

1255 Imperial Avenue, #1000
 San Diego, CA 92101-7490
 619.231.1466 FAX 619.234.3407

Agenda

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 7, 2015
 Executive Conference Room
 9:00 a.m.

ACTION RECOMMENDED

- | | | |
|----|---|--------------------|
| A. | 1. Roll Call | |
| | 2. Approval of the Minutes of October 23, 2014 | Approve |
| B. | COMMITTEE DISCUSSION ITEMS | |
| | 1. <u>Pun & McGeady Engagement Letter for FY 2015 Audit (Erin Dunn)</u>
Action would review the audit engagement letter from Pun & McGeady, LLP. | Possible
Action |
| | 2. <u>Proposed FY 2015 Audit Schedule (Erin Dunn)</u>
Action would review the proposed FY 2015 audit schedule and provide comments. | Possible
Action |
| | 3. <u>Interim Audit (Erin Dunn and Ken Pun of Pun & McGeady, LLP)</u>
Action would receive a report on the interim audit work conducted by Pun & McGeady, LLP. | Possible
Action |
| | 4. <u>Report of GASB 68 - Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 (Ken Pun of Pun & McGeady, LLP)</u>
Action would approve Management and Pun & McGeady's recommendation to issue non-comparative financial statements for fiscal year 2015. | Approve |
| | 5. <u>Internal Audit Activity Update Report (Toufic Tabshouri)</u>
Action would receive the Internal Audit activity update report. | Possible
Action |

Please SILENCE electronics
 during the meeting

1255 Imperial Avenue, Suite 1000, San Diego, CA 92101-7490 • (619) 231-1466 • 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.



- 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

MINUTES

October 23, 2014

A1. ROLL CALL

Chairman 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. Gloria moved for approval of the minutes of the June 12, 2014, Audit Oversight Committee meeting. Mr. McClellan seconded the motion, and the vote was 4 to 0 in favor, with Mr. Cox and Mr. Mathis absent.

B. COMMITTEE DISCUSSION ITEMS

1. Draft of Fiscal Year 2014 Comprehensive Annual Financial Report (CAFR)

Erin Dunn, MTS Controller, provided a brief overview of the MTS independent audit and the draft fiscal year 2014 Comprehensive Annual Financial Report (CAFR). Gary Caporicci with Pun & McGeady continued the presentation on the draft fiscal year 2014 CAFR. He reviewed the Pun & McGeady audit team; management responsibilities and auditor responsibilities. Chairman Ewin asked Mr. Caporicci if he could clarify the Board's responsibilities. Mr. Caporicci replied that the Board's responsibility is governance. Mr. Caporicci discussed the approach to the audit; summary statement of net position; summary statements of revenues, expenses and changes in net position; summary statement of cash flows; and the schedule of funding progress of defined benefits plans. Chairman Ewin inquired what the projected numbers will be next year for the defined benefit plans. Larry Marinesi, Chief Financial Officer, replied that last year there was an increase of approximately 13% and they are expecting to see increased numbers again next year for the defined benefit plans. Chairman Ewin asked how the CAFR will be adopted if deadlines are not met due to the delayed implementation of CALPERS audit procedures. Ms. Dunn stated the deadline to adopt the CAFR is December 31, 2014, and it is planned that the CAFR will be adopted at the November 20, 2014 Board meeting. Lastly, Mr. Caporicci discussed the schedule of funding progress of other post-employment healthcare plan and the audit results.

Action Taken

Mr. Gloria moved to receive a report on the draft Fiscal Year 2014 Comprehensive Annual Financial Report (CAFR). Mr. Ovrom seconded the motion, and the vote was 5 to 0 in favor, with Mr. Mathis absent.

2. Internal Audit Activity Update Report

Toufic Tabshouri, MTS Internal Auditor, provided a presentation on the internal audit activity update. He reviewed his administrative processes; audit standards; completed

audits; audits in progress; consultations and other activities. Chairman Ewin inquired if there was any other additional information to report to the committee. Mr. Tabshouri replied there was no other additional information at this time and the committee will be informed of any new updates and information in the future.

Action Taken

Informational item only. No action taken.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

Chairman Ewin thanked everyone for his time as the committee chairman and said that he has very much enjoyed acting as chairman.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next Audit Oversight Committee meeting will be determined.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:28 a.m.

Chairman



Attachments: Roll Call Sheet
Pun & McGeady handout "SDMTS Audit Oversight Committee Presentation"

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

ROLL CALL

MEETING OF (DATE) October 23, 2014 CALL TO ORDER (TIME) 9:00 a.m.
 RECESS _____ RECONVENE _____
 CLOSED SESSION _____ RECONVENE _____
 ADJOURN 9:28 a.m.

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair)	<input checked="" type="checkbox"/>	9:00 a.m.	9:28 a.m.
GLORIA	<input checked="" type="checkbox"/> (Emerald)	9:00 a.m.	9:28 a.m.
MATHIS	<input type="checkbox"/>		
OVROM	<input checked="" type="checkbox"/> (Bragg)	9:00 a.m.	9:28 a.m.
ROBERTS	<input type="checkbox"/> (Cox)	9:03 a.m.	9:28 a.m.
CUNNINGHAM	<input type="checkbox"/> (McClellan)	9:00 a.m.	9:28 a.m.
Transportation Committee Rep Slot (Mathis)			

SIGNED BY THE CLERK OF THE BOARD: *Julia Samson*
 CONFIRMED BY THE GENERAL COUNSEL: *Paul Conde*



PUN & McGEADY


**SAN DIEGO
METROPOLITAN TRANSIT SYSTEM**

**AUDIT OVERSIGHT COMMITTEE
PRESENTATION**

October 23, 2014

**Presented by:
Gary M. Caporicci, CPA, CGFM, CFF**

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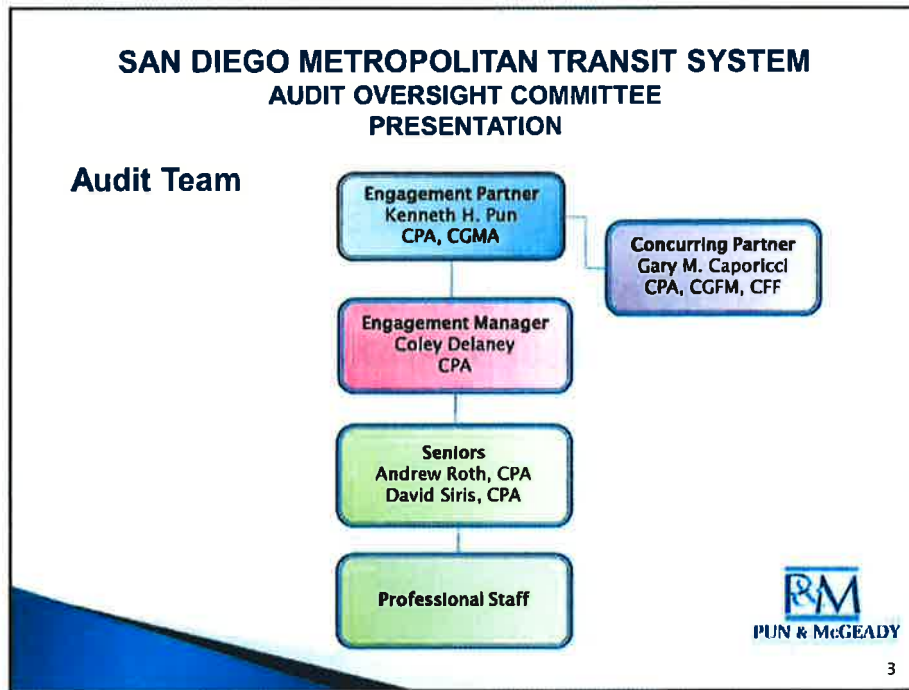


PUN & McGEADY

**Review of
2014
Independent Audit**

Pun & McGeady LLP

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- SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE
PRESENTATION**
- Management's Responsibilities**
- ▶ Present the Financial Statements in accordance with Generally Accepted Accounting Principles
 - ▶ Adopt sound accounting policies
 - ▶ Establish and maintain Internal Controls over Financial Reporting and Compliance
 - ▶ Provide evidence supporting the financial statements and related disclosures
 - ▶ Fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error
- 
PUN & McGEADY
- 4

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

Auditor's Responsibilities

- ▶ Assess Audit Risk of Internal Controls Over Financial Reporting and Compliance
- ▶ Determine compliance with Generally Accepted Accounting Principles in the United States of America
- ▶ Determine the fairness and accuracy of Financial Statements presentation
- ▶ Issue Audit Opinion on the Financial Statements
- ▶ Issue Recommendations to Management, if any



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

Approach To The Audit



- P&M's Audit Approach for MTS
 - Phase I – Detailed Planning
 - Phase II – Risk Based Review of Internal Controls Over Systems and Compliance
 - Phase III – Validation of Account Balances
 - Phase IV – Review Financial Statements and Issue Audit Opinion



**San Diego Metropolitan Transit System
Summary Statement of Net Position
June 30,**

	2014		2013
Assets:			
Current assets	\$ 175,094,000	\$	160,133,000
Non-current assets	133,489,000		156,026,000
Property and equipment, net	1,512,775,000		1,416,261,000
Total assets	1,821,358,000		1,732,420,000
Liabilities:			
Current liabilities	85,077,000		62,946,000
Long-term liabilities	152,722,000		175,787,000
Total liabilities	237,799,000		238,733,000
Deferred inflows of resources:	497,000		589,000
Net Position:			
Net Investment in Capital Assets	1,395,206,000		1,296,217,000
Restricted	6,742,000		7,255,000
Unrestricted	181,114,000		189,626,000
Total net position	\$ 1,583,062,000	\$	1,493,098,000



**San Diego Metropolitan Transit System
Summary Statements of Revenues, Expenses
and Changes in Net Position
For the years ended June 30,**

	2014		2013
Revenues			
Operating revenues	\$ 104,425,000	\$	96,559,000
Nonoperating revenues	217,605,000		191,017,000
Total Revenues	322,030,000		287,576,000
Expense			
Operating expenses	343,566,000		327,929,000
Nonoperating expenses	7,268,000		7,534,000
Total Expenses	350,834,000		335,463,000
Change in net position before Capital Contribution	(28,804,000)		(47,887,000)
Capital Contribution	118,768,000		132,182,000
Change in Net Position	89,964,000		84,295,000
Net Position:			
Beginning of Year	1,493,098,000		1,408,803,000
End of Year	\$ 1,583,062,000	\$	1,493,098,000



**San Diego Metropolitan Transit System
Summary Statement of Cash Flows
June 30,**

	2014	2013
Cash flows from Operating	\$ (133,299,000)	\$ (145,901,000)
Cash Flows from Noncapital Financing	206,102,000	203,981,000
Cash Flows from Capital and Related Financing	(85,114,000)	(98,275,000)
Cash Flows from Investing	125,000	193,000
Changes in cash and cash equivalents	\$ (12,186,000)	\$ (40,001,000)



**San Diego Metropolitan Transit System
Schedule of Funding Progress
of Defined Benefits Plans
For the year ended June 30, 2014**

	SDTC Transit *	SDTI Trolley **
Actuarial Value of Assets	\$ 148,452,000	\$ 84,011,000
Entry Age Normal Actuarial Accrued Liabilities	(241,331,000)	(93,892,000)
Unfunded Actuarial Accrued Liabilities	\$ (92,879,000)	\$ (9,881,000)
Funded Status	62%	89%
Actuarial Valuation Date	July 1, 2013	June 30, 2012

* SDTC Employee Retirement Plan
** CALPERS



**San Diego Metropolitan Transit System
Schedule of Funding Progress
of Other Post Employment Healthcare Plan
For the year ended June 30, 2014**

	MTS	Transit	Trolley
Actuarial Value of Assets	\$ -	\$ -	\$ -
Entry Age Normal Actuarial Accrued Liabilities	(3,855,000)	(23,111,000)	(9,545,000)
Unfunded Actuarial Accrued Liabilities	<u>\$ (3,855,000)</u>	<u>\$ (23,111,000)</u>	<u>\$ (9,545,000)</u>
Funded Status	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Actuarial Valuation Date	June 30, 2013	June 30, 2013	June 30, 2013



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

Audit Results

- Unmodified Opinion
- Financial Statements are fairly presented in all material respects
- Significant accounting policies have been consistently applied
- Estimates are reasonable
- Disclosures are properly reflected in the financial statements



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

Other Results

- No disagreements with Management
- No material weaknesses or significant deficiencies in internal controls were noted
- No accounting issues



**Thank You
For Allowing Pun & McGeady LLP
to provide services to
San Diego Metropolitan Transit System**





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Agenda Item No. B1

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 7, 2015

SUBJECT:

PUN & MCGEADY ENGAGEMENT LETTER FOR THE FY 2015 AUDIT (ERIN DUNN)

RECOMMENDATION:

That the MTS Audit Oversight Committee (AOC) review the audit engagement letter from Pun & McGeady, LLP (Attachment A).

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 Pun & McGeady for the fiscal year 2015 audit. A representative from Pun & McGeady will be available for questions.

Pun & McGeady is required to submit their peer review (Attachment B) along with the MTS engagement letter. This peer review was previously provided to the AOC in April 2014 and is valid through March 2016.


Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com

Attachments: A. Engagement Letter
B. Peer Review





6265 Greenwich Drive
Suite 220
San Diego, California 92122

Phone: (858) 242-5100
Fax: (858) 242-5150
www.pm-llp.com

February 9, 2015

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

RE: Engagement of Pun & McGeady LLP (the "Firm") as MTS' 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, 2015. 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 2015 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, 2015.

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' 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 Funding Progress – OPEB
- 3) GASB Statement No. 68 Required Schedules:
 - a) Schedule of Changes in Net Pension Liability
 - b) Schedule of Components of the Net Pension Liability and Related Ratios
 - c) Schedule of Actuarially Determined Contributions
 - d) Schedule of the Annual Money-Weighted Rate of Return on Plan Investments

San Diego Metropolitan Transit System
 2015 Engagement Letter
 February 6, 2015
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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) Schedule of Expenditures of Federal Awards
- 2) Combining Financial Statements
- 3) Individual Fund Financial Statements and Schedules

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 related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (3) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

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 OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and

San Diego Metropolitan Transit System
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to render the required reports. 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 on the financial statements or the Single Audit compliance 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 to issue a report as a result of 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 rather than absolute 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 entity or to acts by management or employees acting on behalf of the entity. 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 the financial statements and related matters.

Audit Procedures—Internal Controls

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. 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*.

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As required by OMB Circular A-133, 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 OMB Circular A-133.

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 OMB Circular A-133.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the MTS' compliance with the 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*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the OMB Circular A-133 *Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the MTS' major programs. The purpose of these procedures will be to express an opinion on the MTS' compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You will be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and schedule of expenditures of federal awards and that you have reviewed and approved the financial statements and schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. You agree to assume all management responsibilities for any nonaudit services we provide; oversee the services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

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Management is also responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. 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) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the written 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 taken 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 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 entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review on June 30, 2015.

You are responsible for preparation of the schedule of expenditures of federal awards in conformity with OMB Circular A-133. 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. 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 OMB Circular A-133; (2) that you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (3) that the methods of measurement or presentation have not changed from those used in the proper 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 responsible for the preparation of the 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. 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) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that 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.

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Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us 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.

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.

San Diego Metropolitan Transit System
2015 Engagement Letter
February 6, 2015
Page 7

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.

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 Pun & McGeady 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 your Organization, 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 Pun & McGeady 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 Pun & McGeady 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.

San Diego Metropolitan Transit System
2015 Engagement Letter
February 6, 2015
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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.

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 approximately April 20, 2015 and to issue our reports no later than December 31, 2015. **Due to the implementation of GASB Statements No. 68 and 71, a delay of issuing our reports may occur.**

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

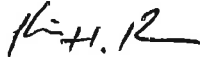
Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract.

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 2013 peer review report accompanies this letter.

San Diego Metropolitan Transit System
2015 Engagement Letter
February 6, 2015
Page 9

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,
Pun & McGeedy LLP



Kenneth H. Pun, CPA
Partner

ACCEPTED

This letter correctly sets forth the management/auditor responsibilities and procedures for the FY 2015 audit of the San Diego Metropolitan Transit System.

Authorized Signature:  _____

Title: CFO _____

Date signed: 2/10/15 _____



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

System Review Report

PUN & MCGEADY LLP

Irvine, 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 Pun & McGeedy LLP (the firm) in effect for the year ended March 31, 2013. 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.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Pun & McGeedy LLP in effect for the year ended March 31, 2013, 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*. Pun & McGeedy LLP has received a peer review rating of *pass*.

8577 Haven Avenue
Suite 306
Rancho Cucamonga
CA 91730

909.948.9990
800.644.0696
FAX 909.948.9633

gyl@gyldecauwer.com
www.gyldecauwer.com

Gyl Decauwer LLP

Ontario, California

May 31, 2013

your
Success
is our
DESTINATION

CPA AMERICA
INTERNATIONAL



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San Diego, CA 92101-7490
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Agenda Item No. B2

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 7, 2015

SUBJECT:

PROPOSED FY 2015 AUDIT SCHEDULE (ERIN DUNN)

RECOMMENDATION:

That the MTS Audit Oversight Committee (AOC) review the proposed FY 2015 audit schedule and provide comments.

Budget Impact

None at this time.

DISCUSSION:

MTS staff and Pun and McGeady propose the following schedule for completion of the FY 2015 Audit:

- | | |
|------------------------|--|
| • April 20 – April 30 | Interim Fieldwork |
| • May 7 | AOC – Interim Audit Report |
| • August 17 – Sept. 11 | Fieldwork |
| • October 8* | Draft audit report completed |
| • February 2016 | AOC – Present CAFR draft/discuss progress/issues |
| • March 2016 | Board of Directors – Present final CAFR |

These dates are very tentative due to the uncertainties surrounding CALPERS and GASB 68. If information becomes available earlier than expected, an AOC meeting will be scheduled in November and presentation of final CAFR to the Board of Directors will be scheduled in December. Any changes in the proposed schedule will be communicated to the AOC. *The impact of GASB 68 may not be reflected in the audit report draft.


Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com

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San Diego, CA 92101-7490
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Agenda Item No. B3

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 7, 2015

SUBJECT:

INTERIM AUDIT (ERIN DUNN AND KEN PUN OF PUN & MCGEADY, LLP)

RECOMMENDATION:

That the Audit Oversight Committee receive a report on interim audit work conducted by Pun & McGeady, LLP.

Budget Impact

None at this time.

DISCUSSION:

Pun & McGeady conducted an interim audit from April 20, 2015, to April 30, 2015, and tested MTS's internal controls. Upon completion of the testing, no audit observations or findings were noted as indicated on the attached interim exit memo. Pun & McGeady will review audit procedures performed during the interim audit.


Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com

Attachment: A. Interim Exit Memo



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San Diego Metropolitan Transit System (MTS)
For the Fiscal Year Ending June 30, 2015
Interim Exit Memo
April 30, 2015

INTERIM AUDIT PROCEDURES:

The purpose of our interim audit was to update our 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, 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 - tested
 - Journal Entry Process - tested
- Revenues and Cash Receipts for MTS, SDTI and SDTC
 - Farebox - tested
 - Ticket Vending Machines - tested
 - Special Events
 - Transit Store
 - Invoicing - tested
 - Bank Deposits
 - Compass Card - tested
 - Grant/Intergovernmental - tested
- Expenses and Cash Disbursements
 - Purchasing
 - Accounts Payable and Cash Disbursements
- Payroll and Related Liabilities
 - Payroll Process
 - Rate/Status Change
 - GASB 68/71 Census Data – partially tested (to be completed upon receipt of CalPERS valuation reports)
- Inventory
 - Cycle Count
 - Receiving
 - Dispensing
- Capital Assets
 - Additions/Deletions
 - CIP

In addition to updating our understanding of MTS' internal control systems, we also performed a cash count on SDTI TVM revenue, performed fraud risk inquiries with management and staff, updated our understanding of MTS' IT environment, and reviewed and discussed the internal audit plan and issued internal audit reports with Toufic Tabshouri, Internal Auditor. We also began testing of the Federal Transit Cluster for the Single Audit (cash management, procurement, and reporting compliance requirements).

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.

OTHER DISCUSSION ITEMS:

1. Ordering CalPERS GASB 68 reports
2. CalPERS *GASB 68 Accounting Valuation Reports for Public Agencies* webinar
 - a. Two hour webinar
 - b. May 14, 2015 – 10AM Pacific
 - c. <https://veconnect.us/gk/g/Rd9EAYNNv5-162>

OPEN ITEMS:

1. Update and sign confirmations, attorney letters, and Board member fraud questionnaires
2. 2014 NTD AUP
 - a. Reconciliation of Fixed Guideway/High-Intensity Bus Miles to be provided by Dennis Desmond
 - b. Statement affirmations from Janelle Carey or Dennis Desmond
 - c. Additional inquiry relating to SANDAG Sampling Methodology for Passenger Miles
 - d. Analytical review responses needed from Dennis Desmond
3. Completion of GASB 68 census data testing – tie tested information to CalPERS data
4. Inventory observation date: July 1, 2015 - SDTI

YEAR END DATES:

Four weeks scheduled (might not need full allotment) – August 17 through September 11, 2015

REPORTS TO BE ISSUED:

We will perform the following audits and agreed upon procedures enumerated below for the year ended June 30, 2015. 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) Agreed Upon Procedures
5. National Transit Database (NTD) Agreed Upon Procedures
6. Prop 1B PTMISEA
7. Indirect Cost Allocation Plan Agreed Upon Procedures



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San Diego, CA 92101-7490
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Agenda Item No. B4

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 7, 2015

SUBJECT:

REPORT OF GASB 68 – ACCOUNTING AND FINANCIAL REPORTING FOR
PENSIONS – AN AMENDMENT OF GASB STATEMENT NO. 27 (KEN PUN OF PUN &
MCGEADY, LLP)

RECOMMENDATION:

That the Audit Oversight Committee approve Management and Pun & McGeady's
recommendation to issue non-comparative financial statements for fiscal year 2015.

Budget Impact

None at this time.

DISCUSSION:

Pun & McGeady will present information regarding GASB 68 statement issued by the
Government Accounting Standards Board (GASB) that became effective this fiscal year.

Due to the accounting and reporting changes brought about by GASB 68, it is
recommended by Management and Pun & McGeady that we do not present comparative
financial statements for fiscal year 2015.


Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com



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SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE PRESENTATION

For the Year Ended June 30, 2015

**Presented by:
Kenneth H. Pun, CPA, CGMA**

SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE PRESENTATION

Contents

- ▶ Project Team
- ▶ Scope of Work
- ▶ Management's Responsibilities
- ▶ Auditors' Responsibilities
- ▶ Approach to the Audit
- ▶ Planning and Risk Assessment
- ▶ Quality Control Review by DOT
- ▶ GASB Statement No. 68
- ▶ Other 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

- ▶ **Audit**
 - San Diego Metropolitan Transit System's Comprehensive Annual Financial Report (CAFR)
 - San Diego Transit Corporation's Retirement Plan
 - Single Audit in accordance with OMB Circular A-133
- ▶ **Agreed Upon Procedures**
 - Indirect Cost Rate
 - National Transit Database
 - Transportation Development Act



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

Management's Responsibilities

- ▶ Present the Financial Statements in accordance with Generally Accepted Accounting Principles
- ▶ 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**

Auditor's Responsibilities

- ▶ Assess Audit Risk of Internal Controls Over Financial Reporting and Compliance
- ▶ Determine compliance with Generally Accepted Accounting Principles in the United States of America
- ▶ Determine the Fairness and Accuracy of Financial Statements Presentation
- ▶ Issue Audit Opinion on the Financial Statements
- ▶ Issue Recommendations to Management, if any



SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE PRESENTATION

Approach To The Audit



- P&M's Audit Approach for MTS
 - Phase I - Detailed Planning
 - Phase II – Risk Based Review of Systems and Compliance
 - Phase III – Validation of Account Balances
 - Phase IV – Prepare and Review Financial Statements and Issue Opinions



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SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE PRESENTATION

Planning and Risk Assessment

- ▶ Obtain Understanding of the Entity and Identifying Risk of Material Misstatements
- ▶ Significant Transaction Classes:
 - Revenues and Cash Receipts Process – Test of Control
 - Payroll and Employee Benefits – Test of Control
 - Expenses and Cash Disbursement – Walkthrough
 - IT Control – Update IT Internal Control (ERP system implementation)
- ▶ Discussion with Internal Auditors
- ▶ Inquiries of Fraud



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

Quality Control Review from DOT

- ▶ **President's Council on Integrity and Efficiency (PCIE) National Single Sampling Project**
 - Significant Percentages of Unacceptable Audit and Limited Reliability were discovered in the 2007 National Single Audit Sampling Project
- ▶ **DOT has selected MTS's June 30, 2014 for the Audit Quality Review**
- ▶ **Result:**
 - Acceptable with Deficiencies
 - Generally met the requirements of the Single Audit Act, OMB Circular A-133, and DOT's major program
 - DOT found nothing to indicate that P&M's opinion on DOT's major program was inappropriate or unreliable.



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

Deficiencies Noted by DOT

- ▶ **Internal Control – Matching and Special Tests and Provisions –** P&M needs to improve its documentation related to how it gained an understanding of internal controls related to Matching and the Special Tests and Provisions compliance requirements.
- ▶ **Procurement and Suspension and Debarment (Part 4 of the Compliance Supplement) –** P&M did not perform compliance testing on the Procurement and Suspension and Debarment requirements that are contained in Part 4 of the Compliance Supplement. Specifically, the requirements not tested are the Disadvantage Business Enterprises and the American with Disabilities Act of 1990.



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

Implementation of GASB Standards

- ▶ GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* (Fiscal Year 2014-2015)
- ▶ GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (Fiscal Year 2014-2015)
- ▶ GASB Statement No. 72, *Fair Value Measurement and Application* (Fiscal Year 2015-2016)



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

GASB Statements No. 68 and 71

- ▶ Impact on Financial Reporting and Auditing
 - Measurement Date (Employer)
 - Evidence from the Plan



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

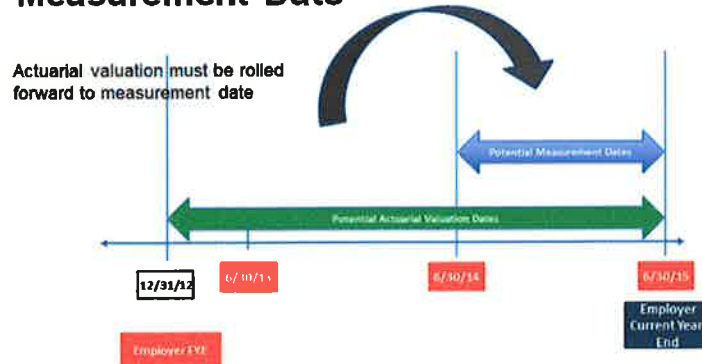
Measurement Date (Employer)

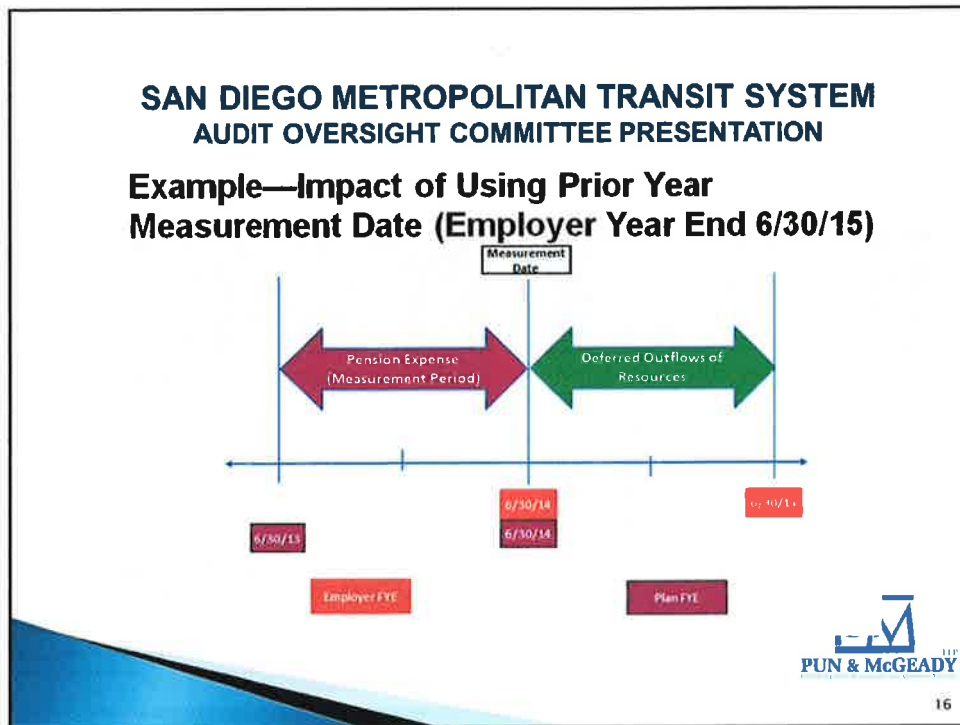
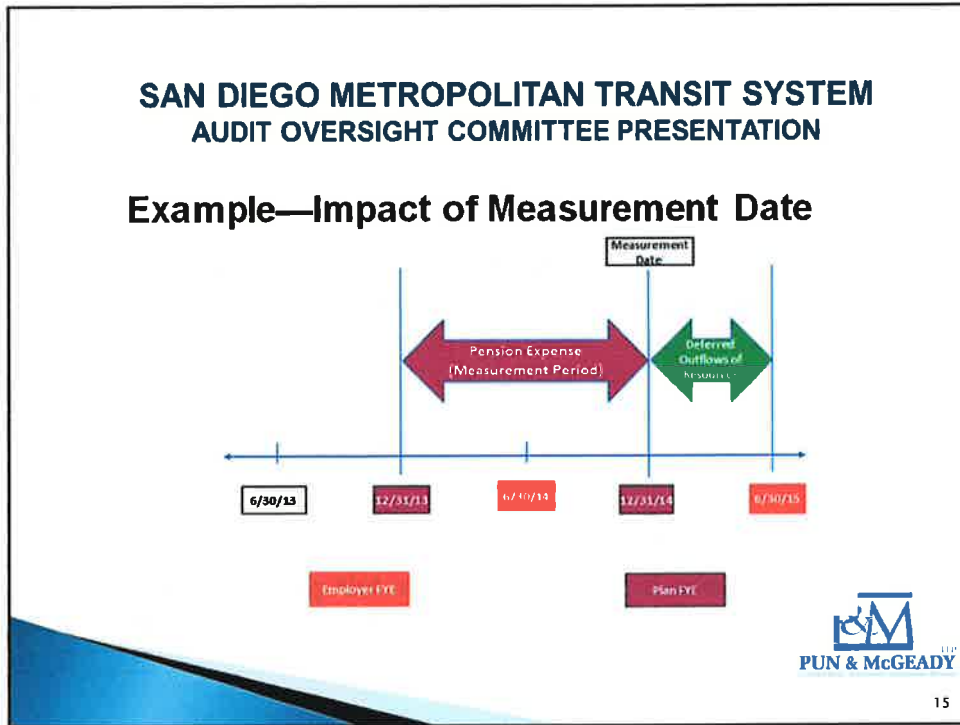
- ▶ Measurement of the net pension liability determined as of a date (measurement date) no earlier than the end of the employer's prior fiscal year
- ▶ The measurement date used should be consistently applied from period to period
- ▶ Measurement of the total pension liability is determined through:
 - An actuarial valuation performed as of the measurement date, or
 - The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's year-end
 - Use professional judgment in determining extent of update procedures when changes in plan occur between last valuation date and the measurement date
 - Consider whether new actuarial valuation is needed
 - In year of implementation, same actuarial valuation may be used for both beginning and ending pension amounts
- ▶ Actuarial valuation of total pension liability should be performed at least biennially
 - More frequent actuarial valuations are encouraged



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

Measurement Date







1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
(619) 231-1466 • FAX (619) 234-3407

Agenda Item No. B5

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

May 7, 2015

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.


Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com



Internal Audit Activity Update

Presentation for the
Audit Oversight Committee
May 7, 2015



Internal Audit Activity Update

The Internal Audit Plan for FY 2014-15 listed eight audits, one of which was later divided into three.

Status summary:

- Completed (1)
- Draft reports (3)
- Nearing completion (2)
- Recently started (2)
- Carrying over to the next fiscal year (1)
- To be determined (1)



Internal Audit Plan

FY 2014-15 Planned Audits

#	Audit Area	Status
1	Procurement: Vendor Oversight and Monitoring	Estimated completion May 2015
2	Procurement: Compliance and Management	Estimated completion May 2015
3	Information Technology: Governance and Planning	Draft Report
4	MTS Performance Goals	Draft Report



Internal Audit Plan

FY 2014-15 Planned Audits

#	Audit Area	Status
5	Information Technology: Business Continuity and Security	a) IT Disaster Recovery (Completed) b) Business Continuity (Draft Report) c) IT Security (TBD)
6	SDTC Revenue	Recently Started
7	MTS Security	Recently Started
8	Worker's Compensation	Revised completion date July 2015



Internal Audit Activity Update

Other Activities:

1. Enterprise Resource Planning project
2. Consultations (review policy revisions & other requests)
3. Procurement pre-award audits
4. Fraud Hotline - no reportable activity
5. Fiscal Year 2015-16 Internal Audit Plan (pending)



Internal Audit Activity Update

Questions?

Toufic.Tabshouri@sdmts.com
(619)595-4920

