2012.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Trustees, federal awarding agencies and pass-through entities, and others within the Authority. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

September 10, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

South East Area Transit
Muskingum County
375 Fairbanks Street
Zanesville, Ohio 43701

To the Board of Trustees:

Compliance

We have audited the compliance of South East Area Transit, Muskingum County, Ohio (the Authority), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the South East Area Transit's major federal program for the year ended December 31, 2011. The *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs identifies the Authority's major federal program. The Authority's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Authority's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Authority's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with these requirements.

As described in Findings 2011-07 through 2011-12 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding activities allowed, allowable costs/cost principles, matching, period of availability, reporting and special tests and provisions that apply to its Formula Grants for Other Than Urbanized Areas major federal program. Compliance with these requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to that program.

In our opinion, because of the effect of the noncompliance described in the preceding paragraph, the South East Area Transit did not comply, in all material respects with the requirements referred to above that could directly and materially affect its Formula Grants for Other Than Urbanized Areas major federal program for the year ended December 31, 2011.

Internal Control over Compliance

The Authority's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Authority's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-07 through 2011-12 to be material weaknesses.

The Authority's responses to the findings we identified are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Authority's management in a separate letter dated September 10, 2012.

We intend this report solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

September 10, 2012

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Adverse
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number 2011-01

Finding for Recovery

Labor Agreement By and Between South East Area Transit and Teamsters Local Union No. 637, Article 20. Uniforms and Work Clothes, Section (B) states each non-probationary, active employee, other than mechanics and hostler, will be provided a credit of \$300 [for the period of June 1, 2010 through May 31, 2011, and the period June 1, 2011 through May 31, 2012] each year of the agreement, to be used to purchase regular uniform items or work clothes, including work shoes.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2011-01 (Continued)

Finding for Recovery (Continued)

The Employee Uniform Policy that was adopted on July 16, 2009 states, in part, drivers have the following uniform requirements:

- * SEAT uniform shirt
- * Black dress pants or shorts with pockets and belt loops (shorts must be at least 3 inches from the knee)
- * Black socks
- * Black non-skid shoes-closed toe (no sandals, tennis shoes, or heels over 2 inches)

Amounts claimed for reimbursement by an employee, Debra Swingle, exceeded the allowable clothing reimbursement limits of \$300 for the period June 1, 2010 through May 31, 2011. Additionally, Ms. Swingle, Gail Paxton, and Tim Romine submitted receipts for reimbursements that included items that were not allowable for reimbursement according to the Authority's uniform policy. Finally, Ms. Swingle and Ms. Paxton claimed reimbursement for items that were purchased at a discount; however, the amount claimed for reimbursement did not take the applicable discount into consideration. Below is a summary of the unallowable amounts.

Under the Employee Uniform Policy, tennis shoes are not allowed, and therefore reimbursement for such a purchase is not allowable. Ms. Paxton's claim for tennis shoe reimbursement, which did not take into consideration the sales discount, for the period June 1, 2011 through May 31, 2012 totaled \$78. Mr. Romine's claim for tennis shoe reimbursement for the period June 1, 2010 through May 31, 2011 totaled \$32. Amount overpaid due to non-application of sales discount on merchandise was \$18 to Ms. Swingle. Finally, Ms. Swingle's claims for reimbursement for the period June 1, 2010 through May 31, 2011 had already exceeded the \$300 limit at the end of fiscal year 2010; therefore, all reimbursements for Ms. Swingle for this period made in fiscal year 2011 are unallowable. Total reimbursements claimed for this period during fiscal year 2011 totaled \$197. The total unallowable reimbursement paid to Ms. Swingle during fiscal year 2011 was \$215. Total unallowable reimbursement paid to Ms. Paxton during fiscal year 2011 was \$78. Total unallowable reimbursement paid to Mr. Romine during fiscal year 2011 was \$32.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Debra Swingle in the amount of \$215, and in favor of the South East Area Transit Authority. A Finding for Recovery for public monies illegally expended is hereby issued against Gail Paxton in the amount of \$78, and in favor of the South East Area Transit Authority. A Finding for Recovery for public monies illegally expended is hereby issued against Tim Romine in the amount of \$32, and in favor of the South East Area Transit Authority.

On September 7, 2012, Tim Romine repaid the South East Area Transit in the amount of \$32 by personal check.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 OhioSt.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2011-01 (Continued)

Finding for Recovery (Continued)

Former General Manager, Steve Connell, authorized the payments that resulted in the improper reimbursements for Debra Swingle for \$119 and Gail Paxton for \$78. Former Operations Manager, Terry DeLancey, authorized the payments for Debra Swingle for \$96. Accordingly, Steve Connell will be jointly and severally liable in the total amount of \$197, and in favor of South East Area Transit, to the extent that recovery is not obtained from Debra Swingle or Gail Paxton. Terry DeLancey will be jointly and severally liable in the amount of \$96, and in favor of South East Area Transit, to the extent that recovery is not obtained from Debra Swingle.

Officials' Response: SEAT management has informed employees of unallowable reimbursement amounts for uniforms. Employees have reassured repayment of full amounts owed to SEAT.

Finding Number 2011-02

Noncompliance

Ohio Rev. Code Section 145.47(B) states, in part, the fiscal officer of each local authority shall transmit promptly to the public employees retirement system a report of contributions at such intervals and in such form as the system shall require, showing thereon all deductions for the system made from the earnable salary of each contributor employed, together with warrants, checks, or electronic payments covering the total of such deductions. A penalty shall be added when such report, together with warrants, checks, or electronic payments to cover the total amount due from the earnable salary of all amenable employees of such employer, is filed thirty or more days after the last day of such reporting period.

During 2011, the Authority paid interest and penalties in the amount of \$3,753 to the Ohio Public Employees Retirement System for failure to timely submit monthly reports and payments due. Furthermore, in November 2011, OPERS intercepted \$25,933 due to the Authority from Muskingum County in order to satisfy amounts past due.

We recommend the Authority promptly remit the required report of contributions and amount due each reporting period.

Officials' Response: SEAT has taken steps to avoid interest and penalties to the public employees' retirement system and to report in a timely manner.

Finding Number 2011-03

Noncompliance

Ohio Rev. Code Section 5705.28(B)(2)(a) states the taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget. Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission. Ohio Revised Code Section 5705.28(B)(2)(b) states, in part, except for this section and sections 5705.36,

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2011-03 (Continued)

Noncompliance (Continued)

5705.38, 5705.40, and 5705.41 of the Revised Code, a taxing unit that does not levy a tax is not a taxing unit for purposes of Chapter 5705. of the Revised Code. Documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.

Ohio Rev. Code Section 5705.36(A)(1) states, in part, on or about the first day of each fiscal year, the fiscal officers of subdivisions are to certify the total amount from all sources available for expenditures from each fund along with any unencumbered balances existing at the end of the preceding year. Ohio Rev. Code Section 5705.36(A)(2) further states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater than the amount included in an official certificate and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess. Additionally, a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency.

Ohio Rev. Code Section 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed.

Ohio Rev. Code Section 5705.40 requires any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them.

Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

Ohio Rev. Code Section 5705.41(D) states, in part, no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The Authority did not adopt an operating budget for 2012 prior to July 15, 2011. The 2011 operating budget, which did include proposed receipts and expenses, was approved on February 23, 2011. We noted no other evidence in the minutes of approval of other budgetary matters. Total operating and capital expenses exceeded total budgeted expenses by \$41,642 at December 31, 2011. No amendments were approved to the budgeted receipts as changes in expected revenue were noted; therefore, the variance between budgeted receipts and actual receipts was \$81,780. Finally, the Authority did not obtain certification of available funds from the fiscal officer prior to incurring obligations.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2011-03 (Continued)

Noncompliance (Continued)

We recommend that the Authority familiarize itself with Ohio Rev. Code Section 5705 and comply with the requirements therein. We recommend the Authority adopt an operating budget prior to July 15 for the upcoming year. On or about the first day of each year, the Authority should certify the total amount from all sources available for expenditure, and the Board should pass an appropriation measure. In addition, we recommend the Fiscal Officer certify the availability of funds prior to the ordering of goods or services to ensure funds are available to spend. Furthermore, we recommend the Board adequately monitor the budget versus actual activity in order to determine the need for potential modifications to the budget.

Officials' Response: The SEAT Board of Trustees and its management staff will familiarize itself with applicable sections of the Ohio Revised Code Section 5705 and comply with those requirements. SEAT management has taken steps with purchase requisitions and purchase orders to certify the Fiscal Officer has funds available prior to ordering. The SEAT management and Board of Trustees have taken steps to ensure the SEAT's operating budget is approved before July 15 for the upcoming year.

Finding Number 2011-04

Significant Deficiency

The Authority has a bank account in which deposits were made of Greyhound bus ticket sales made from a location owned and operated by the Authority. Rather than maintain a Greyhound employee at the location, the Authority had an agreement with Greyhound whereby Greyhound provided the Authority with a commission of the Greyhound ticket sales since the ticket sales were processed by an Authority employee. These monies were annually paid to the Authority when the Authority calculated the annual commission due to them and wrote a check to itself near year end. Greyhound also had access to the bank account and regularly wire transferred monies out of this bank account leaving a portion of the monies in the account to cover the commission due to the Authority.

This account was not included in the Authority's accounting system, neither was the year-end cash balance nor the receipts. Therefore, a portion of revenue earned that was not disbursed into the Authority's main checking account from the bank account shared with Greyhound remains unrecorded on the Authority's books. At December 31, 2011, the Authority had \$16,185 in the shared bank account.

Failure to record and monitor the Authority's activity could result in undetected theft of assets. Furthermore, without all activity of the Authority properly recorded in the accounting system, the Board members and management may make uninformed decisions regarding the Authority's finances.

We recommend that the Authority gain a full understanding of its agreement with Greyhound and record all revenue activity on its accounting system.

Officials' Response: The SEAT Fiscal Officer is recording activity in a separate Greyhound excel spreadsheet and reconciling the account on a quarterly bases. The Fiscal Officer is working with the CPA Bob Ruzinsky to record Greyhound activity in SEAT's Quickbooks accounting system.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2011-05

Noncompliance and Material Weakness

Ohio Rev. Code Section 306.35 states that upon the creation of a regional transit authority as provided by section 306.32 of the Revised Code, and upon the qualifying of its board of trustees and the election of a president and a vice-president, the authority shall exercise in its own name all the rights, powers, and duties vested in and conferred upon it by sections 306.30 to 306.53 of the Revised Code. Subject to any reservations, limitations, and qualifications that are set forth in those sections, the regional transit authority may employ and fix the compensation of consulting engineers, superintendents, managers, and such other engineering, construction, accounting and financial experts, attorneys, and other employees and agents necessary for the accomplishment of its purposes, according to Ohio Rev. Code Section 306.35(S).

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

Ohio Rev. Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the audit period, there was no documentation for the pay rates for seven employees in management positions. Due to the lack of documentation, we were unable to determine if employees were paid the authorized rate. There was no documentation to support board approval of these expenditures. Additional procedures were performed to obtain assurances over payroll disbursements.

We recommend the Board approve all pay rates and increases and document this approval in the minutes.

Officials’ Response: The SEAT Board of Trustees will approve all pay rates and applicable increases and document this approval in SEAT meeting minutes and/or resolutions.

Finding Number 2011-06

Noncompliance

Ohio Admin. Code Section 117-2-01(A) states all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2011-06 (Continued)

Noncompliance (Continued)

Ohio Admin. Code Section 117-2-01(B) states "internal control" means a process affected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- 1) Reliability of financial reporting;
- 2) Effectiveness and efficiency of operations;
- 3) Compliance with applicable laws and regulations; and
- 4) Safeguarding of assets.

Strong monitoring practices of Authority's financial activities are the responsibility of management and the Board and are essential to ensure proper financial reporting. To serve as informed overseers of the financial reporting process, the Board should convene regularly to perform the following functions:

- Review and approve monthly financial reports, including cash reconciliations;
- Review and approve the financial statements;
- Review budget vs. actual information;
- Assure that audit results are addressed;
- Ensure that all transactions are properly authorized in accordance with management's policies; and
- Performing analytical procedures over financial data as a part of the overall monitoring process by the Board.

In addition to establishing a strong monitoring function, when designing the public office's system of internal control and the specific control activities, the Board and management should consider the following:

- Ensure that accounting records are properly designed and maintained;
- Ensure adequate security for assets;
- Adequate segregation of duties;
- Periodically reconciling valuation of assets to the accounting records; and
- Overall adequate familiarity with applicable state and federal legislation, including compliance matters related to grant management.

The following internal control weaknesses were noted over operations:

- 2011 accounting system financial records from the first half of the year were abandoned mid-year in order to utilize Quickbooks, and 2011 financial information was entered into Quickbooks for a consultant to prepare the Authority's financial statements.
- We noted no evidence that book-to-bank reconciliations were completed in a timely manner from January to October 2011, and there was no evidence that reconciliations were presented to the Board for review.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2011-06 (Continued)

Noncompliance (Continued)

- While financial reports were presented to the Board at regular meetings, we noted no evidence that significant discussion or questions related to these reports were raised by the Board to determine accuracy of financial information. In addition, there was no review of budget to actual information to determine if the Authority was working within their budget.
- The Authority's financial condition continued to worsen due to lack of corrective actions taken despite concerns raised regarding this matter in previous audits.
- Various non-payroll disbursements were processed without appropriate supporting documentation.
- Hiring of personnel was conducted with little to no input from the Board, resulting in high turnover in the accounting function due to the hiring of individuals lacking adequate experience.
- Job descriptions did not exist for some employee positions.
- Late fees totaling \$14,008 were paid to various vendors due to untimely payment of obligations incurred.

The above weaknesses can result in an inability to manage and monitor the Authority's operations in an effective manner and the ability to pay bills as they become due. Furthermore, errors and irregularities could occur and not be detected in a timely manner by the Board and management.

We recommend the Authority reconcile all bank accounts to the books on a timely basis. In this process, all reconciling items or errors should be identified and included on the face of the reconciliation. All un-reconciled balances should be researched in order to find the known source of the error. All errors should be corrected on the ledgers following the completion of the reconciliation. We recommend the monthly bank reconciliation be reviewed and approved by an individual with appropriate fiscal authority and by the Board, and that evidence of these reviews and approvals be documented.

Further, we recommend the Board ensure that strong internal control practices of Authority's financial activities are implemented and operating effectively. This includes, but is not limited to, management and Board's reviewing monthly financial reports and ensuring that they accurately represent underlying budgeted and actual financial activities and cash balances. We recommend the Board take a more active role in the hiring process of the Authority, including the development of job descriptions and interviewing of potential management candidates when a vacancy exists. Audit comments should be discussed at Board meetings and follow-up to comments should be documented in the minutes.

Officials' Response: The SEAT Board of Trustees now reviews financial information as provided by the SEAT Fiscal Officer along with oversight from CPA Bob Ruzinsky at its monthly meetings. Questions are asked and addressed. Disputed expenses or revenues are researched and corrected as necessary. The Board of Trustees now review and approve all job descriptions through resolution and take a more active role in hiring management candidates through SEAT's Board Task Force.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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49 U.S.C. Section 5311(g)

Finding Number	2011-07
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-029-111; RPT-0060-031-112; RPT-4060-027-113
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

Questioned Cost, Noncompliance and Material Weakness – Matching

49 U.S.C. Section 5311(g) defines the allowable percentages of federal versus non-federal funding sources required in order to receive grant funding. In general, a grant awarded under this section for a capital project or project administrative expenses shall be for 80 percent of the net costs of the project, as determined by the Secretary. 49 U.S.C. Section 5311(g) further states that in general, a grant made under this section for operating assistance may not exceed 50 percent of the net operating costs of the project, as determined by the Secretary. The remainder of net project costs may be provided from an undistributed cash surplus, a replacement or depreciation cash fund or reserve, a service agreement with a State or local social service agency or a private social service organization, or new capital; may be derived from amounts appropriated or otherwise made available to a department or agency of the Government (other than the Department of Transportation) that are eligible to be expended for transportation; and may be derived from amounts made available to carry out the Federal lands highway program established by section 204 of title 23.

During 2011, the Authority received federal grant funding - an operating grant, a capital maintenance grant, and an intercity grant - that required a non-federal matching portion. Additionally, the Authority made various expenditures that were not eligible for a partial reimbursement through these grants, including the purchase of food and donations to local organizations. The total of local funding required to meet these non-federal obligations after applying the applicable state funding was \$141,040. It was determined that as of December 31, 2011, only \$108,748 in local funding had been provided, leaving a local match of \$32,292 unmet. For this reason we are issuing questioned costs in the amount of \$32,292. Since the Authority operates on the accrual basis, this unmet local match is evident in the outstanding accounts payable balance due at December 31, 2011. If the Authority didn't spend as much on goods and services that are unallowable for federal use for which they used local funds, they would have had more funds available to use for the local match.

We recommend the Authority closely monitor its grant funding in comparison to its eligible operating and capital maintenance expenditures to ensure that local funding matching requirements are being met. The Authority should take necessary actions to increase local funding while reducing the amount of expenditures, especially expenditures which are not eligible for grant reimbursement.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number 2011-07 (Continued)

Questioned Cost, Noncompliance and Material Weakness – Matching (Continued)

Officials’ Response and Corrective Action Plan: SEAT management along with oversight from CPA Bob Ruzinsky has taken measures to monitor eligible operating and capital maintenance expenditures to ensure local funding match is being met. The SEAT Board of Trustees and Transit Director have taken steps to improve relation with local city and county official to keep them informed of the importance of local match requirements. SEAT management has also, taken steps to charge fully allocated cost for providing contract services in order to help meet local match requirement.

2 C.F.R. Section 215.58

Finding Number	2011-08
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-029-111, RPT-4060-027-113
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

Questioned Cost, Noncompliance and Material Weakness – Period of Availability

2 C.F.R. 215.28 states where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Section 2.5 of the Rural Transit Program Grant Contract between South East Area Transit and the Ohio Department of Transportation entitled “Eligible Operating Expenses” states the operating assistance shall be applied toward the eligible operating expenses incurred during the period of January 1, 2011 to December 31, 2011.

The Authority reported expenses that had been incurred in fiscal year 2010 along with its eligible expenses that had been incurred during fiscal year 2011. Furthermore, we noted one item where the Authority pre-paid a contracted service for fiscal years 2012 through 2014. These non-compliance matters project to a questioned cost of \$16,650.

We recommend that the Authority only submit for reimbursement those expenses which are within the period of availability for each grant being administered.

Officials’ Response and Corrective Action Plan: SEAT management staff intends to track all expense submitted for reimbursement to ensure proper expense allocations during the correct period for each grant year being administered.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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49 C.F.R. Section 604.1(a)

Finding Number	2011-09
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-029-111
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

Questioned Cost, Noncompliance and Material Weakness – Activities Allowed, Allowable Costs/Cost Principles and Special Tests and Provisions

49 C.F.R. Section 604.1(a) states the purpose of this part is to implement 49 U.S.C. 5323(d), which protects private charter operators from unauthorized competition from recipients of federal financial assistance under the Federal Transit Laws. 49 U.S.C. Section 5323(d) states financial assistance under this chapter may be used to buy or operate a bus only if the applicant, governmental authority, or publicly owned operator that receives the assistance agrees that, except as provided in the agreement, the governmental authority or an operator of public transportation for the governmental authority will not provide charter bus transportation service outside the urban area in which it provides regularly scheduled public transportation service. An agreement shall provide for a fair arrangement the Secretary of Transportation considers appropriate to ensure that the assistance will not enable a governmental authority or an operator for a governmental authority to foreclose a private operator from providing intercity charter bus service if the private operator can provide the service. 49 C.F.R. Section 604.3(c) defines "charter service" as transportation provided by a recipient at the request of a third party for the exclusive use of a bus or van for a negotiated price. The following features may be characteristic of charter service: (i) a third party pays the transit provider a negotiated price for the group; (ii) any fares charged to individual members of the group are collected by a third party; (iii) the service is not part of the transit provider's regularly scheduled service, or is offered for a limited period of time; or (iv) a third party determines the origin and destination of the trip as well as scheduling.

During 2011, the Authority was providing charter services to and from local churches per negotiated agreements on Sundays, which is not during the Authority's regular operating hours of Monday through Friday. These services were paid for by a third party (the churches), not by the individuals utilizing the charter service. Total costs associated with providing this unallowable charter service was \$9,836. For this reason, we are issuing questioned costs in the amount of \$9,836.

We recommend the Authority familiarize itself with the federal regulations that define and prohibit the providing of certain charter services and discontinue providing any transportation that constitutes an unallowable charter service.

Officials' Response and Corrective Action Plan: SEAT ceased the provision of charter services after December 2011. SEAT management has taken steps in understanding federal regulation that defines and prohibits certain charter services and has discontinued said services.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Rural Transit Manual

Finding Number	2011-10
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-029-111; RPT-0060-031-112; RPT-4060-027-113
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

Noncompliance and Material Weakness - Reporting

Ohio Department of Transportation Rural Transit Manual - Chapter 6 - Operating Data and Performance Measures states grantees are required to submit the quarterly invoices by the 15th of the month following the end of each quarter. The first quarter report is due by April 15th and each report thereafter is due by July 15th and October 15th. The fourth quarter report is due by February 28th.

The Authority did not timely submit its quarterly operating data. The first quarter data was filed on May 23, 2011. The second quarter data was filed on August 25, 2011. The third quarter data was filed on October 21, 2011.

We recommend the Authority submit its quarterly invoices by the required deadlines.

Officials’ Response and Corrective Action Plan: SEAT will submit to the Ohio Department of Transportation, Office of Transit (ODOT), quarterly operating data reports and invoices by the posted deadlines. Should issues prevent timely submission, SEAT staff will contact ODOT to request an official extension of these.

Rural Transit Manual and 2 C.F.R. Section 225

Finding Number	2011-11
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-029-111; RPT-0060-031-112; RPT-4060-027-113
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number 2011-11 (Continued)

Questioned Cost, Noncompliance and Material Weakness – Activities Allowed and Allowable Costs/Cost Principles

Rural Transit Program 2011 Grant Contract between South East Area Transit and the State of Ohio Department of Transportation Section 7.3 states the grantee shall establish and maintain accounts for the projects in conformance with Chapter 5 requirements of the Rural Transit Manual, and OMB Circular A-87 as amended, or OMB Circular A-122, whichever is applicable. Each operating/capital invoice shall be documented by, but not limited to, accurate and properly executed payrolls, time records, orders, contracts, and vouchers, evidencing in detail the nature and propriety of the costs incurred for the projects.

2 C.F.R. 225, Appendix B, paragraph 8a, states compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h.

2 C.F.R. 225, Appendix B, paragraph 14, states costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

2 C.F.R. 225, Appendix B, paragraph 16, states fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

During 2011, costs reported as a basis for reimbursement included the payment of late fees on disbursements that were not made to vendors in a timely manner, food items purchased with the Authority's petty cash fund which was replenished in 2011, and several disbursements made via online bill-pay for which no supporting documentation could be located. These ineligible costs resulted in projected questioned costs of \$6,032.

Furthermore, the Authority failed to maintain accurate payroll records related to the approval of pay rates for administrative employees. See Finding Number 2011-05. We performed other procedures to determine that pay rates were reasonable.

We recommend the Authority use only allowable expenditures to prepare its quarterly invoices to the Ohio Department of Transportation. Furthermore, we recommend the Authority take due care to document the proper approval of employee pay rates in order to support salary and benefit data.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number 2011-11 (Continued)

Questioned Cost, Noncompliance and Material Weakness – Activities Allowed and Allowable Costs/Cost Principles

Officials’ Response and Corrective Action Plan: The SEAT management staff along with financial oversight from CPA Bob Ruzinsky will be reviewing quarterly invoices submitted to the Ohio Department of Transportation to ensure allowable expenditures on the quarterly invoices and reduce errors. The Board of Trustees will approve all pay rates and applicable increases and document this in SEAT meeting minutes and/or resolutions.

Lack of System of Controls over Federal Activity

Finding Number	2011-12
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas – CFDA No. 20.509
Federal Award Number / Year	RPT-4060-029-111; RPT-0060-031-112; RPT-4060-027-113
Federal Agency	Department of Transportation – Federal Transit Administration
Pass-Through Agency	Ohio Department of Transportation

Material Weakness – Activities Allowed, Allowable Costs/Cost Principles, Cash Management, Matching, Period of Availability, Reporting and Special Tests and Provisions

In order to properly ensure compliance with the various federal requirements related to federal grant funding, management and staff who will be involved in the process should attend training to become familiar with the various grant requirements, as well as be cognizant of the various resources available should questions arise. A system of controls should be established in order to ensure the various deadlines for reporting and cash management requirements are met, as well as regular reviews of financial reports to ensure accurate reporting and compliance with matching requirements. Controls that are essential to the payroll and non-payroll disbursement processes should be established and followed to allow management to review expenditures and determine whether expenditures are allowable and within the period of availability per federal requirements. This includes the proper use of purchase requisitions, purchase orders, supervisor-approved time sheets and Board-approved pay rates.

During our review of 2011 grant records, we noted numerous instances of non-compliance with federal requirements due, in part, to the lack of an adequate system of controls. The following are control weaknesses that were noted:

- Due to a lack of adequate reviews by management to determine the allowability of expenditures, numerous expenditures were made that were not allowable for reimbursement under the operating or capitalized maintenance grant; which required the Authority to fully fund these expenditures with local monies. Additionally, the Authority reported operating and intercity grant expenditures that were incurred outside of the period of availability, and ultimately resulted in questioned costs.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number 2011-12 (Continued)

Material Weakness – Activities Allowed, Allowable Costs/Cost Principles, Cash Management, Matching, Period of Availability, Reporting and Special Tests and Provisions (Continued)

- Numerous filing deadlines for quarterly reports due to ODOT were not met. As a result, ODOT withheld reimbursement of some 2011 expenditures until May 2012 after the updated 2011 4th quarter reports were submitted.
- Financial and quarterly activity reports lacked evidence of review by the General Manager or other staff. The figures submitted within these quarterly invoices were not accurate due to errors posted to the Authority's accounting system by inexperienced fiscal staff, or the fiscal staff's lack of knowledge concerning which accounting line-items were eligible for reimbursement under the various grants. Also, we noted various copies of quarterly reports for the same reporting period on file for the Authority, all of which contained different receipt and expenditure amounts; thereby making it unclear which report was the final copy submitted to ODOT.
- There was a lack of review of grant agreements and related federal updates, which resulted in the Authority continuing to provide an unallowable charter service on Sundays, a day on which the Authority does not regularly operate.
- Timesheets were not approved by supervisors, and pay rates of administrative positions were not approved by the Board. See Finding Number 2011-05.
- Purchase orders were not being prepared prior to the ordering of goods or services, and dollar amounts were not properly included on the purchase orders.

We recommend the Authority management and staff that will be involved in the compliance of grant requirements attend trainings offered by ODOT, as well as familiarize themselves with the specific grant agreements and other resources at their disposal. Furthermore, we recommend that the Authority implement a system of controls that includes the following:

- prior approval of expenditures prior to incurring obligations in order to determine allowability;
- the approval of time sheets and pay rates to substantiate that payroll disbursements are allowable and meet compliance requirements;
- the regular review of financial information by the General Manager and/or Board to determine the accuracy of financial data submitted to ODOT prior to submission;
- communicating regularly with fiscal staff to determine whether timely report submission is occurring; and
- providing regular reports to the Board regarding grant requirements to ensure these requirements are being met.

Officials' Response and Corrective Action Plan: The SEAT Board of Trustees and its staff will attend all available ODOT training and other training resources. Additionally, a system of review of financial information is established whereby the Fiscal Officer reviews expenditures with the Transit Director and the SEAT Finance Committee as often as needed but at least monthly along with oversight from CPA Bob Ruzinsky prior to SEAT board meetings. Prior to ODOT invoice submission by the Fiscal Officer, the Transit Director along with oversight from CPA Bob Ruzinsky reviews revenues and expenditures for accuracy in reporting. Finally, financial records are reviewed at monthly Board meetings. The Transit Director and appropriate supervisors currently signs all timesheets.

**SOUTH EAST AREA TRANSIT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-01	Finding for Recovery Repaid Under Audit - employee uniform reimbursements not in compliance with Authority policy.	No	Finding for Recovery was repaid. However, a Finding for Recovery was issued for uniform reimbursements for 2011. See Finding Number 2011-01.
2010-02	Finding for Recovery – purchase of alcohol.	Yes	Finding for Recovery was repaid.
2010-03	Ohio Rev. Code Section 145.47(B) – payment of interest and penalties for late remittances of PERS.	No	Not Corrected. See Finding Number 2011-02.
2010-04	Ohio Rev. Code Section 117.38 – late filing of fiscal year 2010 annual financial report.	Yes	
2010-05	Ohio Rev. Code Section 5705 – failure to follow budgetary compliance.	No	Not Corrected. See Finding Number 2011-03.
2010-06	Ohio Rev. Code Section 306.35 – failure to properly approve and document pay rates of non-union employees.	No	Not Corrected. See Finding Number 2011-05.
2010-07	Ohio Admin. Code Section 117-2-01 – failure to establish controls.	No	Not Corrected. See Finding Number 2011-06.
2010-08	Failure to include all Authority activity on the accounting system.	No	Not Corrected. See Finding Number 2011-04.
2010-09	Inaccurate federal reporting and failure to maintain accurate payroll records.	No	Partially Corrected. See Finding Number 2011-11.
2010-10	Failure to accurately track and report ARRA activity.	Yes	
2010-11	49 C.F.R. Section 604.1(a) – providing unallowable charter services.	No	Not Corrected. See Finding Number 2011-09.
2010-12	Untimely submission of quarterly federal reports.	No	Not Corrected. See Finding Number 2011-10.
2010-13	Failure to timely submit 2010 data collection form with Federal Clearinghouse.	Yes	
2010-14	Lack of system of controls over federal activity.	No	Not Corrected. See Finding Number 2011-12.



Dave Yost • Auditor of State

SOUTH EAST AREA TRANSIT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 25, 2012**