

AUDIT OVERSIGHT COMMITTEE MEETING FOR THE
METROPOLITAN TRANSIT SYSTEM (MTS)
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

MINUTES

October 17, 2013

A1. ROLL CALL

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

A2. APPROVAL OF MINUTES

It was moved and seconded to approve the minutes of the June 13, 2013, Audit Oversight Committee meeting. The vote was 6 to 0 in favor.

B. COMMITTEE DISCUSSION ITEMS

1. Draft of FY 2013 Comprehensive Annual Financial Report (CAFR)

Erin Dunn reported that the audit has gone very smoothly. Gary Caporicci of Pun & McGeady LLP added that there were only a few very minor issues, and everything went very well.

Mr. Ewin asked staff if there were any time lines for information needed from MTS Board members. Ms. Dunn responded that MTS received all confirmations from attorneys and Board members.

Mr. Cunningham asked if full access to any and all records and accountings was provided to the auditors for purposes of reviewing the report. Ken Pun responded affirmatively.

Mr. Cunningham asked if there were any barriers or problems with accessing records and how long it took. Mr. Pun responded that the turnaround time is quick—they were at MTS for about 3 weeks, and getting the information requested took about 2 days. He said they received all of the information needed. He added that he is really happy with the turnaround time.

Mr. Ovrom asked if there were any areas where the auditors needed to expand their sample size. Mr. Pun responded that they did a significant amount of internal-controls testing this year and over the last couple of years. He stated that they follow the CTA auditing standards for sampling size. He explained those procedures and added that MTS is low risk.

Mr. Ewin asked if there is a need to audit any information from the San Diego Association of Governments (SANDAG). Mr. Pun replied that they do review SANDAG pass sales and capital grant funds information. He added that this information has an impact on MTS's financial outcomes, and this information is audited at the MTS location.

Mr. Ewin noted that there is a citation about data needed for the National Transit Database in order to complete MTS's exhibits. Ms. Dunn responded that MTS has one question in regard to revenue hours but otherwise everything is complete.

Mr. Ewin stated that the purpose of this item is to gather comments, resolve any conflicts or typos, and answer any questions relating to the process. He stated that when the CAFR is presented in its final format to the Board, Mr. Ewin has 12 questions that he asks publicly for the minutes.

Mr. Ewin noted that under Taxicab in the CAFR, he saw all cities listed except La Mesa. Ms. Dunn responded that she will investigate. Ms. Landers responded (later in the meeting) that the CAFR incorrectly lists National City (MTS does not regulate its taxicabs), and it also left off La Mesa. She added that this will be corrected.

Mr. Ewin asked staff to highlight any additions or edits to the CAFR between now and the November Board meeting. Ms. Dunn added that the only subsequent-event finding was the purchase of the Pyramid Building.

Action Taken

It was moved and seconded to receive a draft of the FY 2013 CAFR for review and discussion. The vote was 6 to 0.

2. Report of New GASB Statements and Auditing Standards

Gary Caporicci of Pun & McGeady referred to a handout entitled "Presentation to San Diego Metropolitan Transit System" (attached). Mr. Caporicci reviewed updates to the GASB Statements 60-70. Ken Pun reviewed Government Auditing Standards and AICPA Clarified Standards.

Mr. Ewin asked who checks that Pun & McGeady's processes are in line. Mr. Pun explained that there is one partner in the field and another partner behind the scenes making sure that procedures are in place to ensure that responsibilities are being implemented on their end. Mr. Ewin asked if there is an outside firm overseeing processes. Mr. Caporicci responded that there is an outside firm that does a peer review of Pun & McGeady.

Mr. Caporicci summarized pension implications of the CAFR. He stated that MTS is in very good shape in comparison to other agencies.

Ms. Dunn asked if AOC members would like a copy of Pun & McGeady's peer review report to be made available at the Board meeting. Mr. Ewin responded that he would like a copy for the AOC, but that he would give a verbal report at the Board meeting and make the report available if anyone wished to see it.

Action Taken

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

3. Auditing Services Contract Award

Erin Dunn stated that the auditing services contract award selection committee for MTS included Claudine Aquino from the Procurement Department; Cliff Telfer, former CFO; Tom Lynch, former Controller; Daniel Madzellan, former Internal Auditor; and Linda Musengo, Finance Manager.

Ms. Dunn reported that the MTS selection committee is recommending a five-year contract with 3 one-year options with Pun & McGeady LLP for auditing services. She stated that Pun & McGeady LLP was ahead of the one other firm that was interviewed with both its cost proposal and Best and Final Offer. She added that MTS also already had confidence in Pun & McGeady LLP from its prior work with the agency. Ms. Dunn noted that 5 bids were received, but only 2 firms were interviewed. Discussion ensued about the cost differences between the two bidders and the bidding process. Mr. Ewin clarified that this request could go to the Board as a Consent item.

Action Taken

It was moved and seconded to forward a recommendation to the Board of Directors to authorize the MTS CEO to execute MTS Doc. No. G1513.0-13 for a five-year contract with 3 one-year options with Pun & McGeady LLP for auditing services. The vote was 6 to 0.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

Mr. Ewin requested that if anyone had any concerns to submit them as soon possible; otherwise, the CAFR will go to the next Board meeting in November.

D. PUBLIC COMMENTS

There were no public comments. Karen Landers, General Counsel, informed members that Daniel Madzelan, MTS's Internal Auditor, left the agency for another position.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

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


Chairman

Attachments: Roll Call Sheet
Pun & McGeady handout "Presentation to San Diego Metropolitan Transit System
"A New Look" by Gary M. Caporicci, CPA, CGFM, CFF

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) October 17, 2013

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

RECESS N/A

RECONVENE N/A

CLOSED SESSION N/A

RECONVENE N/A

ADJOURN 9:57 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>	9:00 a.m.	
GLORIA <input type="checkbox"/> (Emerald) <input checked="" type="checkbox"/>	9:03 a.m.	
MATHIS <input checked="" type="checkbox"/>	9:00 a.m.	
OVROM <input checked="" type="checkbox"/> (Bragg) <input type="checkbox"/>	9:00 a.m.	
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:04 a.m.	
CUNNINGHAM <input checked="" type="checkbox"/> (McClellan) <input type="checkbox"/>	9:00 a.m.	
Transportation Committee Rep Slot (Mathis)		

SIGNED BY THE CLERK OF THE BOARD: 

CONFIRMED BY THE GENERAL COUNSEL: 



Presentation to
San Diego Metropolitan Transit System
San Diego, California

Audit Oversight Committee
October 17, 2013

Presented by:

Gary M. Caporicci, CPA, CGFM, CFF

Kenneth H. Pun, CPA, CGMA

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GASB UPDATE

Pun & McGeady LLP

(3)

2013

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- Statement 61 – *The Financial Reporting Entity – Omnibus*
- Statement 62 – *Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements*
- **Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***

2014

- Statement 65 – *Items Previously Reported as Assets and Liabilities*
- Statement 66 – *Technical Corrections – 2012*
- **Statement 67** – *Financial Reporting for Pension Plans*
- Statement 70 – *Non exchange Financial Guarantees*

2015

- **Statement 68 – *Accounting and Financial Reporting for Pensions***
- **Statement 69 – *Government Combinations and Disposals of Operations***

GASB STATEMENT

NO. 63 -

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Highlights

- Now five elements make up a statement of financial position:
 - Assets
 - **Deferred Outflows of Resources**
 - Liabilities
 - **Deferred Inflows of Resources**
 - Net Position
- New title: *Net Investment in Capital Assets*

GASB STATEMENT
NO. 67-
Financial Reporting for Pension Plans

Highlights

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

Highlights

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

GASB STATEMENT
NO. 68-
Accounting and Financial Reporting for
Pensions

Highlights

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

PENSION EXPENSE T-ACCOUNT

1. Employer contributions.
Earnings on Plan
Investments.

2. Earnings on Plan
Investments.

Difference between actual and
projected earnings to be
recognized over a 5-year period.*

2. Earnings on Plan Investments.

Difference between actual and
projected earnings to be
recognized over a 5-year closed
period. *

* Report as deferred outflows or inflows of resources

PENSION EXPENSE

T-ACCOUNT (Continued)

- | | |
|--|--|
| <ul style="list-style-type: none">3. Interest on the beginning Total Pension Liability.4. Change in plan terms.<ul style="list-style-type: none">a) Changes for past service of inactive/retired employees to be recognized immediately.b) Changes for past service of active employees to be recognized over the average expected remaining service lives of the employees. * | |
|--|--|

* Report as deferred outflows or inflows of resources

Highlights

- Note Disclosures
- Required Supplementary Information

Government Auditing Standards Update

Pun & McCready LLP

(17)

Effective Date

- The effective date for financial audits and attestation engagements is for periods ending on or after December 15, 2012.

Overall Changes

- Updated financial and audit standards which:
 - Reflect recent updates to the auditing standards issued by the AICPA, where applicable.
 - More clearly identifies the Yellow Book requirements and guidance that supplement AICPA requirements for financial audits.
- Consistency of the use of footnotes has been improved.

Highlights

- Concepts and ethical principles that serve as the foundation for the requirements and guidance for GAGAS.
- Legislators, Oversight Bodies, Those Charged with Governance, and the Public Need to Know Whether...
 - Entities manage government resources and use their authority properly and in compliance with laws and regulations
 - Government programs are achieving their objectives and desired outcomes
 - Government services are provided effectively, efficiently, economically, ethically, and equitably
- Purpose and Applicability of GAGAS

Highlights

- Non Audit Services
- Circular A-133 audits involve three layers of requirements:
 - OMB Circular A-133 requirements
 - Yellow Book requirements
 - GAAS requirements
- SAS 117, Compliance Audits
- Conceptual Framework for Independence

AICPA
Clarified Auditing Standards
(And How They Apply to Government Audits)

Purpose of Clarified Standards

- Implement ASB's clarity drafting conventions designed to make standards easier to read, understand and apply.
- Convergence of standards with International Standards on Auditing of the International Auditing and Assurance Standards Board.
- Not to create additional requirements, but some practices will need to be "adjusted".

AICPA

Clarified Auditing Standards

- Clarity project substantially completed with issuance of SAS 122-127
 - SAS 122 *Clarification and Recodification*
 - SAS 123 *Omnibus Statement on Auditing Standards – 2011*
 - SAS 124 *Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country*
 - SAS 125 *Alert that Restricts the Use of the Auditor's Written Communications*
 - SAS 126 *The Auditor's Consideration of An Entity's Ability to Continue as a Going Concern(Redrafted)*
 - SAS 127 *Omnibus Statement on Auditing Standards -2013*
- Effective for periods ending after 12/15/2012

Documentation

- Make sure impacts on various documents are incorporated:
 - Engagement letters
 - Representation letters
 - Auditors' reports
 - Restricted use reports (e.g. management letters)

Substantive Changes

- Consideration of Laws and Regulations
- Communicating Internal Control Related Matters
- Related Parties
- Group Audits
- Auditors' Reports

A New Look

this article is intended to aid government officials and practitioners in the implementation of the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Concepts Statement No. 4, *Elements of Financial Statements*
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

In June 2007, GASB completed Concepts Statement No. 4, *Elements of Financial Statements*, which discussed, explained and concluded about the elements of financial statements. Further, in 2011 GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This article presents the requirements and implementation of GASB Statement No. 63.

Concepts Statement No. 4, Elements of Financial Statements

This Concepts Statement is one of a series that has been issued or will be issued and are intended to provide a conceptual framework of inter-related objectives and fundamental concepts that can be used as a basis for establishing consistent financial reporting standards.

Concepts statements identify the objectives and fundamental principles of financial reporting that can be applied to address numerous financial accounting and reporting issues. They provide GASB with the basic conceptual foundation for considering the merits of alternative approaches to financial reporting and help GASB develop well-reasoned financial reporting standards.

Concepts Statement No. 4 established definitions for seven elements—or fundamental components—of financial statements of state and local governments. The elements of a statement of financial position are defined as:

- **Assets:** Resources with present service

capacity that the government presently controls.

- **Deferred Outflows of Resources:** Consumption of net assets by the government that is applicable to a future reporting period. Has a positive effect on net position similar to assets.
- **Liabilities:** Present obligations to sacrifice resources that the government has little or no discretion to avoid.
- **Deferred Inflows of Resources:** Acquisition of net assets by the government that is applicable to a future reporting period. Has a negative effect on net position similar to liabilities.
- **Net Position:** Residual of all elements presented in a statement of financial position (assets plus deferred outflows minus liabilities and deferred inflows equals net position)

The elements of the resource flows statements are defined as:

- **Outflow of Resources:** Consumption of net assets by the government that is applicable to the reporting period.
- **Inflow of Resources:** Acquisition of net assets by the government that is applicable to the reporting period.

Concepts Statement No. 4 improves financial reporting by defining some of the most central terms used in GASB pronouncements, which will enhance consistency in future standards setting. These defined terms include deferred outflows of resources and deferred inflows of resources, which will, for example, allow for better presentation of interperiod equity in certain financial statements.

This Concepts Statement also may benefit preparers and auditors when evaluating transactions, in certain cases, for which there are no existing standards. Financial statement users also may benefit from understanding these definitions that identify the items and events that should be reported as specific elements of financial statements.

New Elements in GASB Financial Statements

GASB Statement No. 63

GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in June 2011, addressing the various elements of financial statements:

Financial Reporting for Deferred Outflows of Resources and Deferred Inflows of Resources: Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be added to the total for liabilities to provide subtotals.

Statement of Net Position: Reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The Statement of Net Position should report the residual amount as net position, which represents the difference between all other elements in a statement of financial position and should be displayed in three components:

- Net Investment in Capital Assets
- Restricted (by major categories)
- Unrestricted

Components of net position are defined as:

- **Net Investment in Capital Assets:** The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are related to those assets.

Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position.

If there are significant unspent related debt proceeds or deferred inflows of resources

at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

- **Restricted Component of Net**

Position: Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

- **Unrestricted Component of Net**

Position: Includes the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

- **Financial Reporting for**

Governmental Funds: Deferred outflows of resources and deferred inflows of resources that are required to be reported in a governmental fund balance sheet should be presented in a format that displays assets plus deferred outflows of resources, equals liabilities plus deferred inflows of resources, plus fund balance. Governmental funds

continue to report fund balance.

- **Disclosures:** Balances of deferred outflows of resources and deferred inflows of resources reported in a statement of net position or a governmental fund balance sheet may be presented in detail or as aggregations of different types of deferred amounts. Governments should provide details of the different types of deferred amounts in the notes to the financial statements if not separately presented.

Effective Date

Statement No. 63 is effective for financial statements for periods beginning after Dec. 15, 2011. Earlier application is encouraged.

How about Early Implementation of GASB 65?


GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, is effective for financial statements for periods beginning after Dec. 15, 2012. In California, the effective dates are:

Year End	Effective Dates
Dec. 31	Dec. 31, 2013
June 30	June 30, 2014
Sept. 30	Sept. 30, 2014

Although early application is encouraged and GASB Statement No.65 seems clearly related to GASB Statement No.63, it's recommended not to early implement. The reasoning to not implement early is that government officials and practitioners need sufficient time to accurately reformat the financial statements for Statement No. 63.

In early 2014, an article will be published on GASB Statement No. 65 with a detail matrix of assets and liabilities to be classified as Deferred Outflows and Deferred Inflows and other amounts put into the resource flows statement.

Conclusion

Although it may seem that GASB No. 63 will make financial reporting more complicated, I believe by displaying the significant deferred elements separately, financial reporting will be improved and better positioned and consistent with new GASB standards being issued. 

Gary M. Caporicci, CPA, CGFM, CFF, is a partner with Pun & McGeady LLP and chair of the CalCPA California Municipal Accounting Committee. You can reach him at gcaporicci@pm-llp.com.

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