



1255 Imperial Avenue, Suite 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

July 16, 2020

9:00 a.m.

Meeting will be held via webinar

To request an agenda in an alternative format or to request accommodations to facilitate meeting participation, please call the Clerk of the Board at least two working days prior to the meeting. Meeting webinar instructions can be accessed at the following link: <https://www.sdmts.com/about-mts-meetings-and-agendas/executive-committee>

ACTION RECOMMENDED

1. ROLL CALL
2. [APPROVAL OF MINUTES – November 7, 2019](#) Approve
3. PUBLIC COMMENTS

COMMITTEE DISCUSSION ITEMS

4. [The Pun Group Engagement Letter for the Fiscal Year \(FY\) 2020 Audit \(Erin Dunn\)](#) Possible Action
Action would review the audit engagement letter and communication with those charged with governance from The Pun Group.
5. [Interim Audit \(Erin Dunn and Coley Delaney of The Pun Group\)](#) Possible Action
Action would receive a report on the interim audit work conducted by The Pun Group.
6. [Internal Audit Activity Update Report \(Toufic Tabshouri\)](#) Possible Action
Action would receive the internal audit activity update report.

OTHER ITEMS

7. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
8. NEXT MEETING DATE: To be determined.
9. ADJOURNMENT



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

MINUTES

November 7, 2019

A. ROLL CALL

1. Chair Fletcher called the meeting to order at 9:02 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Arambula moved for approval of the minutes of the November 1, 2018 Audit Oversight Committee meeting. Ms. Montgomery seconded the motion, and the vote was 3 to 0 in favor with Ms. Salas absent.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. Draft of Fiscal Year 2019 Comprehensive Annual Financial Report (CAFR) (Erin Dunn with Gary Caporicci and Coley Delaney of The Pun Group)

Erin Dunn, Controller, introduced this item and Gary Caporicci and Coley Delaney of The Pun Group. Mr. Delaney provided a presentation on the fiscal year (FY) 2019 CAFR. He reviewed the management and auditors' responsibilities and the approach to the audit. Mr. Caporicci provided an overview of the financial statements. He reviewed the summary statements of net position; summary statements of revenues, expenses and changes in net position; summary statements of cash flows; net pension liability; pension expenses; and other postemployment benefits plan. Mr. Delaney continued the presentation and reviewed the audit results. He stated that there was an unmodified opinion; there were no disagreements with management; there were no material weaknesses or significant deficiencies in internal controls; and there were no accounting issues noted. Lastly, Mr. Caporicci reviewed GASB upcoming standards and key research projects.

Action Taken

No action taken.

2. Internal Audit Activity Update Report (Toufic Tabshouri)

Toufic Tabshouri, Internal Auditor, provided an update on internal audit activity. He reviewed the audit resources; audit selection process; fiscal year 2018-2019 audits; tentative audits for calendar year 2020; and other activities related to the fraud hotline.

Ms. Montgomery inquired about the cancelled real estate assets audit. Mr. Tabshouri replied that the department recently underwent some restructuring and formatting. He noted that he will reevaluate the need and requirements of that department in the future to determine if another audit is necessary.

Mr. Arambula inquired about the reduction of risk management payments and asked what that is attributed to. Mr. Tabshouri stated that these payments will generally vary year to year depending on incidents occurred. He noted that staff closely monitors these trends.

Action Taken

No action taken.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no committee member communications.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chair Fletcher adjourned the meeting at 9:24 a.m.

/s/ Alejandra Sotelo-Solis
Vice Chair

Attachment: Roll Call Sheet

AUDIT OVERSIGHT COMMITTEE
SAN DIEGO METROPOLITAN TRANSIT SYSTEM

ROLL CALL

MEETING OF (DATE) November 7, 2019

CALL TO ORDER (TIME) 9:02 a.m.

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:24 a.m.

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ARAPOSTATHIS <input type="checkbox"/>	(Arambula) <input checked="" type="checkbox"/>	9:00 a.m.	9:24 a.m.
FLETCHER (Chair) <input checked="" type="checkbox"/>	(Cox) <input type="checkbox"/>	9:00 a.m.	9:24 a.m.
MONTGOMERY <input checked="" type="checkbox"/>	(Ward) <input type="checkbox"/>	9:00 a.m.	9:24 a.m.
SALAS <input checked="" type="checkbox"/>	(Sandke) <input type="checkbox"/>	9:04 a.m.	9:24 a.m.

SIGNED BY THE CLERK OF THE BOARD: Julia Tuer

CONFIRMED BY THE GENERAL COUNSEL: Karen Card



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Agenda Item No. 4

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

July 16, 2020

SUBJECT:

THE PUN GROUP ENGAGEMENT LETTER FOR THE FISCAL YEAR (FY) 2020 AUDIT
(ERIN DUNN)

RECOMMENDATION:

That the MTS Audit Oversight Committee (AOC) review the audit engagement letter (in substantially the same format as Attachment A) and communication with those charged with governance (in substantially the same format as Attachment B) from The Pun Group.

Budget Impact

None at this time.

DISCUSSION:

Auditing standards require the auditor to present a written engagement letter and obtain a signature from an officer of the company. Attachment A is the engagement letter from The Pun Group for the fiscal year 2020 audit, as well as their most recent peer review. Attachment B is the letter from The Pun Group to those charged with governance. A representative from The Pun Group will be available for questions.

/s/ Sharon Cooney
Sharon Cooney
Chief Executive Officer

Key Staff Contact: Julia Tuer, 619.557.4515, Julia.Tuer@sdmts.com

Attachments: A. Engagement Letter
B. Communication with Those Charged with Governance





April 13, 2020

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

RE: Engagement of The Pun Group LLP (the "Firm") as MTS's Independent Auditors

We are pleased to confirm our understanding of the services we are to provide to the San Diego Metropolitan Transit System ("MTS") for the year ending June 30, 2020. 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 2020 Audit Engagement

We will audit the financial statements of the business-type activities, the aggregate remaining fund information, including the notes to the basic financial statements, which collectively comprise the basic financial statements of MTS as of and for the year ending June 30, 2020.

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's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB") who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the MTS's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis
- 2) GASB Statement No. 75 Required Schedules:
 - a) Schedule of Changes in Total OPEB Liability and Related Ratios
- 3) GASB Statement No. 68 Required Schedules:
 - a) Schedule of Proportionate Share of the Net Pension Liability
 - b) Schedule of Changes in Net Pension Liability
 - c) Schedule of Contributions

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San Diego Metropolitan Transit System

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

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

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

- 1) Introductory Section
- 2) Statistical Section

Audit Objectives

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

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

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

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

Audit Procedures—General

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

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

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

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Audit Procedures—Internal Control

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

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

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

Audit Procedures—Compliance

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

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

Management Responsibilities

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

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

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

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

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

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of

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measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

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

Third-Party Service Providers

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

Assistance By Your Personnel

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

Data Collection Form

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

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.

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Access to Working Papers

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

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

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

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

Timeline

We expect to begin our audit on April 13, 2020 and to issue our reports no later than November 30, 2020. Coley Delaney, CPA is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

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.

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Independence

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

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.

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 most recent peer review report accompanies this letter.

San Diego Metropolitan Transit System

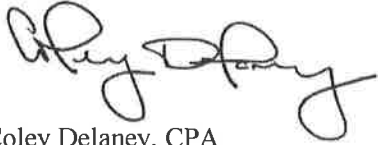
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We appreciate the opportunity to be of service to San Diego Metropolitan Transit System and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

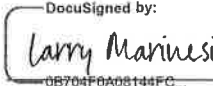
Very truly yours,
The Pun Group LLP



Coley Delaney, CPA
Partner

ACCEPTED

This letter correctly sets forth the management/auditor responsibilities and procedures for the fiscal year 2020 audit of the San Diego Metropolitan Transit System.

Authorized Signature: DocuSigned by:

0B704F6A08144FC...

Title: CFO

Date signed: 4/10/2020



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Report on the Firm's System of Quality Control

December 7, 2018

To the Partners of
The Pun Group, LLP
And the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of The Pun Group, LLP, (the firm), in effect for the year ended December 31, 2017. 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, and an audit of an employee benefit plan.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of The Pun Group, LLP, in effect for the year ended December 31, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. The Pun Group, LLP, has received a peer review rating of *pass*.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Corning, NY



April 13, 2020

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

We are engaged to audit the financial statements of the San Diego Metropolitan Transit System ("MTS") for the year ended June 30, 2020. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

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

As stated in our engagement letter dated April 13, 2020, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

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

San Diego Metropolitan Transit System

April 13, 2020

Page 2

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

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

Planned Scope, Timing of the Audit, and Other

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

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

We expect to begin our audit on April 13, 2020 and issue our report on approximately November 30, 2020. Coley Delaney is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

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

Very truly yours,

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

San Diego, California



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Agenda Item No. 5

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

July 16, 2020

SUBJECT:

INTERIM AUDIT (ERIN DUNN AND COLEY DELANEY OF THE PUN GROUP)

RECOMMENDATION:

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

Budget Impact

None at this time.

DISCUSSION:

The Pun Group conducted an interim audit from April 13, 2020 through April 24, 2020, and tested MTS's internal controls. In addition, they conducted a physical inventory count of San Diego Trolley, Inc. on June 30, 2020.

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

/s/ Sharon Cooney
Sharon Cooney
Chief Executive Officer

Key Staff Contact: Julia Tuer, 619.557.4515, Julia.Tuer@sdmts.com

Attachment: A. MTS Interim Exit Memo - 2020



San Diego Metropolitan Transit System
Fiscal Year Ending June 30, 2020
Interim Exit Memo

INTERIM AUDIT PROCEDURES:

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

- Financial Reporting
 - Reporting to the board – update, walkthrough, and test of controls
 - Journal entry process – update, walkthrough, and test of controls
 - Bank reconciliation – update, walkthrough, and test of controls
- Revenues and Cash Receipts for MTS, SDTI and SDTC
 - Farebox – update and walkthrough
 - Ticket Vending Machines – update and walkthrough
 - Transit Store – update and walkthrough
 - Invoicing – update and walkthrough
 - Cash count – update and walkthrough
 - Bank deposits – update and walkthrough
 - Compass card – update and walkthrough
 - Grant/Intergovernmental - update and walkthrough
- Purchasing, Expenses, and Cash Disbursements
 - Purchasing – update, walkthrough, and test of controls
 - Accounts payable and cash disbursements – update, walkthrough, and test of controls
- Payroll and Related Liabilities
 - Payroll process – update and walkthrough
 - Rate/status change – update and walkthrough
- Inventory
 - Performed test count of SDTI inventory with no exceptions
- Capital Assets
 - Additions/deletions – update and walkthrough
 - CIP – update and walkthrough
- Employee Claims
 - General Liability and Workers' Compensation Claims – update, walkthrough, and test of controls

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

- Update understanding of internal audit plan with internal auditor
- Perform fraud risk inquiries
- Reviewed fiscal year 2019-20 budget
- Reviewed the board minutes
- Performed pension census data testing for MTS and SDTI
- Single Audit (preliminary testing performed on Federal Transit Cluster)
 - Allowable activities/costs (payroll testing)
- TDA compliance audits (preliminary testing performed)

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 exceptions were noted.

OPEN ITEMS:

1. Year-end prepared by client listings for MTS audit, SDTC Pension audit, and TDA compliance agreed-upon procedures, indirect cost AUP, NTD AUP.

IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

GASB No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance* was issued in May 2020. It effectively postponed the implementation of new GASB pronouncements by at least one year. This means that there will be no new GASB pronouncements for MTS to implement in 2020.

YEAR END DATES:

Three weeks beginning August 24, 2020.

REPORTS TO BE ISSUED:

We will perform the following audits and agreed upon procedures enumerated below for the year ended June 30, 2020:

1. Comprehensive Annual Financial Report
2. Single Audit
3. SDTC Employees' Retirement Plan
4. Transportation Development Act (TDA) Agreed-Upon Procedures
5. National Transit Database (NTD) Agreed-Upon Procedures
6. Indirect Cost Allocation Plan Agreed-Upon Procedures

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

EXECUTIVE COMMITTEE PRESENTATION

July 16, 2020

Presented by:
Coley Delaney, CPA



SAN DIEGO METROPOLITAN TRANSIT SYSTEM EXECUTIVE COMMITTEE PRESENTATION

Contents

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

SAN DIEGO METROPOLITAN TRANSIT SYSTEM EXECUTIVE COMMITTEE PRESENTATION

Scope of Work

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

SAN DIEGO METROPOLITAN TRANSIT SYSTEM EXECUTIVE COMMITTEE PRESENTATION

Management's Responsibilities

- Present the financial statements in accordance with Generally Accepted Accounting Principles (U.S. GAAP)
- Adopt sound accounting policies
- Establish and maintain internal controls over financial reporting and compliance
- Provide evidence supporting the amounts and disclosures in the financial statements
- Prevent and detect fraud

SAN DIEGO METROPOLITAN TRANSIT SYSTEM EXECUTIVE COMMITTEE PRESENTATION

Auditors' Responsibilities

- Assess audit risk of internal controls over financial reporting and compliance
- Determine compliance with *Generally Accepted Accounting Principles* (U.S. GAAP)
- Determine the fairness and accuracy of the financial statement presentation
- Issue audit opinion on the financial statements
- Issue recommendations to management, if any

SAN DIEGO METROPOLITAN TRANSIT SYSTEM EXECUTIVE COMMITTEE PRESENTATION

Approach To The Audit

- Pun Group 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

SAN DIEGO METROPOLITAN TRANSIT SYSTEM EXECUTIVE COMMITTEE PRESENTATION

Planning and Risk Assessment

- Updated understanding of the entity and evaluated risks of material misstatements
- Performed walkthroughs and testing of controls over significant transaction classes as noted in our exit memo
- Performed preliminary analytics and
- Identified and reviewed “high risk” transactions using artificial intelligence audit software
- Performed fraud inquiries, etc.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM EXECUTIVE COMMITTEE PRESENTATION

Implementation of New GASB Standard

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*
 - Provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic
 - Postpones the effective dates of certain pronouncements that would affect MTS by one year, most notably:
 - #84, *Fiduciary Activities* (implement in fiscal year 2021)
 - #87, *Leases* (implement in fiscal year 2022)



Thank you!

**HQ - ORANGE COUNTY**

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Agenda Item No. 6

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

July 16, 2020

SUBJECT:

INTERNAL AUDIT ACTIVITY UPDATE REPORT (TOUFIC TABSHOURI)

RECOMMENDATION:

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

Budget Impact

None

DISCUSSION:

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

/s/ Sharon Cooney
Sharon Cooney
Chief Executive Officer

Key Staff Contact: Julia Tuer, 619.557.4515, Julia.Tuer@sdmts.com



Internal Audit Presentation

for the
Audit Oversight Committee
July 16, 2020

Agenda

1. Completed Audits
2. Audits in Process
3. Risk Assessment and Audit Selection
4. Tentative Audits For Calendar Year 2021
5. Other Activities

Information Technology Security

1. *Why I selected this audit*

- IT security is a growing area of concern.

2. *Background*

- MTS contracted with a vendor to conduct an IT security assessment, perform intrusion testing, and deliver a strategic plan for improving IT security.
- I did not want to duplicate the vendor's work.

Information Technology Security

3. *Finding*

- Progress needed to be made in implementing improvements recommended by the vendor.
- Progress stalled partly due to the difficulty of hiring an IT security manager and the retirement of the Chief Information Officer.

Information Technology Security

4. *Recommendation*

- Transform the vendor's strategic plan into projects that are feasible to implement, prioritized according to risk mitigation, and that take into account financial and human resources constraints.

5. *IT Department's Response*

- Agreed with the recommendation
- Formed a new cybersecurity unit comprised of a manager and a technical employee
- Purchased two new security software products

Project Management

1. *Why I selected this audit*

- To assess project management activities at MTS.

2. *Background*

- IT professionals and civil engineers perform most project-based work at MTS.
- For complex projects such as the implementation of a financial system and a new fare system, MTS has assigned full-time project managers.

Project Management

3. *Finding*

- Lack of a formal project management system
- Employees are knowledgeable, but they were using the tools or methods that they learned at previous jobs.
- General awareness and agreement that a uniform system was needed

4. *Recommendations*

- 1) Adopt an organizational project management manual
- 2) Implement training and encourage certification
- 3) Use a single software solution

Project Management

5. *Management Responses*

a) *Response from the Director of Capital Projects*

- Comprehensive response, agreed with recommendations 1 & 2
- Recommendation 3 may be premature at this time

b) *Response from the former Chief Information Officer*

- 1) Agreed with recommendations 1 & 2
- 2) Believes that SAP can be extended to encompass project management functionality

Risk Management / Public Liability Claims

1. *Why I selected this audit*

- Poor claims handling practices can result in increased liability costs.
- Reviewing claims provides insights into organizational risk management practices.

2. *Background*

- MTS faces liability claims for collisions with buses and trolleys; passenger falls; interactions between security officers and other individuals; and other incidents.
- Many claims are denied or settled at minimal cost.
- Most paid claims are settled for less than \$2,500.

Risk Management / Public Liability Claims

3. *Findings*

- 1) Claims information is located in multiple locations
- 2) Claims are properly handled
- 3) Recoveries are pursued judiciously
- 4) Internal controls over claims payments should be strengthened

Risk Management / Public Liability Claims

4. *Recommendations*

- 1) Acquire a claims management software solution
- 2) Adopt a policy and procedures for claims handling
- 3) Train a second employee on claims handling
- 4) Risk management staff should not mail checks to claimants
- 5) Develop a checklist to be incorporated into each claim file
- 6) The Risk Manager should periodically review a sample of claim files

Risk Management / Public Liability Claims

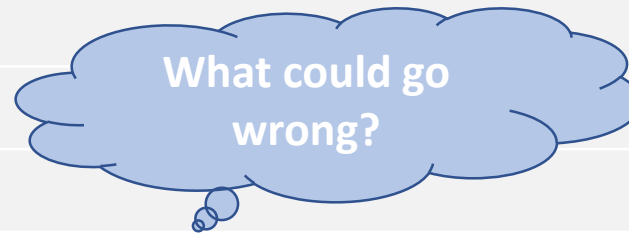
5. *Response from the Risk Management Department*

- Agreed with all recommendations
- Indicated that some of the recommendations have been implemented
- Will research whether implementing a claims management software is a viable option

Risk Assessment & Audit Selection Methodology

For every work area or division, I rate inherent:

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



I then adjust my ratings of inherent risk based on the:

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

Potential Future Audits 2020

- Pending discussion with CEO

Other Activities / Initiatives

1. Fraud Hotline – No reportable complaints.
2. Placing Internal Audit information and reports on MTS intranet
3. Training departments to conduct control self-assessments