

Humboldt Transit Authority
Governing Board of Directors
AGENDA
Regular Meeting – March 20, 2013
HTA Conference Room - 133 V Street Eureka
9:00 a.m.

- I. Call meeting to Order
- II. Introductions
- III. Approval of minutes
 - a. Minutes from the January 16, 2013 and February 20, 2013 regular board meeting Page 01
Action Recommended: Make corrections, if necessary. Approve minutes.
- IV. Citizens Communications
Members of the community are invited to comment on items or issues not on the agenda
- V. Action Items
 - a. January 2013 statements for all systems operated by HTA Enclosed
January 2013 statistics for all systems operated by HTA
Action Recommended: Receive, review, and file
 - b. Omission in Article 56.1.2 of the Current Memorandum of Understanding between HTA and AFSCME. Page 07
An agreement between AFSCME and HTA regarding Certified Trainer/Instructors that was inadvertently omitted from the current MOU needs to be corrected.
~Article 56.1.2 attached
Action Recommended: Adopt the Language for Article 56.1. 2 Pertaining to Certified Trainer/Instructors with the agreed upon Compensation and direct staff to incorporate the language into current MOU, effective December 19, 2012.
 - c. Bus Charter for the Redwood Transit System Page 10
Humboldt County Public Works has requested to charter bus service using the Redwood Transit System.
Action Recommended: Review, discuss, and direct staff

d. Fiscal and Compliance Audit

Pursuant to the Transportation Development Act Section 99260; the California Administrative Code; and, the rules and regulations of the Humboldt County Association of Governments, the Humboldt Transit Authority is audited on an annual basis to determine compliance with the same. The audit is conducted in accordance with *Government Auditing Standards* issued by the Controller General of the United States and the provisions of *Office of Management and Budget Circular A-128, Audits of State and Local Government* to obtain reasonable assurance about whether the financial statements are free of material misstatement. A representative from the firm Anderson, Lucas, Somerville, & Borges will be present at this meeting to review the audit and answer any questions from board members or the public.
Action Recommended: Receive, review, discuss and direct staff prepare the necessary responses.

VI. Communications

- a. Board
- b. Staff

VII. Adjournment

MINUTES FOR THE HUMBOLDT TRANSIT AUTHORITY

BOARD MEETING

January 16, 2013

ROLL CALL

PRESENT

ABSENT

Board Members

Mark Lovelace, Humboldt County
Julie Fulkerson, City of Trinidad
Alex Stillman, City of Arcata (Alt)
Dean Glaser, City of Fortuna
Ryan Sundberg, Humboldt County
Rex Bohn, Humboldt County

Jimmy Smith, Humboldt County
Julie Woodall, City of Rio Dell
Michael Winkler, City of Arcata

Staff

Greg Pratt, General Manager
Jim Wilson, Equipment and Facilities Manager
Brenda Fregoso, Secretary to the Board
Karen Wilson, Manager of Operations

Barbara Zoellner, Admin and Finance Manager

CALL TO ORDER

Vice Chairperson Lovelace called the meeting to order at 9:01 a.m.

INTRODUCTIONS & RECOGNITIONS

None

MINUTES

Motion by Councilmember Glaser, second by Councilmember Fulkerson to approve the minutes from the December 19, 2012 board meeting.

Motion carried unanimously

CITIZENS COMMUNICATIONS

None

SPECIAL PRESENTATION

Marcella with HCAOG gave a special presentation to the board regarding the Transportation Development Act and grants that are allocated through HCAOG.

ACTION ITEMS

a. Electric Buses in Humboldt County

At the 2012 December Board meeting, Councilmember Winkler requested staff put electric buses on this month's agenda to discuss what options are available.

General Manager Greg Pratt announced that he spoke with Councilmember Winkler and advised him that he would forward him any reports from the students at HSU conducting the Electric

Bus Economic Feasibility study. Pratt also announced that this item will be put on the February 2013 agenda and that the students will be present to give a presentation.

b. Request for Group Insurance Amendment

An amendment is needed to change the current benefit of Life, Accidental Death and Dismemberment Insurance to HTA employees from \$5,000 to \$10,000.

Motion by Councilmember Glaser, second by Supervisor Lovelace to approve the request for Group Insurance Amendment between Humboldt Transit Authority and Standard Insurance.

Motion carried unanimously

c. Election of Officers

During the regular January board meeting new officers are elected to the positions of: Chair, Vice-Chair and Finance & Operations Committee. The current positions are: **Chair** – Linda Atkins, **Vice-Chair** – Mark Lovelace

Finance & Operations Committee – Mark Lovelace, Linda Atkins, Michael Winkler

Motion by Councilmember Fulkerson, second by Councilmember Glaser to table this agenda item until next month's board meeting.

Motion carried unanimously

COMMUNICATION

Staff:

General Manager Pratt gave the board a presentation on the "My Ride, Real Time". Board members will receive a link to the website via email.

Equipment and Facility Manager Wilson announced that HTA has purchased two (2) new Hybrid buses and they should be on the road by Thursday no later than Friday.

Board:

None

Meeting adjourned at 9:44 a.m.

MINUTES FOR THE HUMBOLDT TRANSIT AUTHORITY

BOARD MEETING

February 20, 2013

ROLL CALL

PRESENT

ABSENT

Board Members

Rex Bohn, Humboldt County
Estelle Fennell, Humboldt County
Linda Atkins, City of Eureka
Julie Fulkerson, City of Trinidad
Julie Woodall, City of Rio Dell
Michael Winkler, City of Arcata
Dean Glaser, City of Fortuna

Staff

Greg Pratt, General Manager
Jim Wilson, Equipment and Facilities Manager
Brenda Fregoso, Secretary to the Board
Karen Wilson, Manager of Operations
Barbara Zoellner, Administration and Finance Manager

CALL TO ORDER

Chairperson Atkins called the meeting to order at 9:00 a.m.

INTRODUCTIONS & RECOGNITIONS

Introductions were given by each board member and the following introductions were made; Allison Campbell with Humboldt State University and Shorey Russell with the City of Eureka Finance Department.

MINUTES

Due to the absence of the majority of board members who attended the January 16, 2013 regular board meeting the minutes could not be adopted at this time. Staff was directed to put the minutes from the January 16, 2013 board meeting on the March 20, 2013 regular board meeting agenda.

CITIZENS COMMUNICATIONS

None

SPECIAL PRESENTATION

Allison Campbell, student at Humboldt State University gave a special presentation regarding the feasibility of electric buses in the City of Eureka.

Consent Calendar

Motion by Councilmember Fulkerson, second by Councilmember Glaser to approve the Consent Calendar.

Motion carried unanimously.

- a. 5311 (f) Operation Application
(Adopt Resolution 13-01 Authorizing Application for FTA Section 5311(f) Grant Funds and the General Manager to Sign the Grant Agreement.)
- b. 5311 (f) Operating Application
(Adopt Resolution 13-02 Authorizing Application for FTA Section 5311(f) Grant Funds and the General Manager to Sign the Grant Agreement.)
- c. Federal Transit Administration Section 5311 (f) Grant Funds
(Adopt Resolution 13-03 Authorizing Application for FTA Section 5311(f) Grant Funds and the General Manager to Sign the Grant Agreement.)
- d. Federal Transit Administration Section 5311 (f) Grant Funds
(Adopt Resolution 13-04 Authorizing Application for FTA Section 5311(f) Grant Funds and the General Manager to Sign the Grant Agreement.)
- e. Federal Transit Administration Section 5311 Grant Funds
(Adopt Resolution 13-05 Authorizing Application for FTA Section 5311(f) Grant Funds and the General Manager to Sign the Grant Agreement.)
- f. Resolution of the Humboldt Transit Authority for Employer Paid Member Contributions
(Approve the Resolution of the Humboldt Transit Authority for Employer Paid Member Contributions by Adopting Resolution 13-06.)

ACTION ITEMS

- a. Claim against HTA
Raymond Burrell has submitted a claim to HTA for an incident that occurred with an ETS bus on November 4, 2012. The claim was received by HTA on December 4, 2012.
Motion by Councilmember Woodall, second by Councilmember Fulkerson to reject the claim submitted by Raymond Burrell to HTA.
Motion carried unanimously.
- b. Amendment to the HTA Classification Plan
Staff is requesting changes to the following positions of Administrative Assistant I & II, Mechanic I, Technician II, and Cleaner/Janitor. In order to add or change staff positions the HTA Salary Manual must be amended.
Motion by Councilmember Fulkerson, second by Supervisor Fennell to adopt Resolution 13-07 Amending the Humboldt Transit Authority Salary Manual.
Motion carried unanimously.
- c. Election of Officers
At the beginning of the year, new officers are elected to the position of: Chair, Vice-Chair and Finance and Operations Committee. The current positions are:
Chair - Atkins (Serves on PAC), **Vice-Chair** - Lovelace
Finance and Operations Committee - Lovelace, Atkins and Winkler

Councilmember Fulkerson nominated Chairperson Atkins for Chairperson of the HTA board. The board unanimously agreed.

Councilmember Glaser nominated Councilmember Winkler for Vice-Chairperson of the HTA board.

The board unanimously agreed.

The following members were elected to serve on the Finance and Operation Committee by unanimous vote:

Chairperson Atkins, Vice-Chairperson Winkler and Supervisor Bohn

COMMUNICATION

Board:

Supervisor Fennell thanked General Manager Greg Pratt for his quick response to a bus passenger from Weott with his concerns and for all of his efforts with meeting the needs of seniors in the Southern Humboldt area. Supervisor Fennell agreed to meet with General Manager Pratt and members of the Healy Senior Center in Southern Humboldt.

General Manager Greg Pratt announced that this is HTA's determination year and that Southern Humboldt has to meet its 10% fare box revenue.

Staff:

RTS will run on Easter Sunday as a normal Sunday schedule to determine if it is feasible to operate on Easter in the future.

Administration and Finance Manager Barbara Zoellner gave an update on financial reports and ridership statistics.

Meeting adjourned at 10:08 a.m.

Councilmember Glaser nominated Councilmember Atkins to remain Chairperson of the HTA board.

The board unanimously agreed.

Councilmember Woodall nominated Councilmember Winkler for Vice-Chairperson of the HTA board.

The board unanimously agreed.

The following members were elected to serve on the Finance and Operation Committee by unanimous vote:

Chairperson Atkins, Vice-Chairperson Winkler and Supervisor Bohn

COMMUNICATION

Board:

That board thanked General Manager Greg Pratt for all his efforts with increasing ridership in the Southern Humboldt area and with meeting with the seniors needs. General Manager Greg Pratt announced that he and Supervisor Fennell will meet with the seniors at the Healy Senior Center.

General Manager Greg Pratt announced that this is HTA's determination year that Southern Humboldt has to meet its fare box revenue.

Staff:

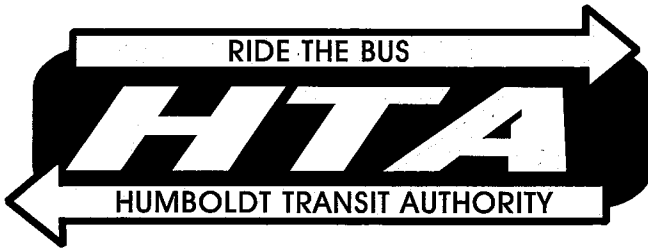
RTS will run on Easter Sunday as a normal Sunday schedule and if ridership is low then next year it will be considered a holiday and will not operate.

Year to date financial statements for all systems operated by HTA

Year to date ridership statistics for all systems operated by HTA

Administration and Finance Manager Barbara Zoellner gave an update on financial reports and ridership statistics.

Meeting adjourned at 10:08 a.m.



*A Public Entity Serving
Humboldt County Since 1976*

133 "V" Street, Eureka, CA 95501-0844

(707) 443-0826

TO: Linda Atkins, Chair
All Governing Board Members

FROM: Greg Pratt, General Manager

DATE: March 20, 2013

SUBJECT: Omission in Article 56 of the Current Memorandum of
Understanding between HTA and AFSCME.

During HTA's regular meeting of December 19, 2012, the board adopted the Memorandum of Understanding between Local 1684, American Federation of State, County and Municipal Employees, AFL-CIO and Humboldt Transit Authority (MOU). The MOU is effective from December 19, 2012 through June 30, 2015, with certain exceptions. When the draft document was being prepared for adoption one of the tentative agreement items was inadvertently omitted and needs to be corrected.

Article 56 addresses a differential in compensation for both drivers and certified trainer/instructors while performing training duties. Section 56.1 allows for a daily premium for coach operators who have a trainee on board during their regular work shift. Section 56.1.1 provides an hourly premium for commercial driver trainer/instructors who are certified by the Department of Transportation as having completed the necessary courses to be a recognized official commercial driver trainer.

The tentative agreement with the union was to address apprentice trainers separately from those trainers with more experience. As such, Section 56.1.1 now addresses the compensation premium for apprentice driver trainers (with less than seven (7) years experience). The agreed upon Article 56 revision was to be Section 56.1.2 addressing the compensation for commercial driver trainers with more than seven (7) years experience.

Those seven years of experience may be attained during their employment with HTA or with another transit agency. If the driver trainer comes from another transit agency they will be required to provide sufficient proof before receiving the additional compensation.

Section 56.1.2 has been added to the language in the attached amendment/revision. Staff and counsel recommend formally adopting the revision and re-issuing the MOU as corrected.

Action Recommended: Adopt the Language for Article 56.1. 2 Pertaining to Certified Trainer/Instructors with the agreed upon Compensation and direct staff to incorporate the language into current MOU, effective December 19, 2012.

53.19 Findings and Decisions: The Arbitrator shall render his/her decision within thirty (30) days after the conclusion of the hearing.

53.19.1 The decision shall contain a summary of the evidence, findings of fact and a statement of the reasons underlying the decision. A copy of the decision shall be sent to each of the parties.

53.19.2 The decision of the Arbitrator shall be the final and binding administrative remedy. A matter decided by the Arbitrator may not be resubmitted to the Arbitrator. Any petition to the courts to review a decision of the Arbitrator must be filed within ninety (90) days of the date of the decision.

54 NO IMPLIED WAIVER

54.1 If at any time either AFSCME or HTA elects not to assert its rights under any provisions of this MOU, in the event of a breach thereof, such lack of action in this respect shall not be construed as a waiver of any rights under the provisions of this MOU.

55 INDEMNIFICATION

55.1 An employee has the right to indemnification by HTA for claims or judgments arising out of his/her HTA employment under the terms and conditions set forth in Sections 825 and following of the California Government Code, as amended.

55.2 An employee has the right to be defended at HTA's expense, in civil actions and proceedings arising out of his/her HTA employment under the terms and conditions of Section 995 and following of the California Government Code, as amended.

55.3 HTA reserves the right not to make payments for a claim until it is established that the injury arose out of an act or omission occurring within the scope of the employees employment with HTA.

55.4 HTA reserves the right not to pay punitive damages awarded against an employee.

56 TRAINING DIFFERENTIAL

56.1 When coach operators train new coach operators "on-the-job," coach operators conducting such training shall be entitled to a Training Differential equal to \$3.50 (three dollars and fifty cents) for each working day which includes time spent by such coach operators engaged in such training.

56.1.1 Employees who are "Certified Trainer/Instructors" will be paid \$3.00 per hour in addition to their regular rate of pay for all hours spent training new employees, performing driver evaluations and other training related duties as assigned them by HTA management.

56.1.2 Employees who are "Certified Trainer/Instructors" with at least seven years experience will be paid \$4.00 per hour in addition to their regular rate of pay for all hours spent training new employees, performing driver evaluations and other training related duties as assigned them by HTA management.

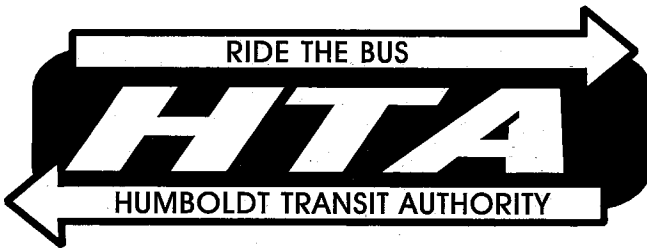
- 56.2 Employees entitled to such differential shall complete and sign a "Driver Training Report" form within 10 (ten) working days of the last day of such training.

57 POLYGRAPH EXAMINATION

- 57.1 No employee shall be compelled to submit to a polygraph examination and no disciplinary action shall be taken against an employee on the sole ground that he/she refused to submit to a polygraph examination.
- 57.2 Unless otherwise agreed to in writing by the parties, no comment shall be anywhere recorded indicating that an employee offered to take, took or refused to take a polygraph examination, nor shall any testimony or evidence of any kind regarding an employee's offer to take or refusal to take or the results of a polygraph examination be admissible in any proceeding provided for by this MOU.

58 IMPASSE PROCEDURE

- 58.1 As used in this article, "impasse" means that HTA and AFSCME have reached a point in the meet and confer process where the differences in their positions are so substantial or prolonged that further meeting and conferring would be futile.
- 58.2 Either party may declare that an impasse has been reached between the parties over matters within the scope of representation, whereupon either party may request the State Conciliation Service to provide a mediator to assist them in reconciling differences and resolving the controversy on mutually acceptable terms.
- 58.2.1 In lieu of making such request, the parties may agree to attempt to resolve the impasse through some other procedure.
- 58.3 If the State Conciliation Service is requested to provide a mediator, it shall be requested to send the parties a list of seven (7) possible mediators. Within five (5) working days after receiving the list, the parties must select a mediator and immediately notify the State Conciliation Service of the selection.
- 58.3.1 If the parties are unable to agree on a mediator, each party may strike three (3) of the names submitted. The party declaring impasse shall have the first name-strike, and thereafter the parties shall strike names alternately. The name remaining after each party has struck three names shall be the mediator. If HTA and AFSCME have mutually declared an impasse, the first option to strike shall be determined by lot.
- 58.4 The mediator will meet forthwith with the parties and the meeting will be conducted under conditions determined by the State Conciliation Service. The mediator may take such other steps as he/she deems appropriate to persuade the parties to resolve their differences and arrive at a mutually acceptable agreement.
- 58.4.1 However, all suggestions and recommendations of the mediator are advisory only, and neither party is required to accept such suggestions or recommendations or enter into an agreement with the other party based thereon.
- 58.5 Any costs of the State Conciliation Service will be borne equally by the parties.



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Humboldt County Since 1976*

133 "V" Street, Eureka, CA 95501-0844

(707) 443-0826

TO: Linda Atkins, Chair
All Governing Board Members

FROM: Greg Pratt, General Manager

DATE: March 20, 2013

SUBJECT: Bus Charter for the Redwood Transit System (RTS)

Humboldt County Public Works is hosting a statewide Public Works Secretarial Seminar from May 8th to May 10th and are expecting 60 people.

They are requesting two 40' buses on Thursday, May 9th from 11:00 a.m. to 5:00 p.m. In an effort to keep the cost of the conference down, they are asking the HTA board to have RTS provide the service for free or at a discount.

The estimated cost to operate the requested service would be \$1,000.

Action Recommended: Action Recommended: Review, discuss, and direct staff



ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP
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RITA CHISM
VANESSA ANDERSON, EA.

JAMES M. ANDERSON, *Inactive*
EUGENE R. LUCAS, *Inactive*

January 18, 2013

Board of Directors
Humboldt Transit Authority

Board of Directors and Members of Management:

We have audited the financial statements of the Humboldt Transit Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated October 24, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our audit engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audits

We performed the audits according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimates affecting the financial statements were depreciation, other post employment benefits expense, and deferred fare revenue.

Management's estimate of the accumulated depreciation and related expense for the current year was based on management's estimate of the life expectancy of the fixed assets. We reviewed the capital asset listing, selected a sample and recalculated the accumulated and current year depreciation expense. We were satisfied that the calculations used were reasonable. Other post employment benefits expense was actuarially determined in accordance with GASB Statement No. 45. There was no allocation of other post employment benefits expense to the newer Southern Humboldt services. Management's rationale is that new drivers had to be hired as a result of the expansion, and that there is a five year vesting period to the benefits. The estimate of deferred fare revenue is derived from available operations information. An audit adjustment was made to correct a mathematical error in one month's calculation.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audits

We encountered no difficulties in dealing with management in performing and completing our audits.

Significant Audit Findings, Continued

Disagreements with Management

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial and communicate them to the appropriate level of management. Following is a summary of the material misstatements detected as a result of our audit and corrected by management:

Record depreciation expense for year ended June 30, 2012 For Humboldt Transit Authority fixed assets	\$ 875,062
Record annual Other Post-Employment Benefits (OPEB) Expense for year ended June 30, 2012.	364,169
Record STAF grant receivable for year ended June 30, 2012 And related deferred grant revenue. This entry does not impact net income.	198,260
Adjust parts and supplies inventory for scrapped/obsolete items as of June 30, 2012.	58,459
Record adjustment for accrual of wages for Year ended June 30, 2012.	29,730

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 18, 2013.

Significant Audit Findings, Continued

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the Authority, financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Anderson, Lucas, Somerville & Borges

ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP



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EUGENE B. LUCAS, *Inactive*

Board of Directors and Senior Management Humboldt Transit Authority

In planning and performing our audit of the financial statements of the business-type activities of the Humboldt Transit Authority as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Humboldt Transit Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Humboldt Transit Authority's internal control to be significant deficiencies:

Timely, Reliable Financial Information and Management Review

The organization has continued to increase in size and complexity in a challenging economic environment, making it more susceptible to misstatements. Timely, reliable financial information and consistent management review of that information allow management or employees to prevent, or detect and correct misstatements on a timely basis. Additionally, the structured, comprehensive process of closing the accounting books at the end of the fiscal year in preparation for an annual external audit is also a critical and necessary element of appropriate financial operations and control.

Our audit detected a material overstatement of deferred fare revenue and a corresponding understatement of recognized fare revenue. Operational data such as performance statistics and electronic farebox reports are currently not compared and reconciled to the general ledger or financial statements; such a procedure would allow for the potential detection and correction of this type of misstatement.

Other areas we feel that merit attentions are periodic bank reconciliations and regular management review over both the financial statements and key accounting procedures. For some bank accounts, annual reconciliations were not timely prepared. This led to necessary audit adjustments for several accounts.

Additionally, it was necessary to spend significant time and resources adjusting and reconciling numerous accounts in order to be able to complete the annual audit. In most cases, these were areas that would normally be analyzed and adjusted as part of a formalized year-end closing process. Changes in most of the personnel responsible for such activity contributed significantly to this situation.

Overall, given the size and complexity of the organization, there is room for improvement with regard to the timeliness and reliability of financial statement preparation and the frequency and depth of financial analysis and review, as well as formalized procedures and processes in regard to the year-end closing in preparation of the annual external audit.

In addition, we noted other matters involving the internal control and its operation that we have reported to management of the Humboldt Transit Authority in a separate management letter dated January 18, 2013.

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

Anderson, Lucas, Somerville & Borges

Anderson, Lucas, Somerville & Borges, LLP

Fortuna, California
January 18, 2013

MANAGEMENT LETTER



ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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VANESSA ANDERSON, E.A.

JAMES AL ANDERSON, *founder*
EUGENE B. LUCAS, *founder*

January 18, 2013

Board of Directors
Humboldt Transit Authority
133 V Street
Eureka, California 95501

Ladies and Gentlemen,

We have previously issued reports as required by applicable professional standards. In order to keep the Board of Directors apprised of other issues we feel to be of importance, we offer the following management letter.

The following recommendations and comments are intended to be constructive suggestions on ways to improve the policies and operating procedures of HTA. They are not intended to be all-inclusive of the areas in which improvements might be achieved. Should you have any questions regarding these comments or any other matters, please contact us.

CURRENT YEAR FINDINGS

1. Tracking, Monitoring and Accounting for Capital Grants

The Authority, in the normal course of operations and management, receives various capital grants, including, but not limited to, funds provided through the State Transit Assistance Fund (STAF) and the Public Transportation Modernization Improvement and Service Enhancement Account (Prop 1B). These amounts can vary quite significantly from year to year, and can be received for equipment, projects or other items that often span multiple years and can take numerous disbursements to fully utilize.

It is our assessment that there could be better tracking, monitoring and accounting for these types of grant funds and related expenditures. With the proliferation of different funds and projects involved, it would be quite useful to have accurate detailed reports which specifically track and document grant amounts awarded and received, as well as the specific expenditures of funds in fulfillment of those grant amounts.

Board of Directors
Humboldt Transit Authority

1. Tracking, Monitoring and Accounting for Capital Grants (Continued)

While the Authority does prepare and maintain limited documentation of these items currently, the level of detail and completeness does not always allow for the appropriate recognition of deferred revenues or restricted capital ideal for proper financial statement presentation and reporting.

2. Compliance with TDA Fund Eligibility:

Excess Operating Funds Received:

As shown in Note 2 to the financial statements, the following systems did not meet the compliance requirements of Section 6634 of the California Administrative Code dealing with TDA fund eligibility. Fund eligibility is determined by subtracting actual fare revenues, depreciation, and any federal operating funds received from operating expenses. This amount represents the maximum allowable TDA funding for operating expenses for the fiscal year ended June 30, 2012.

	<u>SoHum InterCity</u>	<u>Willow Creek</u>
Operating costs	\$ 364,993	\$ 231,472
Less depreciation	0	(17,267)
Less fare revenues	(63,667)	(41,931)
Less federal operating funds	(150,000)	(68,705)
Eligible amount	151,326	103,569
TDA funds received	<u>294,287</u>	<u>160,722</u>
Excess TDA funds received	<u>\$142,961</u>	<u>\$ 57,153</u>

Recommendation: HTA has several options to remedy this situation:

- a. Claims by appropriate member entities for operating costs for the following fiscal year may be offset by the current year excess TDA funds.
- b. Members may file amended claims for the current fiscal year applying the excess fund to capital expenditures made during the current year.
- c. Members may repay the excess TDA funds to the Transportation Planning Agency (HCAOG).

CURRENT YEAR FINDINGS (Continued)

3. Compliance with TDA Minimum Farebox Recovery Ratios

Per TDA Code Section 99268.8, minimum farebox recovery ratios will not apply to an extension of services until two years after the end of the fiscal year in which the extension of services was put into operation. Regardless, compliance and farebox ratios should be closely monitored.

Mandatory Farebox Recovery Ratio compliance testing for the two Southern Humboldt routes will begin for the year ending June 30, 2013. According to our calculations, farebox recovery ratios were 14.96% and 7.47% for the Southern Humboldt Intercity and Southern Humboldt Local routes, respectively, for the year ended June 30, 2012.

PRIOR YEAR FINDINGS

Reevaluation and Improvement of Financial Accounting and Reporting Function

Over the past several years, the Humboldt Transit Authority has increased in size and complexity in challenging economic times. We felt it was important for the accounting department to catch up with and move ahead of the Authority's growth curve and future plan. With the recent changes in operational structure and key personnel, we felt it was a good time to evaluate the Authority's financial accounting and reporting functions.

Catching Up the Accounting With The Organization's Current Size and Complexity:

It was our observation that the accounting department is weighed down in day to day operations, leaving little opportunity for timely, accurate big picture reporting and analysis needed for management decision making, meeting compliance requirements, or for making significant improvements to the overall system. Historically, there has only been an informal annual closing accounting process at June 30th, primarily in preparation for the audit. Without a more frequent closing process, any inaccuracies or problems tend to accumulate and become more difficult and time consuming to deal with as additional time passes. Day to day operations, inefficiencies in the system, and delays in account reconciliations all conspire to make the annual close a very time consuming process, continuing over the course of months. Meanwhile, new issues are accumulating and the cycle continues. As a result, the accounting department is always playing catch-up.

PRIOR YEAR FINDINGS (Continued)

Reevaluation and Improvement of Financial Accounting and Reporting Function (Continued)

In addition to items noted in our separate internal control communication, our key recommendations were as follows:

- Implement a formal monthly and quarterly closing process with deadlines. Resulting monthly, quarterly, or annual financial statements should include an analysis/explanation of variances from previous periods and/or expectations, accurate presentation of operating vs. capital grants, recognized vs. deferred revenue, etc.
- Integrate the payroll software with the general ledger software using QuickBooks payroll or another accounting software package. This is also addressed in our prior year findings. The current separation of these two systems is a primary contributor to inefficiency.
- Set up cash account(s) currently not reconciled monthly to be reconciled monthly in the accounting software.
- Streamline inefficient processes and automate manual processes (i.e. with regard to payroll, A/R, A/P, revenue, cash, etc.) using excel whenever possible.
- Consider hiring an outside professional to help make this happen, given the accounting department's situation as outlined above.

The accounting department has begun limited implementation of some of these recommendations, but continued progress is still needed.

Moving the Accounting Ahead of the Growth Curve:

Timely, reliable financial statements in conformity with generally accepted accounting principles are currently not being provided, which is related to the accounting department's situation as outlined earlier. Such financial statements are very important and should be provided on a regular basis going forward. We also feel that long term financial planning and analysis are essential to an organization of such size, especially in light of its financial commitments (i.e. employee salary and benefit structure), operating risks (i.e. susceptibility to changing fuel costs), and the current economic environment (i.e. potential stagnation or decrease in operating grant revenue).

PRIOR YEAR FINDINGS (Continued)

Reevaluation and Improvement of Financial Accounting and Reporting Function (Continued)

Examples of such analysis would include, among other possibilities, benchmarking and scenario or 'what if' analyses, which often go hand in hand. A benchmarking example would be to calculate total compensation cost (wages/salaries and employee benefits) per full time equivalent employee now and projected into the near future and compare it with similar organizations and expected revenue levels. A related 'what if' analysis would take those projections in total and by route, and plan for related contingencies (i.e. rising health care costs for current employees and retirees, rising fuel prices, and/or possible decreases in operating grant revenue, etc.). The overarching goal is to provide financial information that allows management to assess the organization's current and future financial sustainability and make well-informed decisions.

Our recommendation was for reliable management-level accounting and financial analysis on a consistent, timely basis. As mentioned earlier, the accounting department is focused primarily on day to day operations. Streamlining the day to day operations may free enough accounting time to focus more on the big picture and long-range financial health of the organization. Alternatively, such analysis may be obtained from sources outside the organization.

Our firm possesses an in-depth understanding of your current system and how it can be improved. Should you decide to pursue these recommendations further and require outside help, we would like the opportunity to assist you.

Generally Accepted Accounting Principles (GAAP)

There is considerable reliance on the annual audit to ensure that the yearend financial statements are adjusted to/prepared in accordance with GAAP. A main purpose of GAAP is to make sure that users of financial statements prepared in accordance with its standards have an accurate picture of an entity's financial position, the results of its operations, its cash flows and the changes in its net assets and can make sound decisions based on that information. Since financial statements regularly prepared by the accounting department are not materially in accordance with GAAP, management may be at a disadvantage with regard to its decision making.

Recommendation:

Given the size of the organization, we recommend that a management level accountant with sufficient expertise in GAAP is hired on at least a quarterly basis to close the books and ensure that the financial statements produced for the review of management are in accordance with GAAP (if it is within HTA's budget).

Status:

This recommendation still applies to the organization.

Board of Directors
Humboldt Transit Authority

PRIOR YEAR FINDINGS (Continued)

Internal Controls - Custody, Recordkeeping, and Check Signing

The staff person in charge of recording transactions also has check signing authority and access to the check stock. There is a two signature requirement, but we noted checks cashed by the bank that contained only one signature.

Recommendation:

We have found that the bank often cashes checks for organizations with only one signature despite the fact that the organization has implemented a two signature requirement. It is always considered a sound policy to separate recordkeeping from check signing authority, especially in light of the failure of the banks to enforce the dual signature requirement in some cases.

Status:

This recommendation still applies to the organization.

Status:

This recommendation still applies to the organization.

In conclusion, we wish to thank the staff of Humboldt Transit Authority for their cooperation and assistance during our audit.

ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP

Anderson, Lucas, Somerville & Borges