

**LASSEN TRANSIT SERVICE AGENCY  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
MANAGEMENT REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2009**

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To the Board of Commissioners  
Lassen County Transportation Commission  
Susanville, California

To the Board of Directors  
Lassen Transit Service Agency  
Susanville, California

In planning and performing our audit of the financial statements of the Transportation Development Act planning and performing our audit of the basic financial statements of Lassen Transit Service Agency for the fiscal year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of Lassen Transit Service Agency's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist Lassen Transit Service Agency in implementing the recommendations.

This report is intended solely for the information and use of management of Lassen Transit Service Agency and others within the organization, and is not to be and should not be used by anyone other than these specified parties.

We thank Lassen Transit Service Agency's staff for their cooperation during the course of our audit.

A handwritten signature in black ink, appearing to read "R. Ricciardi".

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
February 26, 2010

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We have audited the financial statements of the Transportation Development Act Funds of the Lassen Transit Service Agency (the Agency) for the year ended June 30, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 17, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**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 Agency 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 Agency 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. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole. The most sensitive estimate affecting the financial statements was:

- Capital asset lives and depreciation expense.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our 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. Management has corrected all such misstatements. Of the misstatements detected as a result of audit procedures and corrected by management only one was material, either individually or in the aggregate, to the financial statements taken as a whole.

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**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 auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated February 26, 2010.

**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 Agency's 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 Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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**Current Year Observations**

There were no current year observations.

**Prior Year Observations**

1) Accounting Procedures Manual

Observation:

During the course of our audit we noted Lassen Transit Service Agency (the Agency) does not have a written accounting procedures manual.

Recommendation:

We recommend the Agency establish written accounting and internal control procedures and communicate these procedures to the appropriate personnel.

Status:

This recommendation has not been implemented.

2) Fraud and Abuse Policy

Observation:

The American Institute for Certified Public Accountants established a new auditing standard for fraud and abuse in response to recent events regarding publicly held companies. All organizations, whether private or public sector, are required to establish policies regarding fraud and abuse.

Recommendation:

We recommend the Agency establish a written fraud and abuse policy to be communicated to all employees. The policy should also include a system for monitoring fraud and abuse.

Status:

This recommendation has not been implemented.

3) Management Oversight

Observation:

During the course of our audit it was noted that the Agency's Board members do not receive a monthly revenue and expense statement that compares with the Agency's budget and a balance sheet that ties to the statement of revenue and expenses.

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Recommendation:

We recommend the Agency provide the reports mentioned above to the board members in order for them to properly oversee management and the related finances of the Agency.

Status:

This recommendation has not been implemented.