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## Agenda

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 3, 2018

9:00 a.m.

James R. Mills Building  
Executive Conference Room, 10th Floor  
1255 Imperial Avenue, San Diego

To request an agenda in an alternative format or to request accommodations to facilitate meeting participation, please call the Clerk of the Board at least two working days prior to the meeting. Assistive Listening Devices (ALDs) are available from the Clerk of the Board/Assistant Clerk of the Board prior to the meeting and are to be returned at the end of the meeting.

#### ACTION RECOMMENDED

A. 1. Roll Call

2. [Approval of the Minutes of November 2, 2017](#)

Approve

B. COMMITTEE DISCUSSION ITEMS

1. [The Pun Group Engagement Letter for the Fiscal Year \(FY\) 2018 Audit \(Erin Dunn\)](#)

Possible  
Action

Action would review the audit engagement letter and planning phase communication to AOC Members from The Pun Group.

2. [Interim Audit \(Erin Dunn and Ken Pun of The Pun Group, LLP\)](#)

Possible  
Action

Action would receive a report on the interim audit work conducted by The Pun Group.

3. [Update on GASB 75 and GASB 85 \(Ken Pun of The Pun Group LLP\)](#)

Possible  
Action

Action would receive a report from The Pun Group regarding upcoming reporting and auditing changes.



4. [Internal Audit Activity Update Report \(Toufic Tabshouri\)](#)  
Action would receive the internal audit activity update report.

Possible  
Action

- C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
- D. PUBLIC COMMENTS
- E. NEXT MEETING DATE: To be determined.
- F. ADJOURNMENT

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
AUDIT OVERSIGHT COMMITTEE  
1255 Imperial Avenue, Suite 1000  
San Diego, CA 92101

## DRAFT MINUTES

November 2, 2017

### A. ROLL CALL

1. Mr. Roberts called the meeting to order at 9:00 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Ms. Cole moved for approval of the minutes of the June 1, 2017 Audit Oversight Committee meeting. Mr. McClellan seconded the motion, and the vote was 4 to 0 in favor with Mr. Mathis and Ms. Rios absent.

### B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. Draft of Fiscal Year 2017 Comprehensive Annual Financial Report (CAFR) (Erin Dunn and Ken Pun of The Pun Group)

Erin Dunn, Controller, introduced Ken Pun with the Pun Group to present the Fiscal Year (FY) 2017 CAFR. Mr. Pun continued the presentation and reviewed the management responsibilities, auditors' responsibilities, and the approach to the audit. He provided an overview of the financial statements including the summary statements of net position; summary statements of revenues, expenses and changes in net position; and summary statements of cash flows. Mr. Pun reviewed key pension and other postemployment benefits (OPEB) information including the net pension liability. He noted that the rate of return was recently decreased from 7.5% to 7.0% which contributed to the increase in the net pension liability. Larry Marinesi, Chief Financial Officer, noted that the Board of Directors directed staff to reduce the expected rate of return on the San Diego Transit Pension Plan from 7.5% to 7.0%. Mr. Pun reviewed pension expenses and the OPEB schedule of funding progress. Mr. Pun discussed the audit results and noted that they have an unmodified opinion for the audit. He also reviewed other audit results noting that there were no disagreements with management; no material weaknesses or significant deficiencies in internal controls; and no accounting issues.

#### Action Taken

No action taken.

2. Internal Audit Activity Update Report (Toufic Tabshouri)

Toufic Tabshouri, Internal Auditor, provided a presentation on internal audit activity. Mr. Tabshouri reviewed the internal auditor role and responsibilities at MTS including audits, advisory services, and fraud prevention and investigation. He discussed the process in how he determines audit selections. He reviewed factors informing audit work including past job experiences; professional standards; guidance and discussions with colleagues;

relationships and communication with MTS management and staff; and tenure and increased knowledge of MTS and transit industry. Mr. Tabshouri reviewed audit performance measures as well as advisory and consultation matters. Lastly, he reviewed other recent work including managing the fraud hotline, audits, and administrative work.

Mr. Roberts commented on the high risk factors for fraud in procurements. Mr. Tabshouri stated that he pays close attention to the risks in the procurement department because it is a high risk department.

Ms. Cole inquired if he was decreasing the amount of audits every year. Mr. Tabshouri stated that he has done more advisory services recently compared to audits; however he does miscellaneous audits every year.

Action Taken

No action taken.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no committee member communications and other business.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:57 a.m.

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Chairman

Attachment: Roll Call Sheet

**AUDIT OVERSIGHT COMMITTEE**  
**SAN DIEGO METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) November 2, 2017

CALL TO ORDER (TIME) 9:00 a.m.

RECESS \_\_\_\_\_

RECONVENE \_\_\_\_\_

CLOSED SESSION \_\_\_\_\_

RECONVENE \_\_\_\_\_

ADJOURN 9:57 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>	9:00 a.m.	9:57 a.m.
COLE <input checked="" type="checkbox"/> (Gomez) <input type="checkbox"/>	9:00 a.m.	9:57 a.m.
MATHIS <input type="checkbox"/>		
MCCLELLAN <input checked="" type="checkbox"/> (McWhirter) <input type="checkbox"/>	9:00 a.m.	9:57 a.m.
RIOS <input type="checkbox"/> (Salas) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:00 a.m.	9:57 a.m.
Transportation Committee Rep Slot (Mathis)		

SIGNED BY THE CLERK OF THE BOARD: Julie Tuer

CONFIRMED BY THE GENERAL COUNSEL: Paul Gade



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## Agenda Item No. B1

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 3, 2018

#### SUBJECT:

THE PUN GROUP ENGAGEMENT LETTER FOR THE FISCAL YEAR (FY) 2018  
AUDIT (ERIN DUNN)

#### RECOMMENDATION:

That the MTS Audit Oversight Committee (AOC) review the audit engagement letter (Attachment A) and planning phase communication to AOC Members (Attachment B) from The Pun Group.

#### Budget Impact

None at this time.

#### DISCUSSION:

Auditing standards require the auditor to present a written engagement letter and obtain a signature from an officer of the company. Attachment A is the engagement letter from The Pun Group for the fiscal year 2018 audit, as well as their most recent peer review. Attachment B is a planning phase communication letter from The Pun Group to the AOC Members. Previously, this was issued in the CAFR. A representative from The Pun Group will be available for questions.

/s/ Paul C. Jablonski

Paul C. Jablonski  
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, [Sharon.Cooney@sdmts.com](mailto:Sharon.Cooney@sdmts.com)



Attachments: A. Engagement Letter  
B. MTS Planning Phase Communication to AOC Members



April 2, 2018

Board of Directors  
**San Diego Metropolitan Transit System**  
 1255 Imperial Avenue, Suite 1000  
 San Diego, California 92101

**RE: Engagement of The Pun Group LLP (the “Firm”) as MTS’s Independent Auditors**

We are pleased to confirm our understanding of the services we are to provide to the San Diego Metropolitan Transit System (“MTS”) for the year ending June 30, 2018. The Firm’s services are provided pursuant to MTS Contract No. G1513.0-13 (“Contract”). Nothing in this engagement letter is intended to modify or amend the terms and conditions set forth in the Contract. In the event a conflict arises between this letter and the Contract, the terms in the Contract shall prevail.

**Fiscal Year 2018 Audit Assignment**

We will audit the financial statements of the business-type activities which collectively comprise the basic financial statements of MTS as of and for the year ending June 30, 2018.

Accounting standards generally accepted in the United States of America provide for certain Required Supplementary Information (RSI), such as Management’s Discussion and Analysis (MD&A), to supplement the MTS’ basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the MTS’s RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding 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 will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management’s Discussion and Analysis
- 2) Schedule of Changes in Net OPEB Liability and Related Ratios
- 3) GASB Statement No. 68 Required Schedules:
  - a) Schedule of Proportionate Share of the Net Pension Liability
  - b) Schedule of Changes in Net Pension Liability
  - c) Schedule of Contributions

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We have also been engaged to report on Supplementary Information other than RSI that accompanies the MTS financial statements. We will subject the following Supplementary Information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- 1) Combining Financial Statements
- 2) Schedules of Revenues, Expenses, and Changes in Net Position – Budget and Actual
- 3) Schedule of Expenditures of Federal Awards

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

- 1) Introductory Section
- 2) Statistical Section

**Audit Objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and to report on the fairness of the supplementary information referred to in the third paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

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Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the Board of MTS. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or we may withdraw from this engagement.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

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### **Audit Procedures—Internal Control**

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of MTS's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of MTS's major programs. The purpose of these procedures will be to express an opinion on MTS's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

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### **Management Responsibilities**

Management is responsible for (1) establishing and maintaining effective internal controls, including internal controls over federal awards, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan.

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You are responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon or make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

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### **Communication with Those Charged with Governance**

As part of our engagement, we are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process as well as other matters we believe should be communicated to those charged with governance. Generally accepted auditing standards do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance. Such matters include, but are not limited to, (1) the initial selection of and changes in significant accounting policies and their application; (2) the process used by management in formulating particularly sensitive accounting estimates and the basis for our conclusions regarding the reasonableness of those estimates; (3) all passed audit adjustments; (4) any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or our report; (5) our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters; (6) major issues that were discussed with management in connection with the retention of our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; (7) serious difficulties that we encountered in dealing with management related to the performance of the audit; and (8) matters relating to our independence as your auditors.

### **Third-Party Service Providers**

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

### **Assistance By Your Personnel**

We will ask that your personnel, to the extent possible, prepare required schedules and analyses, and make selected invoices and other required documents available to our staff. This assistance by your personnel will serve to facilitate the progress of our work and minimize our time requirements.

### **Data Collection Form**

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

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### **Independence**

Professional standards require that a firm and its members maintain independence throughout the duration of the professional relationship with a client. In order to preserve the integrity of our relationship, no offer of employment shall be discussed with any The Pun Group, LLP professionals assigned to the audit, during the one year period prior to the commencement of the year end audit. Should such an offer of employment be made, or employment commences during the indicated time period, we will consider this an indication that our independence has been compromised. As such, we may be required to recall our auditors' report due to our lack of independence. In the event additional work is required to satisfy independence requirements, such work will be billed at our standard hourly rates. Furthermore, we strive to staff your engagement with quality, superbly trained professionals. In recognition of the extensive investment we have made to recruit and develop our personnel, we ask that you agree to the following. In the event that any of our employees accepts a position of employment with MTS, or any of its related parties at any time while we are performing services for you or within one year thereafter, you agree to pay us a placement fee equal to the employee's annual compensation in effect on the date such employment was contracted. Such fee is payable when the employee accepts such a position.

### **Access to Working Papers**

The audit documentation for this engagement is the property of The Pun Group, LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the Oversight Agency for Audit or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of The Pun Group LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release or for any additional period requested by the Oversight Agency for Audit or Pass-through Entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

The Firm is required to undergo a "peer review" every three years. During the course of a peer review engagement, selected working papers and financial reports, on a sample basis, will be inspected by an outside party on a confidential basis. Consequently, the accounting and/or auditing work we performed for you may be selected. Your signing this letter represents your acknowledgement and permission to allow such access should your engagement be selected for review.

As a result of our prior or future services to you, we may be required or requested to provide information or documents to you or a third-party in connection with a legal or administrative proceeding (including a grand jury investigation) in which we are not a party. If this occurs, our efforts in complying with such request or demands will be deemed a part of this engagement and we shall be entitled to compensation for our time and reimbursement for our reasonable out-of-pocket expenditures (including legal fees) in complying with such request or demand. This is not intended, however, to relieve us of our duty to observe the confidentiality requirements of our profession.

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We appreciate the opportunity to be of service to San Diego Metropolitan Transit System and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Very truly yours,  
**The Pun Group LLP**



Kenneth H. Pun, CPA, CGMA  
Managing Partner

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**ACCEPTED**

This letter correctly sets forth the management/auditor responsibilities and procedures for the fiscal year 2018 audit of the San Diego Metropolitan Transit System.

Authorized Signature:  \_\_\_\_\_

Title: CFO \_\_\_\_\_

Date signed: 4/16/18 \_\_\_\_\_



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**Other Services**

We are always available to meet with you and/or other management personnel at various times throughout the year to discuss current business, operational, accounting and auditing matters affecting your organization. Whenever you feel such meeting are desirable please let us know; we are prepared to provide services to assist you in any of these areas.

**Timeline**

We expect to begin our audit on April 2, 2018 and to issue our reports no later than November 30, 2018. Kenneth H. Pun, CPA is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

**Report Distribution and Other**

We will provide copies of our reports to MTS; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

**Most Recent External Quality Control Review**

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract.

You have requested that we provide you with a copy of our most recent external peer review report and any subsequent reports received during the contract period. Accordingly, our 2014 peer review report accompanies this letter.

\*\*\*



Certified Public Accountants Business Consultants

JOHN LERIAS, CPA  
STEPHEN C. WILLIAMS, CPA  
JOSEPH O. ROMERO, CPA

### System Review Report

#### **The Pun Group, LLP**

Santa Ana, California;

and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of The Pun Group, LLP (the firm) in effect for the year ended December 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included an engagement performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of The Pun Group, LLP in effect for the year ended December 31, 2014, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. The Pun Group, LLP has received a peer review rating of *pass*.

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*Gyl Decauwer LLP*

Ontario, California  
October 13, 2015

*your  
Success  
is our  
DESTINATION*



April 2, 2018

To the Board of Directors  
of the San Diego Metropolitan Transit System  
San Diego, California

We are engaged to audit the financial statements of the San Diego Metropolitan Transit System (“MTS”) for the year ended June 30, 2018. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibilities under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and the Uniform Guidance

As stated in our engagement letter dated April 2, 2018, our responsibility, as described by professional standards, is to express opinions 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.

In planning and performing our audit, we will consider MTS’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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 the Uniform Guidance.

As part of obtaining reasonable assurance about whether MTS’s financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about MTS’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on MTS’s compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on MTS’s compliance with those requirements.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the Management’s Discussion and Analysis, the Schedule of Proportionate Share of the Net Pension Liability, Schedule of the Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions - Pensions, and the Schedule of the Changes in Net OPEB Liability and Related Ratios which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

**San Diego Metropolitan Transit System**

April 2, 2018

Page 2

We have been engaged to report on the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses, and Changes in Net Position, Combining Schedule of Cash Flows, and the Schedules of Revenues, Expenses and Changes in Net Position – Budget and Actual, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have not been engaged to report on the introductory section and the statistical section, which accompany the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information will not be audited and we will not express an opinion or provide any assurance on it.

Planned Scope, Timing of the Audit, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of MTS. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to begin our audit on approximately April 2, 2018 and issue our report on approximately November 30, 2018. Kenneth H. Pun is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

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

Very truly yours,

A handwritten signature in black ink that reads "The Pun Group, LLP". The signature is written in a cursive, flowing style.

San Diego, California



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## Agenda Item No. B2

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 3, 2018

#### SUBJECT:

INTERIM AUDIT (ERIN DUNN AND KEN PUN OF THE PUN GROUP, LLP)

#### RECOMMENDATION:

That the Audit Oversight Committee receive a report on the interim audit work conducted by The Pun Group.

#### Budget Impact

None at this time.

#### DISCUSSION:

The Pun Group conducted an interim audit from April 2, 2018 through April 12, 2018, and tested MTS's internal controls.

The Pun Group will discuss the audit procedures performed during the interim audit as well as the results.

/s/ Paul C. Jablonski

Paul C. Jablonski  
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, [Sharon.Cooney@sdmts.com](mailto:Sharon.Cooney@sdmts.com)

Attachment: A. MTS Interim Exit Memo - 2018



**San Diego Metropolitan Transit System**  
**Fiscal Year Ending June 30, 2018**  
**Interim Exit Memo**  
**April 12, 2018**

**INTERIM AUDIT PROCEDURES:**

The purpose of our interim audit was to update our understanding of how MTS's internal control systems are designed and implemented in order to prevent and detect material misstatements, and to determine if opportunities for strengthening internal controls existed. To accomplish these objectives, we interviewed management and staff regarding policies and procedures, obtained supporting documentation, performed walkthroughs of significant transaction cycles, identified key controls, and, in certain instances, designed tests to evaluate the operating effectiveness of key internal controls over the following significant transaction cycles:

- Financial Reporting
  - Reporting to the Board – update, walkthrough, and test of controls
  - Journal entry process – update, walkthrough, and test of controls
  - Bank reconciliation – update, walkthrough, and test of controls
- Revenues and Cash Receipts for MTS, SDTI and SDTC
  - Farebox – update and walkthrough
  - Ticket Vending Machines – update and walkthrough
  - Transit Store – update and walkthrough
  - Invoicing – update and walkthrough
  - Cash count – update, walkthrough, and test of controls
  - Bank deposits – update and walkthrough
  - Compass card – update and walkthrough
  - Grant/Intergovernmental - update and walkthrough
- Purchasing, Expenses, and Cash Disbursements
  - Purchasing – update and walkthrough
  - Accounts payable and cash disbursements – update and walkthrough
- Payroll and Related Liabilities
  - Payroll process – update, walkthrough, and test of controls
  - Rate/status change – update, walkthrough, and test of controls
- Capital Assets
  - Additions/deletions – update and walkthrough
  - CIP – update and walkthrough

In addition to updating our understanding of MTS's design and implementation of internal control systems, we also performed the following activities:

- Issued 2019 Indirect Cost report
- Update understanding of internal audit plan with Toufic Tabshouri
- Perform fraud risk inquiries
- Reviewed 2018 budget
- Reviewed the board minutes
- Provided year-end prepared by client listings for MTS audit, SDTC pension audit, and TDA compliance agreed-upon procedures
- Performed preliminary capital assets additions testing (bus purchases)
- Performed census data testing for MTS and SDTI (finalization pending receipt of updated census data files for 6/30/16 valuation date)
- Single Audit (preliminary testing performed on Federal Transit Cluster)
  - Allowable activities/costs (non-payroll testing)
  - Cash management testing
  - Equipment testing
  - Reporting testing
- SDTC Pension
  - Distributions testing
- TDA compliance audits (preliminary testing performed)
  - Expenditure compliance testing

#### **CURRENT YEAR INTERIM RESULTS:**

Based on the interim procedures performed, internal controls for the selected transaction cycles appeared to be both properly designed and effectively operating in order to prevent and detect material misstatements. No observations or findings were noted.

#### **OPEN ITEMS:**

1. Federal Transit Cluster procurement testing (Andrew to meet with Sam Elmer and Claudine Aquino next Thursday 4/19)
2. Send pension/OPEB actuarial valuations to Pun Group when received
3. Engagement letter signatures
4. Issuance of Communication with Those Charged with Governance (Planning Stage) letters (SAS 114/AU-C 260) for SDTC Pension
5. Update and sign confirmations, attorney letters, and board member fraud questionnaires
6. Audit Oversight Committee meeting May 3, 2018 (9:00 AM)
7. Inventory observation date: June 29, 2018 (SDTI)

#### **IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

***GASB Statement No. 75*** – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

***GASB Statement No. 81*** – In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the



government controls the present service capacity of the beneficial interest. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

**GASB Statement No. 82** – In December 2015, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures of those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

**GASB Statement No. 85** – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of areas including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

**GASB Statement No. 86** - In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

### **YEAR END DATES:**

Three weeks beginning August 20, 2018.

### **REPORTS TO BE ISSUED:**

We will perform the following audits and agreed upon procedures enumerated below for the year ended June 30, 2018:

1. Comprehensive Annual Financial Report
2. Single Audit
3. SDTC Employees' Retirement Plan
4. Transportation Development Act (TDA) Agreed-Upon Procedures
5. National Transit Database (NTD) Agreed-Upon Procedures
6. Indirect Cost Allocation Plan Agreed-Upon Procedures
7. Prop 1B PTMISEA – confirm no report will be issued in 2018



# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Presentation to the Audit Oversight Committee  
For the Fiscal Year Ended June 30, 2018

May 3, 2018

## Contents

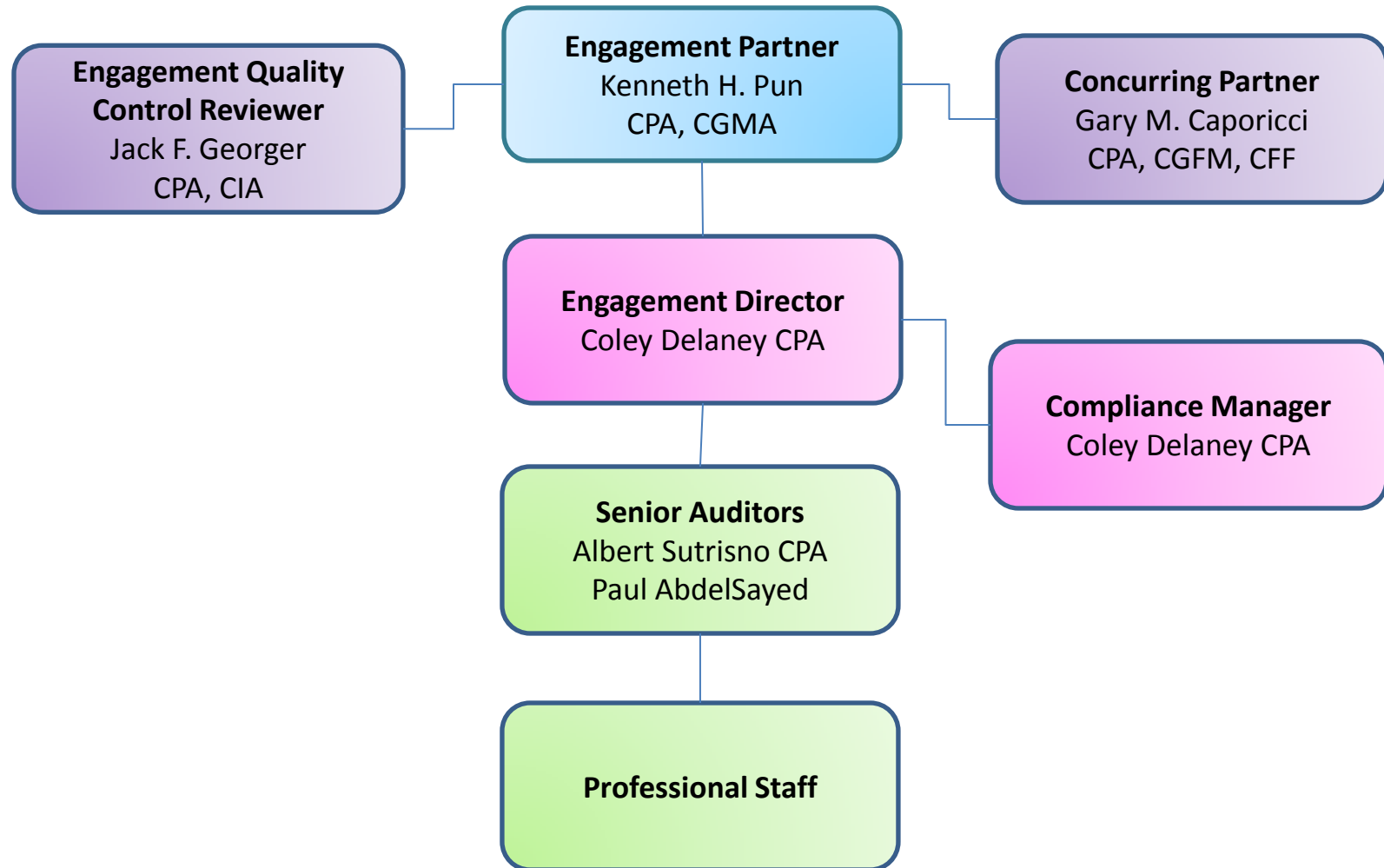
- Audit Team
- Scope of Work
- Management's Responsibilities
- Auditors' Responsibilities
- Approach to the Audit
  - Planning and Risk Assessment
- GASB Update





## Audit Team

## Audit Team







## Scope of Work

## Scope of Work

- **Financial Audits**
  - San Diego Metropolitan Transit System's Comprehensive Annual Financial Report (CAFR)
  - San Diego Transit Corporation's Retirement Plan
- **Compliance Audit**
  - Single Audit in accordance with Uniform Grant Guidance
- **Agreed-Upon Procedures**
  - Indirect Cost Rate
  - National Transit Database
  - Transportation Development Act



## Audit Responsibilities



## Management Responsibilities

- Responsible for the Financial Statements
- Present the Financial Statements in accordance with Accounting Principles Generally Accepted in the United States of America
- Adopt sound accounting policies
- Establish and maintain internal controls over financial reporting and compliance
- Provide evidence supporting the amounts and disclosures in the financial statements
- Prevent and detect fraud

## Auditors' Responsibilities

- Perform the audit in conformity with Auditing Standards Generally Accepted in the United States of America and the Standards applicable to Financial Audits contained in *Government Auditing Standards*
- Communicate with “Those Charged with Governance”
- Assess audit risk of internal control over financial reporting and compliance
- Determine fairness presentation of the financial statements
- Render opinions



## Approach to the Audit

## Approach To The Audit

- Phase I - Detailed Planning
- Phase II – Risk Based Review of Systems and Compliance
- Phase III – Validation of Account Balances and Test of Compliance
- Phase IV – Review Financial Statements and Issue Opinions



## Planning and Risk Assessment

- **Obtain Understanding of the Entity and Identifying Risk of Material Misstatements**
- **Significant Transaction Classes:**
  - Financial Reporting
    - Reporting to the Board
    - Journal entry process
    - Bank reconciliation
  - Revenues and Cash Receipts Process
    - Farebox
    - Ticket Vending Machines
    - Transit Store
    - Invoicing
    - Cash count
    - Bank deposits
    - Compass card
    - Grant/Intergovernmental

## **Planning and Risk Assessment**

- **Significant Transaction Classes (Continued):**
  - Purchasing, Expenses, and Cash Disbursement
  - Payroll and Employee Benefits
  - Capital Assets
  - IT Control
- **Update understanding of internal audit plan with Internal Auditor**
- **Inquiries of Fraud**
- **Reviewed Budget**
- **Performed Census Data Testing and Distribution Testing**
- **Performed Preliminary Testing on Federal Transit Cluster**
- **Performed TDA Expenditures Testing**
- **Scheduled Inventory Observation on June 29, 2018**

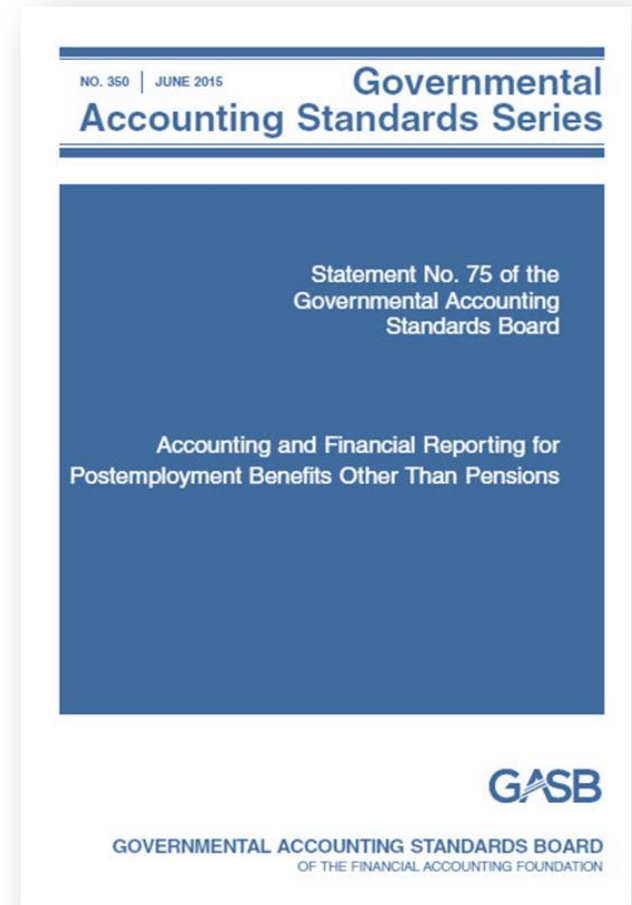
## Implementation of New GASB Pronouncements

- Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Statement 85 – *Omnibus 2017*

## GASB Statement No. 75

### Scope

- This statement establishes financial reporting standards for state and local governmental OPEB plans – defined benefit OPEB plans and defined contribution OPEB– that are administered through trusts or equivalent arrangements.





## GASB Statement No. 75

### Net OPEB Liability

- A liability should be recognized for **Net OPEB Liability**.
- The **Net OPEB Liability** should be measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service.

## **GASB Statement No. 75**

### **OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, and Support of Nonemployer Contributing Entities**

- Changes in the Net OPEB Liability, should be recognized in OPEB expense in the current reporting period.
- If the alternative measurement method is not used to measure the Total OPEB Liability, each of the following should be recognized in OPEB expense beginning in the current reporting period, using a systematic and rational method over a close period equal to the average of the expected and remaining service lives of all employees that are provided with OPEB plan (active and inactive employees) determined as of the beginning of the measurement period:
  - (1) Differences between expected and actual experience with regard to economic or demographic factors
  - (2) Changes of assumptions about future economic or demographic factors
- The portion (1) and (2) not recognized in OPEB expense should be reported as Deferred Outflows of Resources or Deferred Inflows of Resources to OPEB.

## **GASB Statement No. 75**

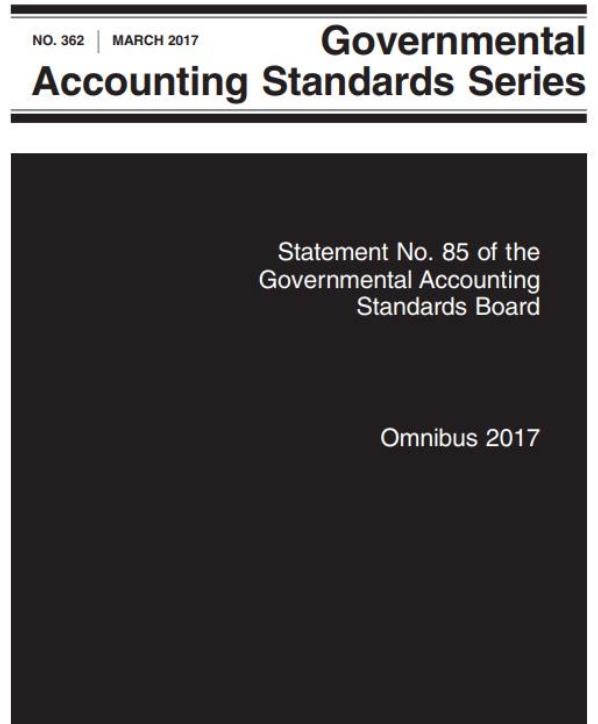
### **OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, and Support of Nonemployer Contributing Entities**

- The difference between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The amount not recognized in OPEB expense should be reported as Deferred Outflows of Resources or Deferred Inflows of Resources related to OPEB.
- Contributions to the OPEB plan from the employer should not be recognized in OPEB expense.
- Contributions to the OPEB plan from the nonemployer contributing entities that are not in a special funding situation should be recognized as revenue.
- Contributions to the OPEB plan from the employer subsequent to the measurement date of the net OPEB liability and before the end of the reporting period should be reported as a Deferred Outflows of Resources related to OPEB.

## GASB Statement No. 85

### Scope

- The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements.
- This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).



**GASB**

GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
OF THE FINANCIAL ACCOUNTING FOUNDATION

## **GASB Statement No. 85**

- This Statement addresses the following topics:
  - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
  - Reporting amounts previously reported as goodwill and “negative” goodwill
  - Classifying real estate held by insurance entities
  - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost

## GASB Statement No. 85

- **Items relating to OPEB:**

- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

**For more information, contact:**

**Presenter:**

**Kenneth H. Pun, CPA**

Direct +1 949 777 8801

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## Agenda Item No. B3

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 3, 2018

#### SUBJECT:

UPDATE ON GASB 75 AND GASB 85 (KEN PUN OF THE PUN GROUP, LLP)

#### RECOMMENDATION:

That the Audit Oversight Committee receive a report from The Pun Group regarding upcoming reporting and auditing changes.

#### Budget Impact

None at this time.

#### DISCUSSION:

The Pun Group will present detailed information regarding the following Statements of Accounting Standards as issued by the Governmental Accounting Standards Board (GASB) that have become effective or will become effective this year:

- a. GASB Statement No. 75 – Other Post Employment Benefits (OPEB)
- b. GASB Statement No. 85 – Omnibus 2017

/s/ Paul C. Jablonski  
Paul C. Jablonski  
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, [Sharon.Cooney@sdmts.com](mailto:Sharon.Cooney@sdmts.com)







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## Agenda Item No. B4

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 3, 2018

#### SUBJECT:

INTERNAL AUDIT ACTIVITY UPDATE REPORT (TOUFIC TABSHOURI)

#### RECOMMENDATION:

That the Audit Oversight Committee receive the internal audit activity update report.

#### Budget Impact

None

#### DISCUSSION:

MTS Internal Auditor will present a report on Internal Audit activities.

/s/ Paul C. Jablonski  
Paul C. Jablonski  
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, [Sharon.Cooney@sdmts.com](mailto:Sharon.Cooney@sdmts.com)

Attachment: A. Internal Audit Presentation



# Internal Audit Presentation

for the  
Audit Oversight Committee  
May 3, 2018



1



## Agenda

1. Internal Audit Budget
2. Risk Assessment & Audit Selection
3. Planned Audits for Fiscal Year 2018-2019
4. Completed Audit Reports



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### Audit Resources

Work Hours (52 weeks x 40 hours per week)	2,080
Less	
Holidays (13 days)	(104)
Annual Leave	(184)
Available Hours	1,792
Continuing Education & Training	60
Audit Planning & Administration	156
Audits (80 %)	1,261
Advisory Services & Fraud (20 %)	315



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### Risk Assessment / Audit Selection Methodology

For every division, I rated inherent:

- Compliance Risks
- Financial Risks
- Fraud Risks
- Safety Risks

I then applied the following adjustment factors:

- Criticality of the function
- Strength of controls
- Management input
- Audit history & my own judgement



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### Planned Audits

1. Information Technology Security	80
2. Information Technology Applications	160
3. Real Estate Assets	160
4. Taxicab Administration	160
5. Liability Claims Payments	160
6. Payments to Vendors	160
7. Employee Overtime	80
8. Project Management	200
Unallocated Audit Hours	101



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### Planned Audits

Information Technology Security	80
<ul style="list-style-type: none"> <li>What MTS can do to improve its IT security, given its operating environment and budgetary constraints.</li> </ul>	
Information Technology Applications	160
<ul style="list-style-type: none"> <li>Review how applications are procured, used and managed.</li> </ul>	



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### Planned Audits

Real Estate Assets	160
<ul style="list-style-type: none"> <li>Evaluate the operations of the Real Estate Assets Department</li> </ul>	
Taxicab Administration	160
<ul style="list-style-type: none"> <li>Review policies and procedures in the Taxicab Administration</li> </ul>	



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### Planned Audits

Review Internal Controls for the following processes:	
Liability Claims Payments	160
Payments to Vendors	160
Employee Overtime	80



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### Planned Audits

Project Management

200

- Evaluate MTS's process for the proper management and oversight of projects.



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## Completed Audits in FY 2017

1. Performance Measurement - Required Reporting
2. Performance Measurement - Key Performance Indicators
3. Performance Measurement - Performance Incentive Program
4. Procurement Compliance and Operations
5. Stores Inventory Management



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## 1. Performance Measurement - Required Reporting

- MTS reports annually to the National Transit Database
- The MTS Board receives quarterly performance reports, per Board Policy 42
- I analyzed the reported performance data and found it very reliable
- Recommendation: Enhance the reporting to the Board by creating charts and graphs



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## 2. Performance Measurement - Key Performance Indicators

- MTS has a strong focus on KPIs
- These KPIs are widely used in the transit industry
- The KPI data is reliable
- Recommendation: Develop KPIs at the divisional level, where appropriate



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### 3. Performance Incentive Program

- Conditions pay increases on satisfactory performance of a division or unit
- Offers a great means of reinforcing the priorities of Executive Management
- Entails an annual planning effort and thinking about goals and priorities and workload
- Goals are diverse, and program conforms with best practices such as the Balanced Score Card



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### 4. Procurement Compliance and Operations

- Procurement has never had an adverse finding by a regulator (i.e. TDA, Triennial Audit or Procurement System Review)
- Compliance and business operations have improved over the past three years
- Improvements resulted from the implementation of a new system (SAP), work process changes, quality controls, and new management and support staff



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## 5. Stores Inventory Management

- Inventory management has improved markedly over the past eight years
- Most of our inventory consists of spare parts for buses, trolleys and associated systems
- Inventory is tracked in SAP
- There were some technical difficulties with transition to SAP
- Stores produces periodic inventory reports



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## Other Activities

- Fraud Hotline - No reportable activity
- Safety, Security and Business Continuity are focus areas



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Questions?



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