



Lawton Area Transit System

Report on Audits of Financial Statements

June 30, 2012 and 2011

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Table of Contents

	<u>Pages</u>
<u>Financial Section</u>	
Independent Auditor's Report	1 – 2
Basic Financial Statements	
Statements of Net Assets	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 11
<u>Supplementary Information</u>	
Compliance and Internal Control Report	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12 – 13
Schedule of Findings and Responses	14
Summary Schedule of Prior Audit Findings	15



Ronald C. Cottrell, CPA

Independent Auditor's Report

September 5, 2012

Board of Trustees
City Transit Trust
Lawton, Oklahoma

We have audited the accompanying financial statements of the Lawton Area Transit System as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Lawton Area Transit System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lawton Area Transit System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Lawton Area Transit System as of June 30, 2012 and 2011, and the changes in financial position and the cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2012, on our consideration of the Lawton Area Transit System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Ronald C. Cottrell, CPA

The Lawton Area Transit System has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Ronald C. Cottrell, CPA

Lawton Area Transit System
Statements of Net Assets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 192,111	\$ 155,514
Receivables:		
Due from City of Lawton	117,885	118,825
Other	18,261	18,174
Inventory	<u>100,099</u>	<u>115,371</u>
Total assets	<u>428,356</u>	<u>407,884</u>
 Liabilities		
Accounts payable	114,096	134,605
Accrued payroll liabilities	87,384	77,457
Compensated absences	<u>7,471</u>	<u>6,416</u>
Total liabilities	<u>208,951</u>	<u>218,478</u>
 Net assets		
Restricted	<u>\$ 219,405</u>	<u>\$ 189,406</u>

The accompanying notes are an integral part of these financial statements.

Lawton Area Transit System
Statements of Activities
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues -		
City of Lawton reimbursements	\$ 3,256,705	\$ 4,446,131
Fare revenue	344,219	342,213
Advertising	<u>49,950</u>	<u>31,900</u>
Total operating revenues	<u>3,650,874</u>	<u>4,820,244</u>
Operating expenses -		
Salaries and wages	1,115,726	1,102,604
Fringe benefits	378,226	414,973
Services	177,249	195,276
Fuel and lube	433,437	338,037
Tires and tubes	22,203	32,308
Other material and supplies	273,163	264,449
Utilities	34,972	36,035
Insurance	149,481	198,233
Taxes	60	541
Rental	49,060	53,520
Fares and advertising transferred to City	394,276	377,852
Vehicle purchases	343,866	1,613,218
Miscellaneous operating	<u>253,509</u>	<u>264,075</u>
Total operating expenses	<u>3,625,228</u>	<u>4,891,121</u>
Net operating income (loss)	25,646	(70,877)
Nonoperating revenues (expenses)		
Miscellaneous revenues	<u>4,353</u>	<u>24,917</u>
Total nonoperating revenues (expenses)	<u>4,353</u>	<u>24,917</u>
Net income (loss)	29,999	(45,960)
Net assets, beginning	<u>189,406</u>	<u>235,366</u>
Net assets, ending	<u><u>\$ 219,405</u></u>	<u><u>\$ 189,406</u></u>

The accompanying notes are an integral part of these financial statements.

Lawton Area Transit System
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Operating receipts	\$ 3,651,727	\$ 4,886,617
Payments to suppliers and employees	<u>(3,619,483)</u>	<u>(4,873,414)</u>
Net cash provided (used) by operating activities	<u>32,244</u>	<u>13,203</u>
Cash flows from noncapital financing activities		
Miscellaneous income	<u>4,353</u>	<u>24,917</u>
Net cash provided (used) by noncapital financing activities	<u>4,353</u>	<u>24,917</u>
Cash flows from capital and related financing activities		
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	36,597	38,120
Cash and cash equivalents, beginning	<u>155,514</u>	<u>117,394</u>
Cash and cash equivalents, ending	<u><u>\$ 192,111</u></u>	<u><u>\$ 155,514</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 25,646	\$ (70,877)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
(Increase) decrease in accounts receivable	853	66,373
(Increase) decrease in inventories	15,272	(4,114)
Increase (decrease) in accounts payable	(20,509)	9,538
Increase (decrease) in accrued payroll liabilities	9,927	10,742
Increase (decrease) in compensated absences	<u>1,055</u>	<u>1,541</u>
Total adjustments	<u>6,598</u>	<u>84,080</u>
Net cash provided (used) by operating activities	<u><u>\$ 32,244</u></u>	<u><u>\$ 13,203</u></u>

The accompanying notes are an integral part of these financial statements.

Lawton Area Transit System
Notes to Financial Statements
June 30, 2012 and 2011

I. Organization

The City of Lawton created the City Transit Trust (CTT) on April 28, 1975, for the purpose of owning, operating, managing, and financing a transportation system within the City of Lawton. The City of Lawton is the sole beneficiary of CTT and is the official policy-making body for the Lawton Area Transit System (LATS). Trust meetings are separate from the city council meetings with separate budgets, policies, and minutes.

In the fall of 2000, the City of Lawton approved the implementation of the public transportation system (known as Lawton Area Transit System). On February 13, 2001, CTT hired McDonald Transit Association to be contract manager for operation of LATS. McDonald Transit Association formed Lawton Transit Management, Inc., doing business as (dba) Lawton Area Transit System in January 2002. LATS employs the operators, maintenance, and operations personnel and manages the daily operations of LATS within the boundaries established by CTT. The general manager of LATS is an employee of McDonald Transit Association.

CTT receives revenue from the Federal Transit Administration grants, State of Oklahoma Public Transit Revolving Fund, and transportation fares collected by LATS. The City of Lawton has an annual agreement with CTT and the Public Transit Revolving Fund of the State of Oklahoma to provide local financial matching funds for Federal Transit Administration grants. CTT receives all state and federal monies, and the revenue from transportation fares is deposited into the City of Lawton's general account. The Planning Division of the City of Lawton provides CTT with administrative support (i.e., filing and receiving grant funds, allocation of grant funds, and oversight of expenditures), while CTT uses the funds it receives to support LATS operations in a reimbursement arrangement.

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the operations of the Lawton Area Transit System and do not include the operations, accounts, or activities of the City of Lawton, City Transit Trust, or McDonald Transit Association. LATS is reported as a single purpose government, in accordance with GASB Statement No. 34; using a business-type activities presentation. As such, fund financial statements are not required.

B. Measurement focus, basis of accounting, and financial statement presentation

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of LATS are reimbursements from the City of Lawton for allowable operating expenses incurred, fare revenues collected, and advertising revenues on the vehicles. Operating expenses include the costs incurred to provide the transit services such as salaries, vehicle expenses, and administration. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, liabilities, and net assets

1. Deposits and investments

LATS cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts, and certificates of deposit or short-term investments with original maturities of three months or less from the date of acquisition.

State Statutes authorize LATS to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma county, school district, or municipality.

Investments are reported at fair value.

2. Receivables and payables

All trade receivables are shown as net of an allowance for uncollectibles. The receivable from the City of Lawton consists of reimbursement of claims filed with the CTT for operation expenses incurred.

3. Inventories

Inventories consist of parts and supplies used for the maintenance and repair of transit vehicles. Inventories are recorded at cost and charged to expense when used.

4. Capital assets

Acquisitions of property and equipment are considered property of the City Transit Trust and are included in the capital asset balances of the City of Lawton. The City of Lawton's fixed asset policy states that capital additions will be capitalized if they have a useful life of more than one year and have a unit cost of \$ 500 or more. Depreciation of property and equipment is calculated on estimated useful lives using the straight-line method. Capital asset acquisitions are shown as expenses by LATS.

5. Compensated absences

Permanent employees earn vacation and sick leave based on years of service at varying rates. Employees are allowed to carryover unused vacation and sick leave up to certain maximum amounts. Unused vacation is paid to the employees upon separation from employment. Unused sick leave is paid only in certain circumstances.

6. Net assets

Net assets are displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any debt or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted”.

7. Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

III. Detailed notes on all funds

A. Deposits and investments

Deposits

LATS' carrying amounts of deposits were \$ 191,128 and \$ 155,414 as of June 30, 2012 and 2011, respectively while the bank balances totaled \$ 234,280 and \$ 188,317. Deposits are carried at cost.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, LATS's deposits may not be returned to it. LATS does not have a deposit policy for custodial credit risk. As of June 30, 2012 and 2011 all of LATS' bank balances were federally insured.

Investments

As of June 30, 2012 and 2011 LATS had no investments.

B. Receivables

LATS submits requests for reimbursements of expenditures to the City Transit Trust on a weekly basis. As of June 30, 2012 and 2011, LATS had the following outstanding receivables:

	2012	2011
Due from the City of Lawton	\$ 117,885	\$ 118,825
Other receivables	18,261	21,738

Total receivables	136,146	140,563
Less: Allowance for doubtful accounts	-	(3,564)
Accounts receivable, net	<u>\$ 136,146</u>	<u>\$ 136,999</u>

C. Capital assets

The capital assets used by LATS to operate the system are funded and owned by the City of Lawton Transit Trust.

D. Compensated absences

Employees are eligible to take vacation on a compensated basis after one year of service with the amount of vacation pay ranging from ten to fourteen days per year determined by length of service. Employees are allowed to carryover a maximum of 40 hours of vacation each year. LATS limits payment of unused vacation time to a maximum of 80 hours upon termination of employment. Sick leave is accrued at a rate of ½ day per month or 6 days per year with a maximum of 160 hours of sick leave that may be accrued. When an employee leaves employment with LATS, the balance of sick leave is forfeited, unless the employee has over 15 years of service, with a maximum payment of 90 days.

The accompanying financial statements, as of June 30, 2012 and 2011, include an outstanding liability of \$ 7,471 and \$ 6,416, respectively, for compensated absences.

E. Leases

Operating Lease

LATS signed a lease agreement on December 11, 2007 whereby it will lease an office building and the maintenance facility for ten (10) years beginning with the occupancy date of the new office building (2009), with two additional five (5) year options. The lease payment will be \$ 4,460 per month for the term of the lease.

Lease payments for the remainder of the lease will be as follows:

Year Ended June 30,	Amount
2013	\$ 53,520
2014	53,520
2015	53,520
2016	53,520
2017	53,520
2018 – 2019	66,900
Total	<u>\$ 334,500</u>

IV. Other information

A. Risk management

LATS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. LATS has insurance for the major risks such as property, general liability, workers' compensation and unemployment.

B. Commitments and contingent liabilities

The City Transit Trust receives matching capital grants from the federal and state sources. The grant expenditures are subject to audit, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits would be a liability of the City Transit Trusts. Lack of federal grant funds would have a material effect on LATs's ability to function.

LATS has ordered a bus, with estimated delivery of October 2012, costing approximately \$ 339,000 which will be paid mostly by Federal grants and other funds from the City of Lawton. Local matching funds required total \$ 67,800.

C. Employee retirement system and pension plans

On February 1, 2004, the System adopted a Simplified Pension Plan (a defined contribution plan) for all its full-time employees who are at least eighteen (18) years of age, are not covered under a collective bargaining agreement, are not leased employees, or are not highly compensated employees. Qualified employees are eligible to participate in the plan when hired. During the years ended June 30, 2012 and 2011, the system contributed 3% of eligible employees' annual salary into a qualified retirement plan commonly referred to as a 401 (k) plan in the amount of \$ 23,150 and \$ 25,237 on a covered payroll of \$ 909,139 and \$ 897,052, out of \$ 1,131,143 and \$ 1,110,459 in total applicable payroll for the twelve month periods ended June 30, 2012 and 2011, respectively.

The plan has a vesting schedule with forfeitures designated to reduce future contributions to the plan. Vesting is as follows:

<u>Years of service</u>	<u>Vested percentage</u>
<1	0
1	5
2	20
3	40
4	60
5	80
6	100

D. National Transit Database requirements

The Lawton Area Transit System records accounting information in compliance with the requirements of the National Transit Database (NTD) requirements. The NTD requires that records be maintained on the accrual basis of accounting. In addition, revenues are recognized by sources of funds and expenditures are recorded by object class and function.

The following reflects the system's expenses by NTD object class and function for the years ended June 30, 2012 and 2011:

<u>2012</u>	<u>Function</u>					<u>Total</u>
<u>Object</u>	<u>General & Administrative</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>Non-Vehicle Maintenance</u>	<u>ADA</u>	
Payroll	\$ 63,910	\$ 651,354	\$ 214,866	\$ -	\$ 185,596	\$ 1,115,726
Fringe benefits	15,462	252,637	58,750	-	51,377	378,226
Services	155,985	4,246	12,178	4,840	-	177,249
Fuel and lube	-	398,882	34,285	270	-	433,437
Tires and tubes	-	20,809	1,394	-	-	22,203

Other materials and supplies	15,404	217,038	3,993	36,728	-	273,163
Utilities	34,972	-	-	-	-	34,972
Insurance	-	149,481	-	-	-	149,481
Taxes	-	60	-	-	-	60
Rental	49,060	-	-	-	-	49,060
Vehicle purchases	-	343,866	-	-	-	343,866
Miscellaneous ⁽²⁾	110,601	-	126,236	16,672	-	253,509
City of Lawton ⁽¹⁾	394,276	-	-	-	-	394,276
Total	<u>\$ 839,670</u>	<u>\$ 2,038,373</u>	<u>\$ 451,702</u>	<u>\$ 58,510</u>	<u>\$ 236,973</u>	<u>\$ 3,625,228</u>

2011 Object	Function					Total
	General & Administrative	Vehicle Operations	Vehicle Maintenance	Non-Vehicle Maintenance	ADA	
Payroll	\$ 62,127	\$ 670,317	\$ 203,803	\$ -	\$ 166,357	\$ 1,102,604
Fringe benefits	22,415	288,464	58,079	-	46,015	414,973
Services	165,873	5,376	11,730	12,297	-	195,276
Fuel and lube	-	321,292	14,776	1,969	-	338,037
Tires and tubes	-	29,118	3,190	-	-	32,308
Other materials and supplies	14,347	211,863	4,627	33,612	-	264,449
Utilities	36,035	-	-	-	-	36,035
Insurance	-	198,233	-	-	-	198,233
Taxes	-	541	-	-	-	541
Rental	53,520	-	-	-	-	53,520
Vehicle purchases	-	1,613,218	-	-	-	1,613,218
Miscellaneous ⁽²⁾	202,228	-	10,431	51,182	234	264,075
City of Lawton ⁽¹⁾	377,852	-	-	-	-	377,852
Total	<u>\$ 934,397</u>	<u>\$ 3,338,422</u>	<u>\$ 306,636</u>	<u>\$ 99,060</u>	<u>\$ 212,606</u>	<u>\$ 4,891,121</u>

(1) Amount of fare and advertising revenue collected and remitted to the City of Lawton.

(2) Includes expenditures for travel, advertising and promotion, shop and support equipment, and passenger amenities, as well as bad debt expense. For 2011, bad debt expense was \$ 101,656, resulting from the write-off of accounts receivable from the City of Lawton of \$ 99,542 accrued in fiscal year ended June 30, 2010 for claims which had been reduced to offset insurance settlement payments received in that year, as well as prior years. The City of Lawton elected to not pay the claims so the receivable was written off as bad debt expense in the current fiscal year ended June 30, 2011.

E. Related party transactions

The City of Lawton provides some data processing services for LATs and processes transaction information supplied to them by LATs. These services are provided by the City of Lawton at no cost to LATs.



Ronald C. Cottrell, CPA

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards

September 5, 2012

Board of Trustees
City Transit Trust
Lawton, Oklahoma

We have audited the financial statements of the Lawton Area Transit System, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 5, 2012. Management's discussion and analysis, which is required supplementary information, was not presented. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Lawton Area Transit System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lawton Area Transit System's internal control over financial reporting 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 Lawton Area Transit System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lawton Area Transit System's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined previously. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2012-1, that we considered to be a significant deficiency in internal control over financial reporting. A significant deficiency is a

Ronald C. Cottrell, CPA

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lawton Area Transit System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lawton Area Transit System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Lawton Area Transit System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees of the City Transit Trust of the City of Lawton, the City of Lawton, the management of Lawton Area Transit System, federal grantor and state pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ronald C. Cottrell, CPA

Lawton Area Transit System

Schedule of Findings and Responses

Financial Statement Findings

2012-1 Data Input of Para-Transit Revenue Miles

Criteria – Miles driven for para-transit services should be recorded by vehicle each day to allow for preparation of summary reports of total miles driven. Data should be verified to help ensure the accuracy of information in the system and reports prepared.

Condition – Procedures were not in place to properly verify the data entered into the Route Match system or the daily and month-end reports prepared. Vehicle numbers and beginning and ending vehicle odometer readings for some vehicles were not always entered correctly into the Route Match system. Miles were not always entered correctly into the Route Match system. Beginning and ending vehicle odometer readings for some vehicles overlapped.

Cause and Effect – LATS supervisors were not consistently verifying the data entered for errors or reviewing the reports for reasonableness and accuracy. Three administrators are adding and deleting vehicles, changing vehicle numbers and changing level of access for users without communicating with each other.

Recommendation – LATS should establish procedures and controls to ensure all data entered into the Route Match system is verified for accuracy and all reports generated are reviewed by supervisory personnel.

Management's Comments – Administrative privileges have been reduced to one user to alleviate the loss of mileage because of vehicles being added and deleted. Each manifest is now individually verified by the supervisor as to the accuracy of information entered into the program.

Lawton Area Transit System
Summary Schedule of Prior Audit Findings

Financial Statement Findings

2011-01 Calculation of Para-Transit Revenue Miles

Condition – Procedures were not in place to properly verify the data entered into the Route Match system or the daily and month-end reports prepared. Miles were not always entered correctly into the Route Match system. No entries were made for October 2011 after October 4. Beginning and ending vehicle odometer readings for some vehicles overlapped.

Status – This condition still exists.