



## Agenda

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

July 14, 2022

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 email the Clerk of the Board, [ClerkoftheBoard@sdmts.com](mailto:ClerkoftheBoard@sdmts.com) at least two working days prior to the meeting. Meeting webinar/teleconference instructions can be accessed under '[Meeting Link and Webinar Instructions](#).' Click the following link to access the meeting: <https://zoom.us/j/94562188418>

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#### ACTION RECOMMENDED

1. ROLL CALL
  2. APPROVAL OF MINUTES – November 4, 2021 Approve
  3. PUBLIC COMMENTS
- COMMITTEE DISCUSSION ITEMS
4. [The Pun Group Engagement Letter for The Fiscal Year \(FY\) 2022 Audit \(Erin Dunn\)](#) Informational  
Action would review the audit engagement letter and communication with those charged with governance from The Pun Group.
  5. [Interim Audit \(Erin Dunn With Ken Pun and Coley Delaney of the Pun Group\)](#) Receive  
Action would receive a report on the interim audit work conducted by The Pun Group.
  6. [Internal Audit Activity Update Report \(Toufic Tabshouri\)](#) Informational
- OTHER ITEMS
7. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
  8. NEXT MEETING DATE: TBD
  9. ADJOURNMENT



**DRAFT MINUTES**  
**MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM**  
**AUDIT AND OVERSIGHT COMMITTEE**  
November 4, 2021

[Clerk's note: Except where noted, public, staff and board member comments are paraphrased. Note that the meeting was conducted via webinar to comply with public health orders].

1. Roll Call

Chair Fletcher called the Audit Oversight Committee meeting to order at 9:03 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. Approval of Minutes

Chair Fletcher moved to approve the minutes of the June 10, 2021, MTS Audit Oversight Committee meeting. Board Member Hall seconded the motion, and the vote was 6 to 0 in favor with Board Member Salas absent.

3. Public Comments

There were no Public Comments.

**COMMITTEE DISCUSSION ITEMS**

4. Draft of Fiscal Year 2021 Annual Comprehensive Financial Report (ACFR) (Erin Dunn with Ken Pun and Coley Delaney of the Pun Group)

Erin Dunn, MTS Controller, along with Ken Pun and Coley Delaney of the Pun Group, presented on the draft of FY 2021 ACFR. They outlined the following information: Management and Auditors' Responsibilities, Approach to the Audit, Overview of the Financial Statements, Key Pension and Other Post-Employment Benefits (OPEB) Information, Audit Results, Government Accounting Standards Board (GASB): Upcoming Standards and Key Research Projects.

Board Member Sandke commented on the reported \$47 million deficit and asked if that number is considered the agency's structural deficit.

Larry Marinesi, MTS Chief Financial Officer, clarified the agency expects a \$50 million structural deficiency. He acknowledged that there was time to bridge the gap with revenue and expense alignments. He acknowledged that currently, Coronavirus Aid, Relief, and Economic Security Act (CARES) Act funding would bridge the gap.

Board Member Elo-Rivera asked about how the agency is ensuring compliance with new standard and practices.

Ms. Dunn explained that the Pun Group hosts an annual seminar where standards are reviewed. She noted the agency works with auditors to ensure compliance.

Board Member Elo-Rivera asked when staff knows to communicate these matters to the Board.

Ms. Cooney acknowledged that the agency attempts to communicate with the Audit Committee as matters arise. She noted that the most impactful items are presented to the Board.

Mr. Pun invited Board Member Elo-Rivera to the annual training where GASB pronouncements are reviewed.

Mr. Marinesi acknowledged that GASB 94 announcement will define the accounting treatment of certain public-private partnership transactions. He explained how public-private partnerships are defined and how financial statements are reflected for the agency.

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Mr. Pun acknowledged that GASB pronouncements are centered around accounting transactions and are reported in accordance with generally accepted accounting principles (GAAP). He also explained how it will impact public-private partnerships.

Action Taken

Chair Fletcher moved to receive a draft of the FY 2021 ACFR. Board Member Elo-Rivera seconded the motion, and the vote was 6 to 0 in favor with Board Member Salas absent.

OTHER ITEMS

5. Committee Member Communications and Other Business

There was no Committee Member Communications and Other Business discussion.

6. Next Meeting Date

The next Audit Oversight Committee meeting is to be determined.

7. Adjournment

Chair Fletcher adjourned the meeting at 9:36 a.m.

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Chairperson  
San Diego Metropolitan Transit System

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Clerk of the Board  
San Diego Metropolitan Transit System

Attachment: Roll Call Sheet

SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
AUDIT OVERSIGHT COMMITTEE

ROLL CALL

MEETING OF (DATE): November 4, 2021 CALL TO ORDER (TIME): 9:03 am  
 RECESS: \_\_\_\_\_ RECONVENE: \_\_\_\_\_  
 CLOSED SESSION: \_\_\_\_\_ RECONVENE: \_\_\_\_\_  
 PUBLIC HEARING: \_\_\_\_\_ RECONVENE: \_\_\_\_\_  
 ORDINANCES ADOPTED: \_\_\_\_\_ ADJOURN: 9:36 am

REPRESENTATIVE	BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
County	FLETCHER (Chair)	<input checked="" type="checkbox"/> (Vargas) <input type="checkbox"/>	9:03 am	9:36 am
Vice Chair	SOTELO-SOLIS	<input checked="" type="checkbox"/> (no alternate) <input type="checkbox"/>	9:03 am	9:36 am
City of San Diego	ELO-RIVERA	<input checked="" type="checkbox"/> (Montgomery Steppe) <input type="checkbox"/>	9:03 am	9:36 am
East County	GASTIL	<input type="checkbox"/> (Hall) <input checked="" type="checkbox"/>	9:03 am	9:36 am
SANDAG Transportation Committee	MONTGOMERY STEPPE	<input checked="" type="checkbox"/> (Aguirre) <input type="checkbox"/>	9:03 am	9:36 am
Chair Pro Tem	SALAS	<input type="checkbox"/> (no alternate) <input checked="" type="checkbox"/>	-	-
South Bay	SANDKE	<input checked="" type="checkbox"/> (Aguirre) <input type="checkbox"/>	9:03 am	9:36 am

SIGNED BY THE CLERK OF THE BOARD:

/S/ Dalia Gonzalez



## Agenda Item No. 4

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

July 14, 2022

#### SUBJECT:

THE PUN GROUP ENGAGEMENT LETTER FOR THE FISCAL YEAR (FY) 2022 AUDIT (ERIN DUNN)

#### RECOMMENDATION:

That the MTS Audit Oversight Committee (AOC) review the audit engagement letter (Attachment A) and communication with those charged with governance (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 2022 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: Sharon Cooney, 619.557.4513, [Sharon.Cooney@sdmts.com](mailto:Sharon.Cooney@sdmts.com)

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

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

San Diego Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc. and San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations). 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. MTS is also the For-Hire Vehicle administrator for nine cities.





April 1, 2022

Board of Directors  
**San Diego Metropolitan Transit System**  
 1255 Imperial Avenue, Suite 1000  
 San Diego, CA 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, 2022. 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.

**Audit Scope and Objectives**

We will audit the financial statements of the business-type activities and the aggregate remaining fund information, including the disclosures, which collectively comprise the basic financial statements, of MTS as of and for the year ended June 30, 2022.

Accounting standards generally accepted in the United States of America (“GAAP”) provide for certain required supplementary information (“RSI”), such as management’s discussion and analysis (“MD&A”), to supplement MTS’s basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 MTS’s RSI in accordance with auditing standards generally accepted in the United States of America (“GAAS”). 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 appropriate evidence to express an opinion or provide any assurance. The following RSI is required by GAAP and will be subjected to certain limited procedures, but will not be audited:

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

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**Engagement Letter**  
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We have also been engaged to report on supplementary information other than RSI that accompanies MTS's 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 GAAS, and we will provide an opinion on it in relation to the financial statements as a whole in a report combined with our auditor's report on the financial statements.

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

In connection with our audit of the basic financial statements, we will read the following other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

- 1) Introductory Section
- 2) Statistical Section

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes our opinions about whether your financial statements are fairly presented, in all material respects, in conformity with GAAP, and report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements. The objectives also include reporting on:

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award 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).

**Auditor's Responsibilities for the Audit of the Financial Statements and Single Audit**

We will conduct our audit in accordance with GAAS; 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 Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. As part of an audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit.

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We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. 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 waste and abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or 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 an unavoidable risk that some material misstatements or noncompliance may not be detected by us, even though the audit is properly planned and performed in accordance with GAAS 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 on 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. 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.

We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will also request written representations from your attorneys as part of the engagement.

We have identified management override of controls as a significant risk of material misstatement in the prior-period audit and believe it to still be relevant. As planning for the current period audit has not concluded, modifications may be made. If new significant risks are identified after the date of this letter, we will communicate them in writing to those charged with governance in a timely manner.

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.

Our audit of financial statements does not relieve you of your responsibilities.



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**Audit Procedures—Internal Control**

We will obtain an understanding of the government and its environment, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. 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. Accordingly, we will express no such opinion. 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. For federal programs that are included in the Compliance Supplement, our compliance and internal control procedures will relate to the compliance requirements that the Compliance Supplement identifies as being subject to audit. 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.

**Responsibilities of Management for the Financial Statements and Single Audit**

Our audit will be conducted on the basis that you acknowledge and understand your responsibility for (1) designing, implementing, establishing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, 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

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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 accounting principles generally accepted in the United States of America; and for compliance with applicable laws and regulations (including federal statutes), rules, 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.

You are also responsible for making drafts of financial statements, schedule of expenditures of federal awards, all financial records, and related information available to us and for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers). 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, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters; (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. At the conclusion of our audit, we will require certain written representations from you about the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and related matters.

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 of each opinion unit 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 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. You are also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements 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, and COVID-19-related concepts, such as lost revenues, if applicable) 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 make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date of 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

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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. 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) 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.

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 Scope and 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.

#### **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 electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's 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. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

#### **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 of Firm's 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.

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**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.

**Access to Working Papers**

The audit documentation for this engagement is the property of The Pun Group, LLP, and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner 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 (7) years after the report release date or for any additional period requested by the Oversight Agency for Audit. 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. Signing this letter represents your acknowledgement and permission to allow such access should your engagement be selected for review.

**Timing**

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. We expect to begin our audit on approximately April 25, 2022 and to issue our reports no later than November 15, 2022.

**Fees**

Our fees for these services are subject to the terms of MTS Contract No. G1513.0-13 for the year ending June 30, 2022. Our fees are based on certain assumptions, including the required assistance described above. To the extent that certain circumstances included but not limited to those listed in Appendix A, arise during the engagement, our fee estimate may be significantly affected and additional fees may be necessary. Additional services provided beyond the described scope of services will be billed separately.

Our invoices for these fees will be rendered as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report(s). You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination.

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If MTS is required to undergo a Single Audit in accordance with the Federal Single Audit Act and the Uniform Guidance, Audits of States, Local Governments, and Not-for-Profit Organizations, there will be an additional fee of \$5,000 for each major program in excess of one (1). The number of programs determined to be a major program will be based on the determination required by the Uniform Guidance and will be discussed with you prior to commencement of any audit work.

The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

### **Reporting**

We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the MTS Board of Directors. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add a separate section, or add an emphasis-of-matter or other-matter paragraph to our auditor's report, or if necessary, withdraw from this engagement. 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.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will state 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 state 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.

### **Termination**

We acknowledge MTS's right to terminate our services at any time, and MTS acknowledges our right to resign at any time (including instances where in our judgment, our independence has been impaired or we can no longer rely on the integrity of management), subject in either case to our right to payment for all direct and indirect charges incurred through the date of termination or resignation or thereafter as circumstances and this agreement may require, plus applicable interest, costs, fees and attorneys' fees.

### **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.

**San Diego Metropolitan Transit System**

**Engagement Letter**

April 1, 2022

Page 9

**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. A copy of our most recent external peer review report (2021) received by The Pun Group, LLP is included with this Engagement Letter.

\*\*\*\*

**San Diego Metropolitan Transit System  
Engagement Letter**

April 1, 2022  
Page 10

**Agreement**

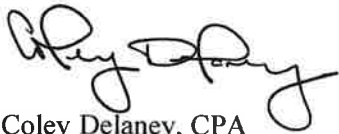
It is hereby understood and agreed that this engagement is being undertaken solely for the benefit of MTS and that no other person or entity shall be authorized to enforce the terms of this engagement.

If you agree with the terms of our engagement, as described in this letter, please sign below, and return it to us.

We appreciate the opportunity to be of service to MTS and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy, and return it to us.

Very truly yours,

**The Pun Group LLP**



Coley Delaney, CPA  
Engagement Partner

---

**RESPONSE:**

This letter correctly sets forth the understanding of the San Diego Metropolitan Transit System.

By:  \_\_\_\_\_

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

Date: 5/11/22 \_\_\_\_\_



8 Denison Parkway East, Suite 407  
Corning, NY 14830

P 607.962.6891  
TF 800.546.7556  
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## Report on the Firm's System of Quality Control

February 14, 2022

To the Owners 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, 2020. 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](http://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*, compliance audits under the Single Audit Act and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### 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, 2020, 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



## APPENDIX A

### San Diego Metropolitan Transit System Circumstances Affecting Timing and Fee Estimate

Circumstances may arise during the engagement that may significantly affect the targeted completion dates and our fee estimate. As a result, additional fees may be necessary. Such circumstances include but are not limited to the following:

1. Changes to the timing of the engagement at your request. Changes to the timing of the engagement usually require reassignment of personnel used by The Pun Group, LLP (the "Firm") in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, the Firm may incur significant unanticipated costs.
2. All requested schedules are not (a) provided by the accounting personnel on the date requested, (b) completed in a format acceptable to the Firm (c) mathematically correct, or (d) in agreement with the appropriate underlying records (e.g., general ledger accounts). The Firm will provide the accounting personnel with a separate listing of required schedules and deadlines.
3. Weaknesses in the internal control structure.
4. Significant new issues or unforeseen circumstances as follows:
  - a. New accounting issues that require an unusual amount of time to resolve.
  - b. Changes or transactions that occur prior to the issuance of our report.
  - c. Changes in the entity's accounting personnel, their responsibilities, or their availability.
  - d. Changes in auditing requirements set by regulators.
5. Significant delays in the accounting personnel's assistance in the engagement or delays by them in reconciling variances as requested by the Firm. All invoices, contracts and other documents which we will identify for the entity, are not located by the accounting personnel or made ready for our easy access.
6. A significant level of proposed audit adjustments is identified during our audit.
7. Changes in audit scope caused by events that are beyond our control.
8. Untimely payment of our invoices as they are rendered.



April 1, 2022

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, 2022. 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 Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the “Uniform Guidance”)**

As stated in our engagement letter dated April 1, 2022, 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 misstatements, 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 1, 2022

Page 2

We have been engaged to report on the Schedule of Expenditures of Federal Awards, 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 the entity. Because the determination of waste and abuse is subjective, Government Auditing Standards do not expect auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or abuse. 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 have identified management override of controls as a significant risk of material misstatement.

We expect to begin our audit on approximately April 25, 2022 and issue our report by November 15, 2022. 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,

The PwC Group, LLP

San Diego, California

# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION Agenda Item 4: Engagement Letter / Audit Scope

*July 14, 2022*

Presented by:  
Kenneth Pun, CPA, CGMA  
Coley Delaney, CPA



# SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE PRESENTATION

## Contents

- Scope of Work
- Management's Responsibilities
- Auditors' Responsibilities
- Approach to the Audit
- Interim Audit Procedures
- Interim Audit Results
- Significant Transactions for 2022
- Implementation of Significant New GASB Standard

# Scope of Work

## Financial Statement Audits

- MTS (ACFR),
- San Diego Transit Corporation Employee Retirement Plan

## Compliance Audit

- Single Audit – MTS

## Agreed-Upon Procedures

- Indirect Cost Rate
- National Transit Database
- Transportation Development Act

## Other

- Management Letters;
- Assistance with GASB 87 Implementation



# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION

### Management's Responsibilities

- Preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America,
- Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MTS's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

# SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE PRESENTATION

## Auditors' Responsibilities

- Form and express an opinion about whether the financial statements that have been prepared by management with Board oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America
- Plan and perform the audit to obtain “reasonable” assurance (not “absolute” assurance) about whether the financial statements are free of material misstatements.
- Consider internal control over financial reporting. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.



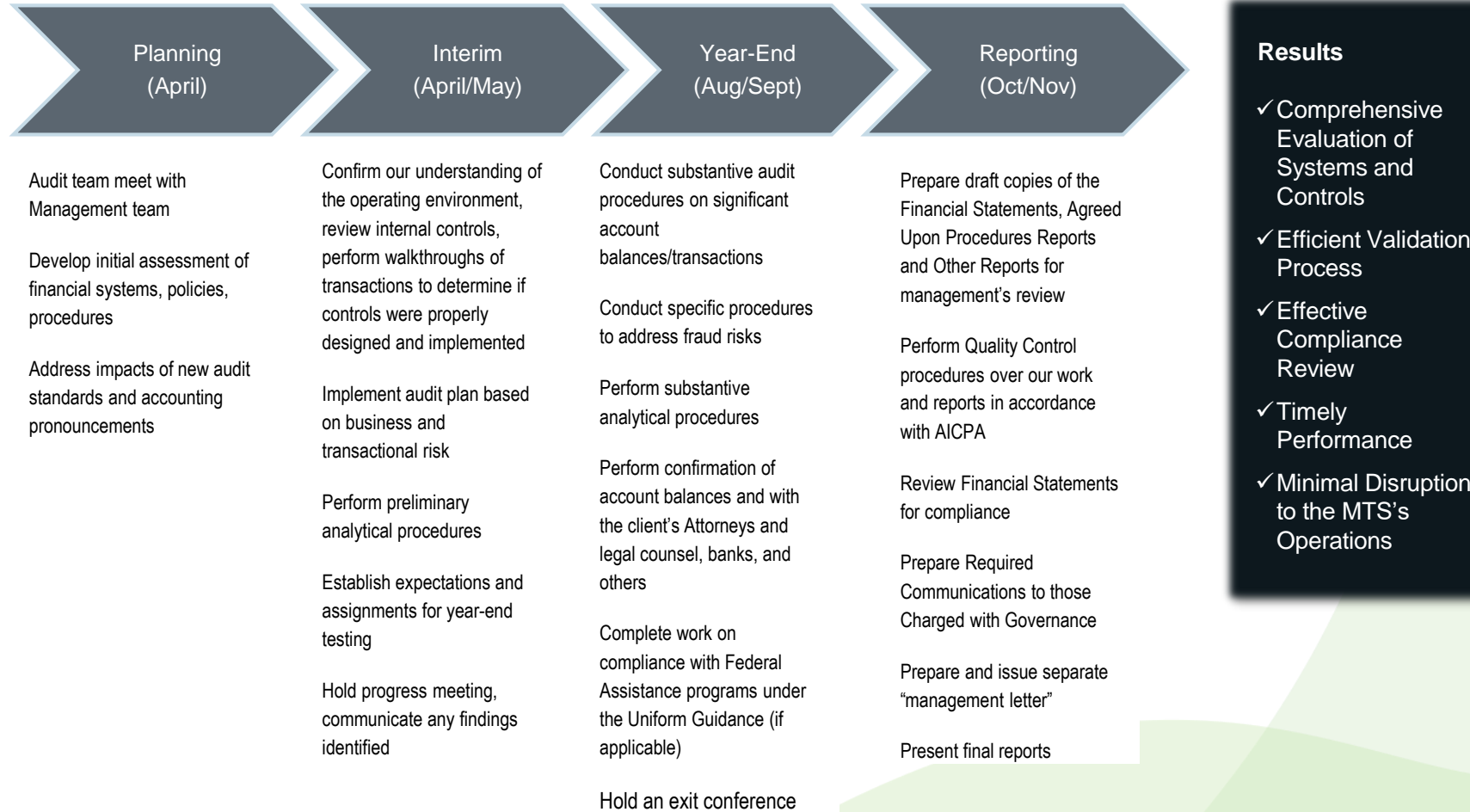
# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION

### Auditors' Responsibilities (Continued)

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the MTS's ability to continue as a going concern for a reasonable period of time.

# Our audit approach.





## **AUDIT OVERSIGHT COMMITTEE PRESENTATION**

### **Agenda Item 4: Engagement Letter / Audit Scope**

**Questions?**

#### **HQ - ORANGE COUNTY**

200 E. Sandpointe Avenue  
Suite 600  
Santa Ana, CA 92707

#### **SAN DIEGO**

4365 Executive Drive  
Suite 710  
San Diego, CA 92121

#### **BAY AREA**

2121 North California Blvd.  
Suite 290  
Walnut Creek, CA 94596

#### **LAS VEGAS**

1050 Indigo Drive  
Suite 110  
Las Vegas, NV 89145

#### **PHOENIX**

4742 North 24th Street  
Suite 300  
Phoenix, AZ 85016



## Agenda Item No. 5

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

July 14, 2022

#### SUBJECT:

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

#### RECOMMENDATION:

That the MTS Audit Oversight Committee (AOC) 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 25, 2022 through May 13, 2022, and tested MTS's internal controls. They also conducted a physical count of San Diego Trolley, Inc. inventory on June 24, 2022.

The Pun Group will discuss the audit procedures performed during the interim audit and the results. They will also discuss the upcoming Governmental Accounting Standards Board (GASB) pronouncements that impact MTS.

/S/ Sharon Cooney

Sharon Cooney  
Chief Executive Officer

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

Attachment: A. MTS Interim Exit Memo - 2022



**Lucia Mansour**

---

**From:** Coley Delaney <Coley.Delaney@pungroup.com>  
**Sent:** Friday, May 27, 2022 10:18 AM  
**To:** Larry Marinesi; Erin Dunn  
**Subject:** Exit Meeting Agenda

CAUTION: This email originated from outside your organization. Exercise caution when opening attachments or clicking links, especially from unknown senders.

Larry and Erin,

Here is the agenda for today's interim audit exit meeting:

**1) INTERNAL CONTROL PROCEDURES PERFORMED**

- Updated our understanding of how MTS's internal control systems are designed and implemented in order to prevent and detect material misstatements.
- Reviewed 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 significant transaction cycles.
- Financial Reporting
  - Reporting to the board – update, walkthrough, and test of controls
  - Journal entry process – update, walkthrough, and test of controls
- Cash and Investments
  - Bank reconciliation – update, walkthrough, and test of controls
- Revenues and Receipts
  - Farebox – update and walkthrough
  - Ticket Vending Machines – update and walkthrough
  - Transit Store – update and walkthrough
  - Invoicing – update and walkthrough
  - Bank deposits – update and walkthrough
  - Compass card/PRONTO – update and walkthrough
  - Grants/Intergovernmental - update and walkthrough
  - Pension Contributions – update and walkthrough – SDTC Pension
- 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 – MTS and SDTC Pension
  - Payroll process – update and walkthrough
  - Rate/status change – update and walkthrough
- Inventory
  - Daily cycle count – update and walkthrough
  - Receiving and dispensing – update and walkthrough
- Capital Assets
  - Additions/deletions – update and walkthrough
  - CIP – update and walkthrough

**2) OTHER PROCEDURES PERFORMED**

- Performed fraud risk inquiries

- Update understanding of general IT controls and IT environment
- Reviewed fiscal year 2022 budget and mid-year budget adjustments
- Reviewed minutes of board, executive committee, and audit oversight committee meetings through April 2022
- Performed pension census data testing for MTS and SDTI
- Performed distributions testing for SDTC Pension
- Performed participant data testing for SDTC Pension
- Preliminary TDA compliance expenditure testing
- Imported Q1-Q3 GL transaction detail to Mindbridge Ai for risk scoring/Relative Risk Grid

### 3) RESULTS

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.

### 4) OPEN ITEMS

- SDTI inventory count – scheduled for June 24 – please provide updated inventory listing by 6/22 in the afternoon
- Claims file testing – scheduled for June 24
- Collection of items to be mailed after June 30:
  - Confirmations
  - Attorney letters (mail 9/1)
- Audit Oversight Committee meeting on July 14 at 9AM

### 5) DISCUSSION ITEMS

- GASB 87 implementation
- Capitalization of Mid-Coast Trolley extension
- Internal audit function
- Year end audit dates (three weeks beginning 8/15 or 8/22?)



***Coley Delaney, CPA***

Partner

**The Pun Group LLP**

4365 Executive Drive, Suite 710

San Diego, CA 92121

P:858.242.5101

C:805.717.2086

Coley.Delaney@pungroup.com



Any accounting, business or tax advice contained in this communication, including attachments and enclosures, is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, The Pun Group, LLP would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.

**PRIVILEGED AND CONFIDENTIAL**

This communication and any accompanying documents are confidential and privileged. They are intended for the sole use of the addressee. If you receive this transmission in error, you are advised that any disclosure, copying, distribution, or the taking of any action in reliance upon this communication is strictly prohibited. Moreover, any such disclosure shall not compromise or waive the attorney-client, accountant-client, or other privileges as to this communication or otherwise. If you have received this communication in error, please contact me at the above email address. Thank you.



# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION Agenda Item 5: Interim Audit

*July 14, 2022*

Presented by:  
Kenneth Pun, CPA, CGMA  
Coley Delaney, CPA





# Interim Audit Procedures



- Initial risk assessment
- Obtain understanding and perform walkthrough and/or tests of control on significant transaction classes
  - Financial Reporting (Budgeting/Journal Entries, Reports to Board)
  - Revenue and Cash Receipts
  - Procurement and Cash Disbursements
  - Capital Assets
  - Payroll and Human Resources
- Confirm risk assessment and design audit procedures
- IT system controls/cyber security
- Fraud risk inquiries
- Prepare attorney letters and confirmations
- Preliminary analytics – Utilizing Audit Artificial Intelligence Tools (MindBridge) and Computerized Analytics

# Interim Audit Procedures (Continued)



- Census data testing – PERS/SDTC Pension/OPEB
- Related party testing
- TDA Compliance testing
- Inventory count
- Claims file testing

# Interim Audit Results



Based on the interim procedures performed, internal controls for the selected transaction cycles appeared to be properly designed, in place, and operating effectively in order to prevent and detect material misstatements.

No significant deficiencies or material weaknesses over internal control, compliance, or financial reporting noted.

We do not provide an opinion on the operating effectiveness of MTS's internal controls – data gathered is for risk assessment purposes.

# SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE PRESENTATION

## Significant Transactions

- Capitalization of Mid-Coast Trolley Extension
  - Extension of UC San Diego Blue Line placed into service in November 2021
  - Project expected to be contributed to MTS from SANDAG
  - Approximately \$2B of contribution revenue and capital asset additions in fiscal year 2022

# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

## AUDIT OVERSIGHT COMMITTEE PRESENTATION

### Implementation of Significant New GASB Standard

- GASB Statement No. 87, *Leases*
  - Requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
  - MTS will report leases receivable and related deferred inflows of resources for all leases as lessor
  - Lessee reporting side not expected to be significant
  - Reporting will be retroactive to 7/1/2021





## **AUDIT OVERSIGHT COMMITTEE PRESENTATION**

### **Agenda Item 5: Interim Audit**

**Questions?**

#### **HQ - ORANGE COUNTY**

200 E. Sandpointe Avenue  
Suite 600  
Santa Ana, CA 92707

#### **SAN DIEGO**

4365 Executive Drive  
Suite 710  
San Diego, CA 92121

#### **BAY AREA**

2121 North California Blvd.  
Suite 290  
Walnut Creek, CA 94596

#### **LAS VEGAS**

1050 Indigo Drive  
Suite 110  
Las Vegas, NV 89145

#### **PHOENIX**

4742 North 24th Street  
Suite 300  
Phoenix, AZ 85016



## Agenda Item No. 6

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

July 14, 2022

**SUBJECT:**

INTERNAL AUDIT ACTIVITY UPDATE REPORT (TOUFIC TABSHOURI)

**INFORMATIONAL ONLY**

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



# Internal Audit Update

July 14, 2022

Toufic Tabshouri



# Agenda

1. Audit Planning Process
2. Planned Audits for Calendar Year 2022
3. Triennial Review
4. Fraud Prevention and Investigation

# Audit Planning Process

## 1. Conduct a Risk Assessment

- a) Divide the organization into auditable units (e.g. departments, divisions, processes, and programs).
- b) For each unit, determine the inherent risk level based on factors such as budgeted amounts, number of employees, and criticality of operations.
- c) Evaluate risks for various threat scenarios: What could go wrong in this area?

# Audit Planning Process

d) Rate risks based on:

- Probability of occurrence
- Severity of impact

e) Modify the rating, based on:

- Presence and strength of controls
- Past audit findings
- Other information (e.g. regulatory changes, new management...)

# Audit Planning Process

2. Generate a list of potential audits
3. Discuss with directors, General Counsel, Chief Executive Officer (CEO)
4. Create a budget
5. Obtain CEO approval and present before Audit Oversight Committee

Note: This year, I did not select audits based on risk scores, but took into account the capacity of departments to cope with audits as well as prior year audit coverage.

# Internal Audit Budget

	Annual Basis	Prorated (28 weeks) through Calendar Year 2022
Work Hours	2,080	1,123
Less:		
Holidays	(72)	(40)
Annual Leave	(184)	(99)
Training	(40)	(22)
Audit Management and Administrative	(180)	(97)
Available Audit and Consultation Hours	1,612	865

# Audit Plan

Audit Topic	Estimated Hours
Travel Expense Claims	160
Accounts Payable	200
Board Policy Reviews (2 to 3 policies)	200
Procurement Micropurchases (Consultation)	160
Pronto (Potential)	TBD
IT Security Update Report	160
Total	880

# Federal Transit Administration's Triennial Review

- The process works as follows:
  - The FTA assigns a reviewer (contractor)
  - The contractor makes a document request
  - MTS provides the documents
  - The contractor interviews various MTS staff
  - The contractor issues a draft report, gets MTS response, and then finalizes the report.
- My role was to observe the effort, note any issues, and make recommendations for future improvement.

# 6. Fraud Prevention and Investigation

- MTS Board Policy 56 – Fraud in the Workplace
  - *Provides authority and delineates roles and responsibilities to the CEO, GG, and Internal Auditor*
- MTS Fraud, Waste and Abuse Hotline
  - *Good control*
- Communication with Human Resources



# Questions?