



1255 Imperial Avenue, #1000  
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## Agenda

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

June 12, 2014

Executive Conference Room  
9:00 a.m.

#### ACTION RECOMMENDED

- A. 1. Roll Call
- 2. Approval of the Minutes of April 10, 2014 Approve
- B. COMMITTEE DISCUSSION ITEMS
  - 1. Interim Audit (Erin Dunn) Receive  
Action would receive a report on: (1) Interim audit work conducted by Pun & McGeady; and (2) Related observations.
  - 2. Report of GASB 67, GASB 68, and GASB 71 (Erin Dunn & Gary Caporicci of Pun & McGeady) Receive  
Action would receive a report from Pun & McGeady regarding upcoming reporting and auditing changes.
- C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
- D. PUBLIC COMMENTS
- E. NEXT MEETING DATE: To be determined.
- F. ADJOURNMENT

1255 Imperial Avenue, Suite 1000, San Diego, CA 92101-7490 • (619) 231-1466 • [www.sdmts.com](http://www.sdmts.com)

Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc., San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations), and San Diego Vintage Trolley, Inc., a 501(c)(3) nonprofit corporation, in cooperation with Chula Vista Transit. MTS is the taxicab administrator for seven cities. MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego.



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

## MINUTES

April 10, 2014

A1. ROLL CALL

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

A2. APPROVAL OF MINUTES

Mr. Ewin moved for approval of the minutes of the October 17, 2013, Audit Oversight Committee meeting. Mr. McClellan seconded the motion, and the vote was 4 to 0 in favor, with Mr. Gloria and Mr. Roberts absent.

B. COMMITTEE DISCUSSION ITEMS

1. Appointment of Chairperson

Mr. Mathis moved to nominate Mr. Ewin as Committee Chairman. Mr. McClellan seconded the motion.

Action Taken

The vote for Mr. Ewin as Committee Chairman was 3 to 0 in favor, with Mr. Ewin abstaining, and Mr. Gloria and Mr. Roberts absent.

2. Pun & McGeady Engagement Letter for the FY2014 Audit

Erin Dunn, Controller, explained to the Audit Oversight Committee that Pun & McGeady were awarded a new contract with MTS in November 2013. She stated that the Pun & McGeady engagement letter for the FY2014 audit had been received and reviewed by MTS staff.

Action Taken

Chairman Ewin noted that the agenda item was accepted for review. No action taken.

3. Proposed FY2014 Audit Schedule

Erin Dunn stated that fieldwork for the audit began on Monday, April 7, 2014. She then reviewed the entire proposed FY2014 audit schedule.

Action Taken

Chairman Ewin noted that the agenda item was accepted for review. No action taken.

4. Report of New GASB Statements and Auditing Standards

Gary Caporicci of Pun & McGeady referred to a handout entitled "Presentation to San Diego Metropolitan Transit System" (attached). Mr. Caporicci reviewed updates to GASB Statements 65 and 67-71. Mr. Caporicci reviewed Statement on Auditing Standards and the American Institute of Certified Public Accountants (AICPA) Clarified Standards. He also presented information regarding the Single Audit Reform. Chairman Ewin requested that Pun & McGeady provide the Audit Oversight Committee a new definition sheet for clarification in future reports.

Action Taken

Mr. Ovrom moved to receive a report from Pun & McGeady regarding upcoming reporting and auditing changes. Mr. Gloria seconded the motion, and the vote was 6 to 0 in favor.

5. Proposed Fiscal Year 2015 Internal Audit Plan

Karen Landers, General Counsel, introduced Toufic Tabshouri, MTS's new Internal Auditor. Mr. Tabshouri provided a brief introduction of himself and reviewed the proposed fiscal year 2015 internal audit plan. He explained that the plan will consist of eight audits and an estimated 1,680 hours. Mr. Tabshouri provided an overview of the planned audits and the factors and processes used to select those audits.

Action Taken

Mr. Gloria moved to receive the proposed fiscal year 2015 Internal Audit Plan. Mr. Roberts seconded the motion, and the vote was 6 to 0 in favor.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

Chairman Ewin asked Erin Dunn when the confirmation letters will be sent to the attorneys regarding the audit. Ms. Dunn stated that the letters will be sent out at the end of the fiscal year.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next Audit Oversight Committee meeting is scheduled for June 12, 2014.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:34 a.m.



Chairman

**AUDIT OVERSIGHT COMMITTEE  
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) April 10, 2014

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

RECESS N/A

RECONVENE \_\_\_\_\_

CLOSED SESSION N/A

RECONVENE \_\_\_\_\_

ADJOURN 9:33a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>	9:00a.m.	9:33a.m.
GLORIA <input checked="" type="checkbox"/> (Emerald) <input type="checkbox"/>	9:05a.m.	9:33a.m.
MATHIS <input checked="" type="checkbox"/>	9:00a.m.	9:33a.m.
OVROM <input checked="" type="checkbox"/> (Bragg) <input type="checkbox"/>	9:00a.m.	9:33a.m.
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:03a.m.	9:33a.m.
CUNNINGHAM <input type="checkbox"/> (McClellan) <input checked="" type="checkbox"/>	9:00a.m.	9:33a.m.
Transportation Committee Rep Slot (Mathis)		

SIGNED BY THE CLERK OF THE BOARD:

Julia Jansone (interim C.O.B.)

CONFIRMED BY THE GENERAL COUNSEL:

Karen Conde



Presentation to  
**San Diego Metropolitan Transit System**  
San Diego, California

**Audit Oversight Committee**

April 10, 2014

Presented by:

**Gary M. Caporicci, CPA, CGFM, CFF**

# TABLE OF CONTENTS

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- GASB Update

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- Auditing Standards Update

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- Single Audit Reform

# **GASB UPDATE**

# 2014

- Statement 65 – *Items Previously Reported as Assets and Liabilities*
- Statement 67 – *Financial Reporting for Pension Plans\*\**
- Statement 70 – *Non exchange Financial Guarantees*

\*\* To be discussed in detail at the June 12, 2014 AOC Meeting



# 2015

- Statement 68 – *Accounting and Financial Reporting for Pensions*\*\*
- Statement 69 – *Government Combinations and Disposals of Operations*
- Statement 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68* \*\*

\*\* To be discussed in detail at the June 12, 2014 AOC Meeting

# **GASB STATEMENT**

**No. 65 -**

***Items Previously Reported as Assets and  
Liabilities***

# Highlights

## Deferred Inflows of Resources

- Grants received in advance of meeting timing requirement
- Deferred amounts (credits) from refunding of debt
- Proceeds from sales of future revenues
- Deferred gain from sale-leaseback
- “Regulatory” credits

# Highlights

## Deferred Outflows of Resources

- Grant paid in advance of meeting timing requirement
- Deferred amounts (debits) from refunding of debt
- Cost to acquire rights to future revenues (intra-entity)
- Deferred loss from sale-leaseback

# Highlights

## Outflows of Resources (Expense)

- Debt issuance costs (other than insurance)
- Initial costs incurred by lessor in an operating lease
- Acquisition costs for risk pools
- Loan origination costs

# Highlights

## Inflows of Resources (Revenue)

- Loan origination fees
- Commitment fees (after exercise or expiration)

# **GASB STATEMENT**

**No. 67 -**

***Financial Reporting for Pension Plans***

# Highlights

- Pension Plans must present two financial statements:
  - A Statement of Fiduciary Net Position
  - A Statement of Changes in Fiduciary Net Position
- Pension Plan disclosures in the financial statements:
  - Total Pension Liability
  - The Plan's Fiduciary Net Position
  - Net Pension Liability
  - The Plan's Fiduciary Net Position as a percentage of the Total Pension Liability
  - Significant Assumptions to Calculate Total Pension Liability
  - Ten Years of Disclosures



# Highlights

- Actuarial Valuation
  - At least biennially
  - Disclose all Major Actuarial Assumptions

**GASB STATEMENT**  
**No. 70 -**  
*Nonexchange Financial Guarantees*

# Highlights

- Nonexchange financial guarantees
  - A transaction that is classified as nonexchange is based the same definition of nonexchange that is found in Statement 33
    - Excludes exchange and exchange-like transactions
- Entities addressed
  - Providers of financial guarantees
  - Recipients of financial guarantees

# Recognition

- Provider of financial guarantee
  - When qualitative factors and historical data, if any, indicate that it is more likely than not that a government will make a payment on nonexchange financial guarantees it extended, the government should recognize a liability
- Recipient of financial guarantee
  - When nonexchange financial guarantee is legally released as an obligor from the obligation and from any liability to the guarantor, the government should recognize revenue

# Qualitative Factors

- Examples of qualitative factors relevant to the entity or individual that has issued the guaranteed obligation include:
  - Initiation of the process of entering into bankruptcy or financial reorganization
  - Breach of a debt contract, such as failure to meet covenants or delinquency in interest or principal payments
  - Indicators of significant financial difficulty, such as drawing on a reserve fund to make debt service payments, debt holder concessions, or loss of a major source of revenue

# Measurement

- Provider of financial guarantee
  - Amount equal to the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee
    - If there is no best estimate, the discounted present value of the minimum amount in a range should be recognized
- Recipient of financial guarantee
  - Amount equal to the reduction of the guaranteed liability should be recognized

# Disclosures

- Provider of financial guarantee
  - Description of the guarantee, including length
  - Total amount of all guarantees extended that are outstanding at the reporting date.
  - Description of liabilities recorded and payments made
- Recipient of financial guarantee
  - Description of the guarantee, including amount and length
  - Outstanding amounts, if any, required to repay the entity providing the guarantee.

**GASB STATEMENT**  
**No. 68 -**  
*Accounting and Financial Reporting for*  
*Pensions*



# Highlights

- Accounting-based versus funding-based
- The difference between Total Pension Obligation and Plan Assets would be reported as a **Net Pension Liability** in the financial statements.
- Actuarial Requirements:
  - Valuation at least biennially
  - Within 12 months of fiscal year-end (OK to “roll forward” from date within 30 months)
  - All assumption should conform to Actuarial Standards of Practice

# Highlights

- Note Disclosures
- Required Supplementary Information

# **GASB STATEMENT**

**No. 69 -**

*Government Combinations and Disposals  
of Operations*

# Highlights

- Combinations in which no consideration is provided
  - Government mergers
  - Transfers of operations
- Combinations in which consideration is provided
  - Government acquisitions
- Disposal of government operations reporting

# Mergers and Transfers of Operations

- Assets and liabilities at carrying values
  - Presumption of GAAP
- Reporting
  - Mergers
    - New entity
    - Continuing entity
  - Transfers of operations
- Adjustments
  - Accounting principles, policies, and estimates
  - Capital asset impairment
  - Transaction eliminations

# Acquisitions

- Assets (and liabilities) at *acquisition value*
  - GAAP applicable to state and local governments is used for recognition
  - Market-based entry price measurements
  - Exceptions
- Accounting for the difference
  - Goodwill—deferred outflow of resources
  - Contribution received or reduction of non-current assets
- Reporting period

# Disposals of Government Operations

- Governments would report disposals of operations for all disposals of operations (transfers or sales).
  - Gains and losses reported as special items
- Costs associated with disposals of government operations
  - Should consider all costs associated with disposals of operations
- Disclosures
  - Description of the circumstances leading to the discontinuation
  - Operations revenues, expense, and non-operating items

# Additional Note Disclosures

- General information about ALL government combinations
  - Brief description of the combination and identification of the entities involved
  - Date of the combination
  - Primary reasons for the combination
- Additional information about specific combinations
  - Government mergers and transfers of operations
    - Carrying values recognized as of the merger date
    - Description of significant adjustments
    - Amounts recognized



# Disclosures - Government Acquisition

- Brief description of consideration provided
- Total amount of net position acquired
- Brief description of contingent consideration arrangements

# **GASB STATEMENT**

## **No. 71-**

### ***Pension Transition for Contributions Made Subsequent to the Measurement Date***

The provisions of this statement should be applied simultaneously with the provisions of GASB Statement No. 68 (For years ended June 30, 2015 or later)

# Highlights

- Statement affects transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB Statement No. 68

# Highlights

- At the beginning of the period that GASB Statement No. 68 is adopted, it may not be practical for a government to determine the amounts of ALL applicable Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions

# Highlights

- The government should recognize a beginning Deferred Outflows of Resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning Net Pension Liability, but before the start of the Government's fiscal year.

# Highlights

- No other beginning balances for the Deferred Outflows of Resources and Deferred Inflows of Resources relate to pensions should be recognized.



# Statement on Auditing Standards No. 128, *Using the Work of Internal Auditors*

- **Issue Date:** February 2014
- **Effective Date:** This Statement on Auditing Standards is effective for audits of financial statements for periods ending on or after December 15, 2014.



# Statement on Auditing Standards No. 128, *Using the Work of Internal Auditors*

- SAS No. 128 addresses the external auditor's responsibilities if using the work of internal auditors. Using the work of internal auditors includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using Internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor.

# Statement on Auditing Standards No. 128, *Using the Work of Internal Auditors*

- SAS No. 128 does not apply if the entity does not have an internal audit function.
- Nothing in SAS No. 128 requires the external auditor to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor; it remains the external auditor's decision to establish the overall audit strategy.

# Statement on Auditing Standards No. 128, *Using the Work of Internal Auditors*

- Consistent with International Standard on Auditing (ISA) 610 (Revised 013), *Using the Work of Internal Auditors*, SAS No. 128 Introduces the concept of a *systematic and disciplined approach* and would require, among other things, as a prerequisite to being able to use the work of the internal audit function, that the external auditor evaluate the application by the internal audit function of a *systematic and disciplined approach, including quality control*.

# Group and Component Audits

- Updates guidance when Other Auditors involved to reflect risk assessment standards
- Changes terminology
  - “Principal Auditor” replaced with “Group Engagement Partner or Team”
  - “Other Auditor” replaced with “Component Auditor”

# Responsibility of Group Engagement Partner

- Emphasizes Group Engagement Partner responsibility to assess whether sufficient appropriate evidence obtained to provide basis for opinion on Group Financial Statements

# SINGLE AUDIT REFORM

# Objectives

- Targeting Audit Requirements on Risk of Waste, Fraud, and Abuse
  - Right-sizes the footprint of oversight
  - Improves transparency and accountability by making single audit reports available to the public online

# Revisions Focus Audit on Risk

- Increases audit threshold
- Strengthens risk-based approach to determine Major Programs
- Provides for greater transparency of audit results
- Strengthens agency use of the single audit process
- Provide public outreach to focus Compliance Supplement on requirements of highest risk



# Audit Threshold

- Increases audit threshold from \$500,000 to \$750,000
- Programs are grouped based on dollars
  - Type A/B Programs
    - Less Than or Equal to \$25 Million
      - Increase from \$300,000 to \$750,000
    - Between \$25 Million to \$100 Million
      - Total FAE times 3%
    - Exceed \$100 Million to \$1 Billion
      - \$3,000,000

# High Risk Type A Program

- Not audited as major program in 1 of 2 most recent audit periods
- Modified Opinion on Major Program
- Material Weakness in Internal Control Over Compliance Requirements Identified
- Known or likely questioned cost exceeding 5% of total program expenditures
- Other – Auditor Judgment

# High Risk Type B Program

- Perform risk assessments on Type B Programs until high-risk Type B programs have been identified **UP TO** at least **25%** of number of low risk Type A programs

# Coverage Rule

- **Not low-risk Auditee**
  - 40%
- **Low-Risk Auditee**
  - 20%

# Low Risk Auditee

- Annual Single Audits
- Unmodified opinions on financial statements in accordance with GAAP or basis of accounting required by state law
- Unmodified SEFA in relation to opinion
- No GAGAS material weaknesses
- In either of preceding two years, none of Type A program had:
  - Material Weaknesses
  - Material Noncompliance
  - Questioned Costs that exceed 5%
- Timely filing with FAC
- No Auditing Reporting of Going Concern
- No Waivers



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## Agenda Item No. B1

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

June 12, 2014

#### SUBJECT:

INTERIM AUDIT (ERIN DUNN)

#### RECOMMENDATION:

That the Audit Oversight Committee receive a report on:

1. Interim audit work conducted by Pun & McGeedy
2. Related observations

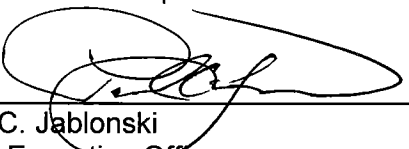
#### Budget Impact

None at this time.

#### DISCUSSION:

During the month of April 2014, Pun & McGeedy conducted an interim audit and tested MTS's internal controls. Upon completion of the testing, they issued the attached interim exit memo. Management will discuss the observations noted in the report.

Representatives from Pun & McGeedy will be present for questions and discussion.



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. Interim Exit Memo



**San Diego Metropolitan Transit System (MTS)**  
**For the Fiscal Year Ending June 30, 2014**  
**Interim Exit Memo**  
**April 18, 2014**

**INTERIM AUDIT PROCEDURES:**

The purpose of our interim audit was to gain an understanding of how MTS' 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, 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
- Revenues and Cash Receipts for SDTI and SDTC
- Expenses and Cash Disbursements
- Payroll and Related Liabilities
- Inventory
- Capital Assets

In addition to updating our understanding of MTS' internal control systems, we also performed a surprise cash count on SDTI TVM revenue, performed fraud risk inquiries with management and staff, and reviewed and discussed the internal audit plan and issued internal audit reports with Toufic Tabshouri, Internal Auditor.

**CURRENT YEAR INTERIM RESULTS AND DISCUSSION ITEMS:**

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. However the following observations were made:

**Observations:**

- **Expenses / Cash Disbursement:**
  - Several check Registers from October 2013 and February 2014 were not initialed by management indicating they were reviewed and approved. This was explained as the result of the transition from the former finance manger to the new controller and new procedures being established.
  - For 3 purchase orders out of 40 selected for testing the CFO signed / approved purchase orders over \$50,000, which according to MTS's policy requires CEO approval; however after discussion with Ernest DeGuzman he indicated that the CEO can designate anyone in his absence to sign for him. We noted that there was no support or proof that the CEO made such a designation. We recommend that on the documents being signed on behalf of the CEO a notation of the person signing on his behalf be made.

- **Management Response:** As of 4/21/14 MTS updated their procurement policy to include when a designee does sign on behalf of the CEO a notation of that will be made on the document.
- For 10 purchase orders out of 40 selected for testing we noted that they were approved by a Buyer or a Procurement Specialist and not by a Supervisor / Manager as dictated in MTS's policy. 5 of which were "stock" purchase and 5 were approvals made when the Procurement Manager was unavailable. After discussion with Mike Fitz-Gerald and Ernest DeGuzman they said that it is MTS's policy that "stock" purchases can be made by a Buyer. We recommend that this policy be formally adopted and included in MTS's procurement of goods policy.
- **Management Response:** As of 4/21/14 MTS updated their procurement policy to include that only the CFO, General Counsel, the Director of Financial Planning and Analysis, or the Controller can signed for the Procurement Manager in his absence.
- **SDTC Farebox Revenue Testing:** 4 of 40 Daily Farebox reconciliation were missing review from reviewer. Per Revenue Admin (Israel Maldonado), The August 2013 files were missing when they looked for them. Based purely on speculation, he believes it is likely that his predecessor misplaced the August files during an office relocation that took place sometime during the fall of 2013.
- **Payroll / Pension Disbursement:** 1 of the 20 pension disbursements tested did not have a signed copy of the pension calculation in the personnel file. We did test 60 payroll disbursements and noted no finding observation and both payroll and pension payments are processed in the same manner.

#### **OPEN ITEMS:**

1. OPEB census testing selections. Brendan Shannon is in the process of uploading the documents to our portal this week.
2. Inventory observation dates: July 1, 2014

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

We will perform the following audits and agreed upon procedures enumerated below for the year ended June 30, 2014. Our audit will be conducted in accordance with U.S. generally accepted auditing standards, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

1. Comprehensive Annual Financial Report
2. Single Audit
3. SDTC Employees' Retirement Plan
4. Transportation Development Act (TDA)
5. National Transit Database (NTD)
6. Prop 1B PTMISEA
7. Indirect Cost



# **San Diego Metropolitan Transit System**

## **AUDIT OVERSIGHT COMMITTEE PRESENTATION**

*For the year ended June 30, 2014*

*June 12, 2014*

**Presented by:**

**Kenneth H. Pun, CPA, CGMA**

**Gary M. Caporicci, CPA, CGFM, CFF**

# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION

### Contents

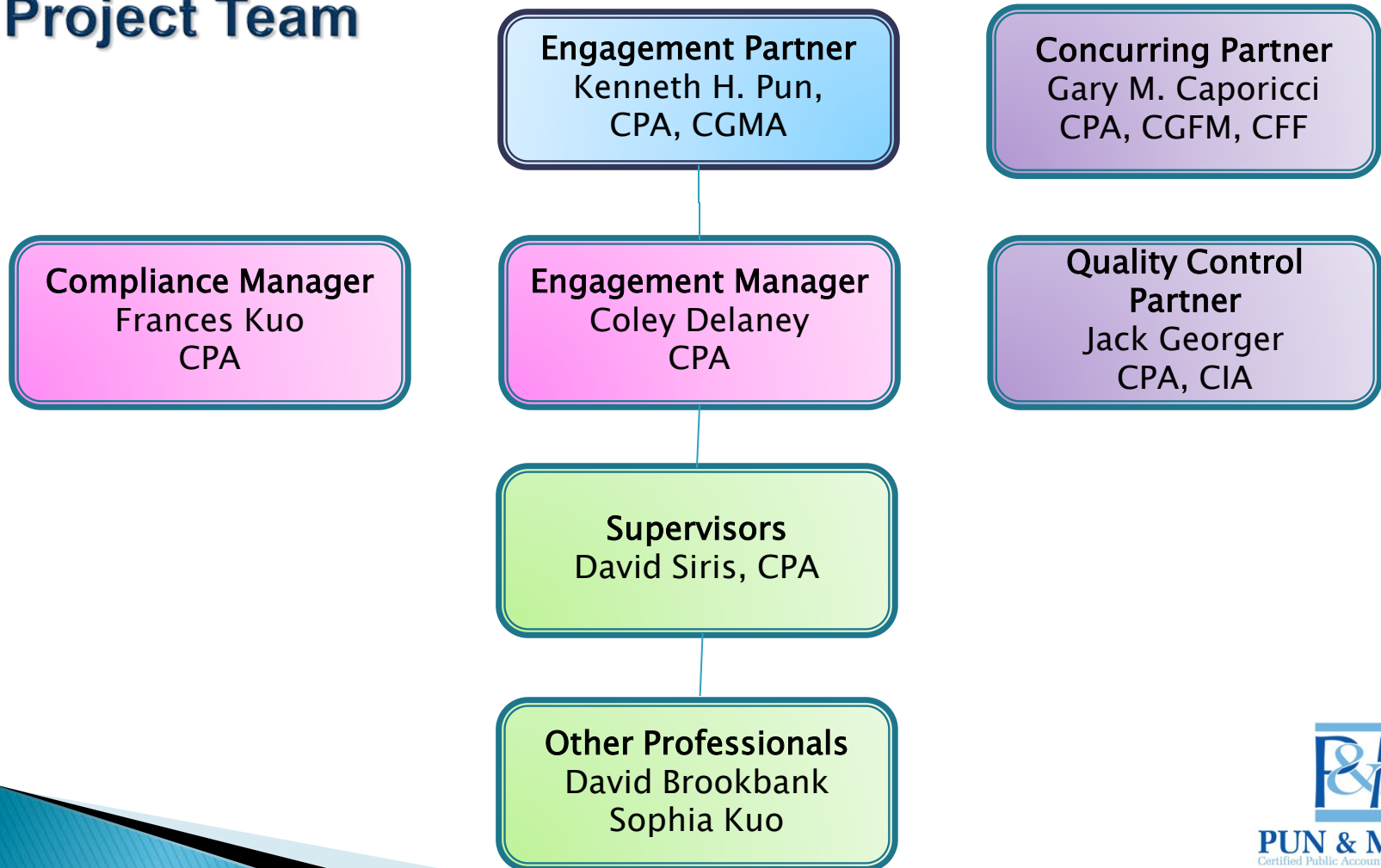
- ▶ Project Team
- ▶ Scope of Work
- ▶ Required Communications
- ▶ Progress Status Report
- ▶ Update on GASB Standards



# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION

### Project Team



# **SAN DIEGO METROPOLITAN TRANSIT SYSTEM**

## **AUDIT OVERSIGHT COMMITTEE PRESENTATION**

### **Scope of Work**

- ▶ MTS' Comprehensive Annual Financial Report
- ▶ San Diego Transit Corporation Retirement Plan
- ▶ Single Audit
- ▶ Agreed Upon Procedures:
  - National Transit Database Report
  - Indirect Cost
  - Transportation Development Act

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

## **Required Communications**

- ▶ **Planning Phase:**
  - Audit Responsibilities
  - Planned Scope and Timing of Audits (Engagement Letter/Contract)
  - Independence

# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION

Management's Responsibilities	Auditor's Responsibilities
Present the financial statements in accordance with Accounting Principles Generally Accepted in the United States of America	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 <i>Government Auditing Standards</i>
Adopt sound accounting policies	
Establish and maintain internal controls over financial reporting and compliance	
Provide evidence supporting to the financial statements and disclosures	
Prevent and detect fraud	

# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION

### Timing

Audits	Timing/Schedule
CAFR	November 30, 2014
Single Audit	January 31, 2014
San Diego Transit Corporation Retirement Plan	December 31, 2014
Agreed Upon Procedures:	
National Transit Database	March 31, 2015
Transportation Development Act	December 31, 2014
Indirect Cost	March 31, 2015



# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION

### Progress Status

- ▶ Completed Interim Phase of the Audit
  - Understanding the Entity and Identifying Risk
  - Perform risk assessments
    - Billing and Cash Receipts
    - Purchasing and Cash Disbursements
    - Payroll and related liabilities
    - IT Control



# **SAN DIEGO METROPOLITAN TRANSIT SYSTEM**

## **AUDIT OVERSIGHT COMMITTEE PRESENTATION**

### **Observations**

- ▶ Expenses / Cash Disbursement
- ▶ SDTC Farebox Revenue
- ▶ Payroll and Pension Distribution

**Thank You  
For Allowing Pun & McGeady LLP  
to provide services to**

**SAN DIEGO METROPOLITAN TRANSIT SYSTEM**





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## Agenda Item No. B2

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

June 12, 2014

#### SUBJECT:

REPORT OF GASB 67, GASB 68, AND GASB 71 (ERIN DUNN & GARY CAPORICCI  
OF PUN & MCGEADY)

#### RECOMMENDATION:

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

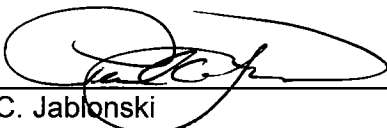
#### Budget Impact

None at this time.

#### DISCUSSION:

Pun & McGeady will present detailed information regarding the following statements of  
accounting standards as issued by the Government Accounting Standards Board  
(GASB) that have become effective, or will become effective, during the next few years.

- a. No. 67 – Financial Reporting for Pension Plans - an amendment of GASB  
Statement No. 25
- b. No. 68 – Accounting and Financial Reporting for Pensions - an amendment of  
GASB Statement No. 27
- c. No. 71 – Pension Transition for Contributions Made Subsequent to the  
Measurement Date - an amendment of GASB Statement No. 68

  
\_\_\_\_\_  
Paul C. Jablonski  
Chief Executive Officer

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





**San Diego  
Metropolitan Transit System  
Audit Oversight Committee Presentation  
June 12, 2014**

Presented by:  
**Kenneth H. Pun, CPA, CGMA**  
**Gary M. Caporicci, CPA, CGFM, CFF**

Pun & McGeady LLP

[ 1 ]



**Statement No. 67 of the Governmental Accounting  
Standards Board**

**Financial Reporting for Pension Plans  
(an amendment of GASB statement No. 25)**

**Effective for fiscal years beginning after June 30, 2013**

Pun & McGeady LLP

[ 2 ]

## GASB Statement No. 67

- Defined benefit pension plans must present two financial statements
  - A statement of fiduciary net position
  - A statement of changes in fiduciary net position
- These financial statements will be prepared using the economic resources measurement focus and accrual basis of accounting

Don & McCready LLP

[ 3 ]

## GASB Statement No. 67

### **Statement of fiduciary net position:**

- Assets
- Deferred outflows of resources
- Liabilities
- Deferred inflows of resources
- Fiduciary net position

Don & McCready LLP

[ + ]

## GASB Statement No. 67

### **Statement of changes in fiduciary net position:**

- Additions: contributions from employers, non-employer contributing entities and plan members, and net investment income
- Deductions: benefit payments and administrative expenses
- Net increase (decrease) in fiduciary net position, (equals the difference between additions and deductions)

[ 5 ]

Pam A. McGready LLP

## GASB Statement No. 67

### **Notes to Financial Statements**

- Plan Description
- Plan Investments
- Components of Liabilities to Plan Members for Benefits
- Extensive Additional disclosures

### **Required Supplementary Information**

- 10-year schedules

[ 6 ]

Pam A. McGready LLP

# San Diego Transit Corporation Employee's Retirement Plan

## Critical Dates

Fiscal Year-end Date:	<u>June 30, 2014</u>
Measurement Date:	<u>June 30, 2013</u> **
Actuarial Valuation Date:	<u>June 30, 2013</u>

**\*\* With accounting roll-forward to June 30, 2014**

Pen & McGraw LLP

[ 7 ]

# San Diego Transit Corporation Employee's Retirement Plan

## Schedules to be Prepared by Actuary

- Net Pension Liability
- Total Deferred Outflows of Resources
- Total Deferred Inflows of Resources
- Total Pension Expense

Pen & McGraw LLP

[ 8 ]

# San Diego Transit Corporation Employee's Retirement Plan

## **Auditor's Role**

- Audit schedules prepared by the Actuary
- Audit Census Data of Plan
- Audit Financial Statements and related disclosures
- Issue Unmodified Auditor's Report

Pun & McGeady LLP

[ 9 ]



**Statement No. 68 of the Governmental Accounting  
Standards Board, as amended by Statement No. 71**

**Accounting and Financial Reporting for Pensions Plan  
(an amendment of GASB statement No. 27)**

**Effective for fiscal years beginning after June 15, 2014**

Pun & McGeady LLP

[ 10 ]



## GASB Statement No. 68

- Focus on cost to taxpayers for providing pensions
- Accounting-based, not Funding-based
- Pension provided through trusts
- A liability should be recognized for the Net Pension Liability

Pam K. McGee, LLP

[ 11 ]

## GASB Statement No. 68

- Total Pension Liability should be determined as of a Measurement Date (probably June 30, 2014) and an accounting roll-forward to fiscal year-end of June 30, 2015
- Actuarial Valuation at least biennially

Pam K. McGee, LLP

[ 12 ]

## San Diego Metropolitan Transit System

- MTS must present the following financial statements:
  - Statement of Net Position
  - Statement of Revenues, Expenses and Change in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements
  - Required Supplementary Information
- These financial statements will be prepared using the economic resources measurement focus and accrual basis of accounting

Pan & McGrady LLP

[ 13 ]

## San Diego Metropolitan Transit System

- Pension Plans
  - San Diego Transit Corporation Employees' Retirement Plan
  - CalPERS
- Under GASB Statement No. 68, the Total Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Total Pension Expense for both Pension Plans will be displayed in the financial statements and related disclosures

Pan & McGrady LLP

[ 14 ]

## San Diego Metropolitan Transit System Actuarial Information

- SDTC Actuary, Cheiron
  - Met on June 10, 2014
  - They will provide the actuarial information
- CalPERS
  - Updating systems to produce valuation reports and allow Employers to request valuation reports
  - CalPERS Board gave approval to proceed and charge employers
    - GASB valuations will be done on request
  - Established a Advisory Committee between CalPERS, CalCPA and League of California Cities

Pam & McGeady LLP

( 15 )

## San Diego Metropolitan Transit System

### **Auditor's Role**

- Audit schedules prepared by the SDTC Actuary and receive the audited data from CalPERS
- Audit Census Data of the Plans
- Audit Financial Statements and related disclosures
- Issue Unmodified Auditor's Report

Pam & McGeady LLP

( 16 )

**San Diego Metropolitan Transit System**  
**Actual and Pro Forma Illustration Financial Statements**  
**Statement of Net Position**  
**June 30, 2013**

	2013	
	Actual	Pro Forma Illustration
<b>Assets</b>		
Current Assets	\$ 160,016,000	\$ 160,016,000
Non-Current Assets	1,544,789,000	1,544,789,000
Net Pension Assets	27,826,000	-
<b>Total assets</b>	<b>1,732,631,000</b>	<b>1,704,805,000</b>
<b>Deferred Outflows of Resources:</b>		
Contributions Made	-	17,081,000
<b>Liabilities</b>		
Current Liabilities	62,946,000	62,946,000
Non-current Liabilities	176,376,000	176,376,000
Accrued Interest on Total Pension Liability	-	16,176,000
Net Pension Liability	-	98,159,000
<b>Total liabilities</b>	<b>239,322,000</b>	<b>353,657,000</b>
<b>Net Position</b>		
Net Investment in Capital Assets	1,296,217,000	1,296,217,000
Restricted	7,255,000	7,255,000
Unrestricted	189,837,000	64,758,000
<b>Total Net Position</b>	<b>\$ 1,493,309,000</b>	<b>\$ 1,368,230,000</b>

Pro X Metready LLP

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## Appendix

### GLOSSARY

This appendix contains definitions of certain terms *as they are used in Statement 68*; the terms may have different meanings in other contexts.

#### **Active employees**

Individuals employed at the end of the reporting or measurement period, as applicable.

#### **Actual contributions**

Cash contributions recognized as additions to a pension plan's fiduciary net position.

#### **Actuarial present value of projected benefit payments**

Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

#### **Actuarial valuation**

The determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

#### **Actuarial valuation date**

The date as of which an actuarial valuation is performed.

#### **Actuarially determined contribution**

A target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

#### **Ad hoc cost-of-living adjustments (ad hoc COLAs)**

**Cost-of-living adjustments** that require a decision to grant by the authority responsible for making such decisions.

#### **Ad hoc postemployment benefit changes**

**Postemployment benefit changes** that require a decision to grant by the authority responsible for making such decisions.

#### **Agent employer**

An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.

#### **Agent multiple-employer defined benefit pension plan (agent pension plan)**

A multiple-employer defined benefit pension plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

**Allocated insurance contract**

A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual employees. Also may be referred to as an annuity contract.

**Automatic cost-of-living adjustments (automatic COLAs)**

Cost-of-living adjustments that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

**Automatic postemployment benefit changes**

Postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

**Closed period**

A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.

**Collective deferred outflows of resources and deferred inflows of resources related to pensions**

Deferred outflows of resources and deferred inflows of resources related to pensions arising from certain changes in the collective net pension liability.

**Collective net pension liability**

The net pension liability for benefits provided through (1) a cost-sharing pension plan or (2) a single-employer or agent pension plan in circumstances in which there is a special funding situation.

**Collective pension expense**

Pension expense arising from certain changes in the collective net pension liability.

**Contributions**

Additions to a pension plan's fiduciary net position for amounts from employers, nonemployer contributing entities (for example, state government contributions to a local government pension plan), or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.

**Cost-of-living adjustments**

Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

**Cost-sharing employer**

An employer whose employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan.

**Cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan)**

A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

**Covered-employee payroll**

The payroll of employees that are provided with pensions through the pension plan.

**Deferred retirement option program (DROP)**

A program that permits an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee continues to provide service to the employer and is paid for that service by the employer after the DROP entry date; however, the pensions that would have been paid to the employee (if the employee had retired and not entered the DROP) are credited to an individual employee account within the defined benefit pension plan until the end of the DROP period.

**Defined benefit pension plans**

Pension plans that are used to provide defined benefit pensions.

**Defined benefit pensions**

Pensions for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. (A pension that does not meet the criteria of a defined contribution pension is classified as a defined benefit pension for purposes of Statement 68.)

**Defined contribution pension plans**

Pension plans that are used to provide defined contribution pensions.

**Defined contribution pensions**

Pensions having terms that (1) provide an individual account for each employee; (2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.

**Discount rate**

The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected (under the requirements of Statement 68) to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

**Entry age actuarial cost method**

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost*.<sup>2</sup> The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the *actuarial accrued liability*.<sup>3</sup> [This definition is from “Definitions from ASOPs [Actuarial Standards of Practice] and ACGs [Actuarial Compliance Guidelines] of the ASB [Actuarial Standards Board] (including those from current exposure drafts) February 2011.” Actuarial Standards Board, <http://www.actuarialstandardsboard.org/pdf/definitions.pdf>. Accessed on June 25, 2012. Footnotes not part of original definition.]

**Inactive employees**

Terminated individuals that have accumulated benefits but are not yet receiving them, and retirees or their beneficiaries currently receiving benefits.

**Measurement period**

The period between the prior and the current measurement dates.

**Multiple-employer defined benefit pension plan**

A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.

**Net pension liability**

The liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit pension plan.

**Nonemployer contributing entities**

Entities that make contributions to a pension plan that is used to provide pensions to the employees of other entities. For purposes of Statement 68, employees are not considered nonemployer contributing entities.

**Other postemployment benefits**

All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits, regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits.<sup>4</sup>

**Pension plans**

Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.

**Pensions**

Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.<sup>5</sup>

<sup>2</sup>For purposes of application to the requirements of Statement 68, the term *normal cost* is the equivalent of *service cost*.

<sup>3</sup>For purposes of application to the requirements of Statement 68, the term *actuarial accrued liability* is the equivalent of *total pension liability*.

<sup>4</sup>The effects of a termination benefit on an employer's defined benefit obligations for other postemployment benefits should be accounted for and reported in conformity with the requirements for defined benefit other postemployment benefits.

<sup>5</sup>The effects of a termination benefit on an employer's or governmental nonemployer contributing entity's defined benefit obligations for pensions should be accounted for and reported in conformity with the requirements for defined benefit pensions.



**Plan members**

Individuals that are covered under the terms of a pension plan. Plan members generally include (1) employees in active service (active plan members) and (2) terminated employees who have accumulated benefits but are not yet receiving them and retirees or their beneficiaries currently receiving benefits (inactive plan members).

**Postemployment**

The period after employment.

**Postemployment benefit changes**

Adjustments to the pension of an inactive employee.

**Postemployment healthcare benefits**

Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.

**Projected benefit payments**

All benefits estimated to be payable through the pension plan to current active and inactive employees as a result of their past service and their expected future service.

**Public employee retirement system**

A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.

**Real rate of return**

The rate of return on an investment after adjustment to eliminate inflation.

**Service costs**

The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.

**Single employer**

An employer whose employees are provided with pensions through a single-employer defined benefit pension plan.

**Single-employer defined benefit pension plan (single-employer pension plan)**

A defined benefit pension plan that is used to provide pensions to employees of only one employer.

**Special funding situations**

Circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists:

1. The amount of contributions for which the nonemployer entity legally is responsible is *not* dependent upon one or more events or circumstances unrelated to the pensions.
2. The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.

**Termination benefits**

Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.

**Total pension liability**

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of Statement 68.