# METROPOLITAN TRANSPORTATION COMMISSION

## Meeting Transcript

**MTC AUDIT COMMITTEE**

**WEDNESDAY, NOVEMBER 16, 2022 9:05 AM**

**V. CHAIR NICK JOSEFOWITZ:** I'LL START THE MEETING PLEASE ROLL THE ANNOUNCEMENT. THIS MEETING WILL BE CONDUCTED AS A HYBRID MEETING A ZOOM WEBINAR LINK HAS BEEN PROVIDED AS WELL AS ACCOMMODATIONS FOR IN-PERSON ATTENDANCE. THIS MEETING IS ALSO BEING WEBCAST ON THE METROPOLITAN TRANSPORTATION COMMISSION WEB SITE. COMMISSIONERS AND MEMBERS OF THE PUBLIC PARTICIPATION BY ZOOM, WISHING TO SPEAK, SHOULD USE THE RAISE HAND FEATURE OR DIAL STAR 9, AND THE CHAIR WILL CALL UPON THEM AT THE APPROPRIATE TIME. TELECONFERENCE ATTENDEES WILL BE CALLED UPON BY THE LAST FOUR DIGITS OF THEIR PHONE NUMBER. IT IS REQUESTED THAT PUBLIC SPEAKERS STATE THEIR NAMES AND ORGANIZATION, BUT, PROVIDING SUCH INFORMATION IS VOLUNTARY. WRITTEN PUBLIC COMMENTS RECEIVED AT INFO@BAYAREAMETRO.GOV BY 5 P.M., YESTERDAY, WILL BE POSTED TO THE ONLINE AGENDA AND ENTERED INTO THE RECORD, BUT WILL NOT BE READ OUT LOUD. A ROLL CALL VOTE WILL BE TAKEN FOR ALL ACTION ITEMS. PANELISTS AND ATTENDEES SHOULD NOTE THAT THE CHAT FEATURE IS NOT ACTIVE. IN ORDER TO PARTICIPATE, PLEASE MAKE SURE YOUR APPLICATION IS UP TO DATE.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU VERY MUCH. I DON'T KNOW IF EVERYBODY ELSE HEARD THE AUDIO.

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**AMY R. WORTH:** I DID TOO.

**V. CHAIR, NICK JOSEFOWITZ:** SO LET'S -- KIMBERLY F YOU COULD CALL THE ROLL AND CONFIRM QUORUM.

**CLERK, KIMBERLY WARD:** CHAIR PEDROZA IS ABSENT. VICE CHAIR JOSEFOWITZ?

**V. CHAIR, NICK JOSEFOWITZ:** HERE.

**CLERK, KIMBERLY WARD:** COMMISSIONER DUTRA-VERNACI?

**CAROL DUTRA-VERNACI:** HERE.

**CLERK, KIMBERLY WARD:** COMMISSIONER GLOVER? IS ABSENT. COMMISSIONER RABBIT? IS ABSENT. COMMISSIONER WORTH?

**V. CHAIR, NICK JOSEFOWITZ:** COMMISSIONER RABBIT IS HERE.

**DAVID RABBIT:** HERE.

**CLERK, KIMBERLY WARD:** WORTH?

**AMY R. WORTH:** HERE.

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**CLERK, KIMBERLY WARD:** THANK YOU. WE HAVE QUORUM.

**V. CHAIR, NICK JOSEFOWITZ:** MOVING TO AGENDA ITEM, FY 2022 AUDIT RESULTS AND REQUIRED COMMUNICATIONS REPORT BY CROWE LLP ON THE FY 2021, 22 ANNUAL FINANCIAL COMPLIANCE RESULTS FROM MTC, AND KATHY LAI OF CROWE CROWE LLP WILL GIVE THE REPORT.

**KATHLEEN LAI:** THANK YOU. ENGAGEMENT PARTNER FROM CROWE. A LITTLE BIT OF AN ECHO. I'LL ASK STAFF TO PULL UP MY PRESENTATION. ALL RIGHT. I'M KATHY LIE, ENGAGEMENT RECRUITER CROWE LLP, I HAVE ME TEAM RACHAEL AND JESSICA IN ATTENDANCE WITH ME TODAY. PLEASE TO PRESENT THE RESULTS. NEXT SLIDE. AUDITS ARE COMPLETED, REMAINING ITEMS OPEN ARE TYPICAL, STANDARD SUBSEQUENT PROCEDURES AS WELL AS RECEIPT OF MANAGEMENT'S REPRESENTATION ALL RIGHT WHICH WILL BE PROVIDED AT CONCLUSION OF THIS MEETING. NEXT SLIDE. BEFORE WE BEGIN, I WANT TO ACKNOWLEDGE THE TREMENDOUS AMOUNT OF EFFORT THAT GOES INTO PERFORMING THE FINANCIAL AND COMPLIANCE AUDIT. ON THE SLIDE, I HAVE A SLIDE ACKNOWLEDGING THE CROWE LEADERSHIP TEAM AS WELL AS MTC MANAGEMENT FOR ALL YOUR INCREDIBLE EFFORTS DURING THIS YEAR. NEXT SLIDE WE HAVE A BRIEF AGENDA. AND I'LL GO OVER THE AUDIT OBJECTIVES, THE RESULTS, AND FINISH UP WITH CERTAIN COMMUNICATIONS REQUIRED UNDER OUR AUDITING STANDARDS. NEXT SLIDE TO ENGAGEMENT OBJECTIVES. BEFORE I START OF I

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THOUGHT IT WAS WORTHWHILE TO REVIEW OBJECTIVES. CROWE WAS ENGAGED TO COMPLETE AN AUDIT OVER MTC AND RELATED ITEMS TO EXPRESS OPINION ON WHETHER OR NOT FINANCIAL STATEMENTS ARE IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING PRINCIPLES, WITH STANDARDS AS MY RESPONSIBILITY AS AUDITOR IMPORTANT TO NOTE MANAGEMENT'S RESPONSIBILITY, THEIR RESPONSIBILITY FOR THE FINANCIAL STATEMENTS AND PRESENTATION AS WELL AS ALL INTERNAL CONTROLS IN REPORTING THAT GOES INTO THE FINANCIAL STATEMENTS. THESE WERE SUBJECT TO AUDIT CERTAINLY MTC AS A WHOLE AS WELL AS BAY AREA INFRASTRUCTURE AND FINANCING AUTHORITY OR BAIFA, OR BAY AREA HOUSING FINANCE AUTHORITY NEW THIS YEAR, BAHFA, AS WELL AS THE BAY AREA HEADQUARTERS AUTHORITY. I KNOW THE AUDIT IS LARGE WITH A LOT OF ARE FUNDS. WE PUT TOGETHER AN ILLUSTRATION ON THE NEXT SLIDE OF ALL MTC FUNDS AND AUDITS CONDUCTED. NEXT SLIDE. THIS GRAPHIC FROM PLANNING COMMUNICATIONS IN THE PAST, WE THOUGHT IT WAS WORTHWHILE TO REMIND THE AUDIT COMMITTEE OF ALL FUNDS THAT ARE PART OF OUR AUDIT. THE REPORT IS FROM TWO IMPORTANT PERSPECTIVES, GOVERNMENT WIDE FINANCIAL STATEMENTS ON THE LEFT, AS WELL AS FUND FINANCIAL STATEMENTS AND THOSE GOVERNMENT WIDE FINANCIAL STATEMENTS SEGREGATED BETWEEN GOVERNMENTAL ACTIVITIES AS WELL AS BUSINESS TYPE ACTIVITIES AND UNDER GOVERNMENTAL FUNDS YOU WILL SEE WE HAVE GOT THE GENERAL FUND, STATE TRANSIT ASSISTANCE FUND TOLL REVENUE RESERVE FUNDS BART CAR EXCHANGE AS WELL AS BAHFA OUR NEW ENTITY, BATA FUND, SAFE FUND, BAIFA,

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AND UNDER GOVERNMENTAL ACTIVITIES AND BUSINESS ACTIVITIES, AGGREGATE REMAINING FUNDS INCLUDES ALL FUNDS THAT WEREN'T CALCULATED TO BE UNDER MAJOR UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES CONSIDERED AS AGGREGATE, BAHA, A DISCRETE COMPONENT AND ON THE BOTTOM STANDALONE AUDIT REPORTING IN ADDITION TO ISSUING THE AUDIT OPINION AS A WHOLE, WE DO STANDALONE REPORTS FOR BAHFA, BAIFA AS WELL AS BAHFA. WITH THAT I'LL MOVE TO AUDIT RESULTS. NEXT COUPLE OF SLIDES. NEXT SLIDE. I'M PLEASED TO REPORT THEY ANTICIPATE ON ISSUING UNMODIFIED OPINIONS THAT'S THE HIGHEST LEVEL OF ASSURANCE THAT WE CAN EXPRESS MY AUDIT OPINION WILL STATE THAT THE FINANCIAL STATEMENTS ARE IN ALIGNMENT WITH OUR GENERALLY ACCEPTED AUDITING PRINCIPLES. UNMODIFIED. WE CONDUCTED COMPLIANCE AUDITS IN RELATION TO THE UNIFORM GUIDANCE REPORT. MTC SPENDS ABOUT 80.5 MILLION IN FEDERAL FUNDING DURING FISCAL YEAR '22, AND BECAUSE OF THAT MTC IS SUBJECT TO THE UNIFORM GUIDANCE OR GRANTS AUDIT. WITHIN THAT AUDIT PLEASED TO REPORT WE SELECTED ONE PROGRAM FEDERAL TRANSIT CLUSTER AND WE ANTICIPATE ISSUING A CLEAN OPINION ON THE UNIFORM GUIDANCE. IN ADDITION TO THE COMPLIANCE REPORT WE CONSIDERED MANAGEMENT CONTROLS UNDER FINANCE REPORTING UNDER OTHER MATTERS WE DIDN'T NOTE ANY NON-COMPLIANCE IN OTHER MATTERS BUT DID IN TELLER CONTROLS RELATED TO CLIPPER ACTIVITIES THAT I'LL NOTE ON THE NEXT SLIDE. ON THE NEXT SLIDE, PLEASE. BY WAY OF BACKGROUND WE HAD A MATERIAL WEAKNESS OVER THE CLIPPER ACTIVITY PERTAINING TO BOTH THE

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CLIPPER ENTERPRISE FUNDS AS WELL AS CLIPPER FIDUCIARY FUND BY WAY OF BACKGROUND FOR THE ENTERPRISE FUND THE COMMISSION HAD HISTORICALLY ACCOUNTED FOR COSTS ASSOCIATED WITH THE CLIPPER FARE PAYMENT SYSTEM AS WELL AS THE RELATED EQUIPMENT UTILIZED BY THE PARTICIPATING TRANSIT OPERATORS AS A NON-OPERATING EXPENSE ENTITLED DISTRIBUTION TO OTHER AGENCIES FOR THEIR CAPITAL SERVICES IN PRIOR YEARS. RECORDED BASED ON BELIEF THAT THE CLIPPER FARE SYSTEM AS WELL AS RELATED PAYMENT WAS FOR THE BENEFIT OF OPERATORS AND WAS NOT USED IN MTC OPERATION, AND MTC ITSELF WASN'T A TRANSIT OPERATOR, AND BECAUSE OF THAT MANAGEMENT PREVIOUSLY BELIEVED THOSE COSTS WERE APPROPRIATELY EXPENSED TO THE CAPITAL ASSET. MTC ENTERED INTO A MEMENTO RAN DUM OF UNDERSTANDING WITH TRANSIT OPERATORS WHEREBY MTC UNDERTOOK ADDITIONAL RESPONSIBILITIES RELATED TO THE CREATION AND MAINTENANCE OF ALL THE COPY RIGHTS AND INTELLECTUAL PROPERTY NECESSARY FOR THE OPERATION OF THE CLIPPER FARE PAYMENT SYSTEM AS WELL AS OWNERSHIP OF THE SPECIFIED CLIPPER ASSETS UTILIZED BY THE TRANSIT OPERATORS BECAUSE OF THAT MANAGEMENT HAS CONCLUDED THAT MTC OPERATIONS FOR THE PURPOSE OF THE CLIPPER SYSTEM IS THE SERVICE THAT THEY PROVIDED TO THE TRANSIT OPERATORS AND NOT THAT PROVIDED TO INDIVIDUAL CLIPPER USERS. SO AS A RESULT, MANAGEMENT REFLECTED SOME PRIOR PERIOD ADJUSTMENTS TO REFLECT THE COMMISSION'S OWNERSHIP IN THE CAPITAL ASSETS AS WELL AS THE LICENSE TO UTILIZE THE CLIPPER FARE PAYMENT SYSTEM BASE ON THAT AMENDED MOU IN 2016. THAT'S

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1 FOR THE CLIPPER ENTERPRISE FUND. THERE WAS ALSO RECOMMENDATION
2 RELATIVE TO THE CLIPPER FIDUCIARY FUND. THERE WERE
3 INCONSISTENCIES IN THE EVALUATION OF WHETHER OR NOT THOSE
4 PREPAID UNUSED CLIPPER FARE PAYMENTS OR CARDS WOULD BE MORE
5 APPROPRIATELY REFLECTED AS AN ADDITION TO THE FIDUCIARY FUND
6 AS OPPOSED TO A LIABILITY AND TO QUALIFY FOR A LIABILITY AN
7 EVENT NEEDS TO OCCUR TO COMPEL MANAGEMENT TO DISBURSE THOSE
8 ASSETS TO THE FIDUCIARY FUND TO THE RESPECTIVE [INDISCERNIBLE]
9 USERS. SO MANAGEMENT DETERMINES -- AND IN CONSULTATION WITH
10 GASB HAD CONSULTED WITH THEM AS WELL THAT THE CLIPPER
11 FIDUCIARY FUND UNUSED PREPAID CARDS WERE MORE APPROPRIATELY
12 REFLECTED AS ADDITION AND WE RECOMMENDED RECLASS OF THAT.
13 RELATED TO THAT MANAGEMENT MADE THE FOLLOWING ADJUSTMENTS TO
14 CORRECT THE FINANCIAL REPORTING FOR CLIPPER ACTIVITIES. NEXT
15 SLIDE. AND THAT WAS REALLY TWOFOLD. FOR THE ENTERPRISE FUND
16 FIRST ADJUSTMENT WAS TO INCREASE THE NET BOOK VALUE OF CAPITAL
17 ASSETS AND BEGINNING NET POSITION BY 53 MILLION FOR THE
18 COMMISSION'S LICENSE TO USE THE CLIPPER FARE PAYMENT SYSTEM AS
19 WELL AS RELATED EQUIPMENT PREVIOUSLY RECORDED AS EXPENSES BUT
20 NOW RECORDED AS CAPITAL ASSETS AND SECOND ADJUSTMENT WHICH
21 MANAGEMENT CORRECTED WAS TO ALSO DECREASE LIABILITY AND
22 INCREASE FIDUCIARY NET POSITION BY 120 MILLION IN THE PREPAID
23 AND UNUSED CLIPPER BALANCES THAT WEREN'T PREVIOUSLY RECORDED
24 AS IN ADDITION TO THE FIDUCIARY FUND. BASED ON THE MATERIAL
25 WEAKNESS AND OBSERVATION OF CONTEXT OF FINDINGS, WE MADE

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RECOMMENDATION FOR MANAGEMENT TO STRENGTHEN THEIR REVIEW OF CHANGES IN CONTRACTS AND AGREEMENTS TO ENSURE THE ACCOUNTING APPROPRIATELY WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND ALSO RECOMMENDED SEEKING AUTHORITATIVE GUIDANCE I'LL MOVE TO AUDITING STANDARDS. NEXT TWO SLIDES. FIRST IS OUR SIGNIFICANT ACCOUNTING POLICIES, MANAGEMENT PROPERLY DISCLOSED THEIR POLICIES IN FOOTNOTE ONE OF EACH REPORT PRESENTED TODAY WE HAVE REVIEWED THEM AND THEY APPEAR TO BE CLEAR AND CONSISTENT WITH PRIOR PERIODS NEXT UP MANAGEMENT'S ACCOUNTING ESTIMATES FINANCIAL STATEMENTS CERTAINLY HAVE A CERTAIN ESTIMATE THAT ARE SUBJECT TO OUR AUDIT EXAMPLES OF THAT FAIR VALUE OF ADJUSTMENTS INVESTMENTS AS WELL AS PENSION AND POST RETIREMENT OBLIGATIONS PERFORMS OF AUDIT FEATURES ESTIMATE TO BE APPROPRIATE. ON THE NEXT SLIDE THERE ARE SEVERAL NEW GASB STANDARDS AS WELL AS IMPLEMENTATION GUIDANCE THAT WERE REQUIRED TO BE IMPLEMENTED. ALL OF THOSE, THE MOST IMPORTANT WAS PROBABLY GASB 87. AS DISCUSSED IN SEVERAL NOTES 1C, 1S, 4 AND 6 TO THE ANNUAL COMPREHENSIVE FINANCIAL STATEMENTS DURING THE YEAR MTC HAD ADOPTED GASB 87, AND THE ADOPTION RESULTED IN REPORTING LEASE RECEIVABLES DEFERRED INFLOWS OF RESOURCES FOR THE BAY AREA HOUSING AUTHORITY AND AS WELL, DISCRETELY PRESENTED UNIT RIGHT TO USE LEASE ASSET COMPONENT LEASE ASSET AND LEASE PAYABLE FOR BAY AREA TOLL AUTHORITY PROPRIETARY FUND. BASED ON THE IMPACT IMPLEMENTATION GASB 787 NO IMPACT TO NET POSITION AS A RESULT OF THE ADOPTION. AND CLIPPER

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ACTIVITIES, ONE CORRECTED MISSTATEMENTS RELATED TO THE CLIPPER ENTERPRISE FUND AND CLIPPER FIDUCIARY FUND. I WON'T GO OVER THAT AGAIN. UNCORRECTED MISSTATEMENTS AGGREGATED DURING THE AUDIT, THOSE WERE DETERMINED TO BE IMMATERIAL AND WERE BROUGHT TO THE ATTENTION OF MANAGEMENT AND WILL BE ATTACHED TO MANAGEMENT'S REPRESENTATION LETTER THAT CROWE WILL PROVIDE TO THE AUDITORS AT THE CONCLUSION OF AUDIT. NEXT SLIDE HERE, LAST BUT NOT LEAST WE DID NOT NOTE ANY OF THE FOLLOWING MATTERS NOTED ON THIS SLIDE, MANAGEMENT, ESPECIALLY WITH REVIEWING THE CLIPPER ACTIVITIES, THEY WERE CERTAINLY COOPERATIVE AND WE WORKED WELL TOGETHER TO COME TO THE RIGHT ANSWER RELATIVE TO THE SOLUTION THERE. WITH THAT I'LL OPEN IT UP FOR ANY QUESTIONS.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU VERY MUCH. AM I JUST -- I THAN WE HAVE TWO AGENDA ITEMS FOR THIS. THERESE AND DEREK, IS NOW THE TIME TO ASK YOU A BUNCH OF QUESTIONS ABOUT WHAT'S GOING ON? OR WOULD THAT BE IN THE NEXT AGENDA ITEM?

**DEREK HANSEL:** WE'LL BE ADDRESSING MANAGEMENT'S RESPONSES IN THE NEXT AGENDA ITEM.

**V. CHAIR, NICK JOSEFOWITZ:** OKAY. COMMISSIONER DUTRA-VERNACI?

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**CAROL DUTRA-VERNACI:** THANK YOU. AS FAR AS THE RECOMMENDATION FOR SEEKING AUTHORITATIVE GUIDANCE FOR UNIQUE TRANSACTIONS MAYBE THIS IS A STAFF QUESTION MORE THAN THE AUDITOR, BUT WHAT'S OUR CURRENT PROCESS? WHO WAS THE AUTHORITATIVE GUIDANCE? WAS IT A LOWER LEVEL STAFF PERSON MAKING THESE DECISIONS AND IT DIDN'T RISE TO THE NOW DEREK, FORMERLY BRIAN TO ASK QUESTIONS AS TO THE CLASSIFICATION I'M JUST TRYING TO UNDERSTAND WHAT THE AUTHORITATIVE GUIDANCE IS.

**DEREK HANSEL:** GOING FORWARD WITH LARGE SITUATIONS LIKE THIS, CERTAINLY THERE WILL BE COLLABORATIVE DECISION-MAKING AMONG THE ENTIRE FINANCE ACCOUNTING STAFF AND THE CFO ON THOSE THINGS. TYPICALLY WITH THESE KINDS OF UNIQUE TRANSACTIONS WE'LL WORK BOTH WITH THE AUDITOR AND WE ALSO HAVE AN OUTSIDE ACCOUNTING BENCH AND IN FACT IF WE THINK ABOUT HOW WE GOT TO THIS CORRECTION, THIS CORRECTION INCLUDED A LOT OF WORK ON OUR STAFF'S SIDE. IT INCLUDED A CONSULTATION WITH AN OUTSIDE ACCOUNTING FIRM THAT WAS NOT THE AUDITOR. WE DID A LOT OF TALK WITH THE AUDITOR. WE EVEN WENT ALL THE WAY UP, AS KATHY INDICATED, WE HAD A COUPLE OF CONVERSATIONS, ONE WITH GASB STAFF. WE TAKE THIS VERY SERIOUSLY. WE TOOK THE RESTATEMENT VERY SERIOUSLY. AND WE'LL BE DOING THAT, SOME OF THAT KIND OF APPROACH WITH OTHER LARGE KIND OF TRANSACTIONS WHERE IT'S COMPLEX, WHERE THE ISSUES ARE COMPLICATED GOING FORWARD.

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**CAROL DUTRA-VERNACI:** APPRECIATE THE RESPONSE. THANK YOU.

**V. CHAIR, NICK JOSEFOWITZ:** YOU KNOW, I THINK IT -- THANK YOU, COMMISSIONER DUTRA-VERNACI. FROM MY PERSPECTIVE, IT IS NEVER SOMETHING THAT YOU WANT TO HEAR AS A BOARD MEMBER THAT THERE WAS A MATERIAL WEAKNESS IN THE FINANCIAL STATEMENTS ESPECIALLY ONE THAT SEEMS TO GO BACK POTENTIALLY OVER EIGHT YEARS, AND I'M LOOKING FORWARD TO HEARING WHAT -- SOMETHING THAT THE STAFF KIND OF GAVE US A HEADS UP TO, BUT IT'S SOMETHING THAT I'M LOOKING FORWARD TO HEARING KIND OF STAFF'S RESPONSE TO WHAT HAPPENED AND HOW WE CAN AVOID THAT HAPPENING IN THE FUTURE. IN THE NEXT AGENDA ITEM. BUT FOR AGENDA ITEM, DO I HAVE A MOTION TO ACCEPT THE 2021, 2022 AUDIT RESULTS AND QUALIFICATIONS?

**CAROL DUTRA-VERNACI:** MOVE.

**DAVID RABBIT:** SECOND.

**V. CHAIR, NICK JOSEFOWITZ:** MOVED BY DUTRA-VERNACI. SECOND BY RABBIT. IS THERE ANY PUBLIC COMMENT?

**CLERK, KIMBERLY WARD:** THERE ARE NO MEMBERS OF THE PUBLIC WITH THEIR HAND RAISED, AND THERE WAS NO PUBLIC COMMENT SUBMITTED ON THIS ITEM.

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**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU. SO LET'S DO A ROLL CALL VOTE.

**CLERK, KIMBERLY WARD:** SURE. VICE CHAIR JOSEFOWITZ?

**V. CHAIR, NICK JOSEFOWITZ:** YES.

**CLERK, KIMBERLY WARD:** COMMISSIONER DUTRA-VERNACI?

**CAROL DUTRA-VERNACI:** AYE.

**CLERK, KIMBERLY WARD:** COMMISSIONER GLOVER? IS ABSENT. RABBIT?

**DAVID RABBIT:** AYE.

**CLERK, KIMBERLY WARD:** WORTH?

**AMY R. WORTH:** AYE.

**CLERK, KIMBERLY WARD:** THANK YOU. MOTION PASSES UNANIMOUSLY BY ALL MEMBERS PRESENT.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU. MOVING TO ITEM 3A, FY 2021, 2022 ON ANNUAL AUDIT REPORTS REPORT BY MTC STAFF ON THE

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AUDITED FINANCIAL REPORTS, 2021, 2022 REQUEST FOR APPROVAL FOR CROWE LLP EXTERNAL AUDIT. DEREK IS GIVING THIS REPORT. I WAS REMISS IN THE PREVIOUS ITEM NOT THANKING CATHY AND YOUR TEAM FOR A VERY DILIGENT AUDIT. WE'RE VERY GRATEFUL THAT YOU TOOK THE TIME AND WORKED CLOSELY WITH OUR STAFF TO DELIVER WHAT IS, SORT OF, A COMPLEX AUDIT. THANK YOU VERY MUCH. DEREK, ON TO YOU.

**DEREK HANSEL:** GOOD MORNING FOLKS. DEREK HANSEL, CHIEF FINANCIAL OFFICER. I WANT TO GIVE BY THANKING ALL MEMBERS AND COMMISSIONERS IN ATTENDANCE THIS MORNING. I'M SURE THERE IS NOTHING MORE FUN FOR YOU THAN JOINING A 905 TO TALK ABOUT FINANCIAL RESULTS AUDITOR'S FINANCIAL RESULTS WITHOUT A CUP OF COFFEE PROVIDED TO YOU. I WILL CERTAINLY TRY TO RECTIFY THAT IN THE FUTURE. THANK YOU VERY MUCH. DO WANT TO THANK KATHY AND HER TEAM. WE HAVE BEEN VERY CAREFUL NOT TO USE THE TERM PARTNERS, BECAUSE YOU KNOW, CROWE IS AN INDEPENDENT AUDITOR, BUT I WOULD SAY THAT THEY'RE REALLY GOOD COLLABORATORS ON CHALLENGING SITUATIONS AND CERTAINLY THIS HAS BEEN A CHALLENGING AUDIT SEASON FOR US. DELIGHTED TO BE THROUGH IT. I WANT TO THANK THE GOOD WORK OF OUR STAFF ACROSS THE AGENCY, PREPARATION OF THE AUDITED FINANCIAL STATEMENTS IS A REAL TEAM EFFORT. IT LITERALLY REQUIRES EVERY SECTION -- EVERY BIT OF SECTION WITHIN OUR FINANCE DEPARTMENT THIS YEAR. IT ALSO, BECAUSE OF THE ISSUES WITH CLIPPER, REQUIRED A TON OF HELP

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FROM THE OPERATIONS SIDE, PARTICULARLY THE CLIPPER PROGRAM. I WANT TO THANK CAROL KEUSTER AND HER TEAM WHO WILL BE DELIGHTED IF THEY NEVER ARE HEAR THE TERM FORENSIC ACCOUNTING AGAIN. WE ENDED UP DIGGING BACK AND THEY WERE SUPER HELPFUL. ON OUR SIDE, I WOULD LIKE TO THANK SUZANNE BODIE OUR ACTING DIRECTOR IN CHARGE OF THE FINANCIAL REPORTING SECTION, AND [INDISCERNIBLE] MAJA ASSISTANT DIRECTOR IN CHARGE OF MANAGERIAL REPORTING AND A ARLEICKA CONLEY AS WELL AS OTHER FOLKS WHO PULLED THIS TOGETHER. WITH THAT, IF WE CAN TURN TO THE PRESENTATION. WE'LL BE DISCUSSING ALL FINANCIAL REPORTS QUICKLY FOR FISCAL YEAR 2022 ALL OF THE AGENCIES. NEXT SLIDE. THIS ALIGNS WITH A SLIDE THAT KATHY HAD IN HER PRESENTATION. I WANT TO START WITH A QUICK VERY, VERY QUICK PRIMER ON HOW TO READ FINANCIAL STATEMENTS. BECAUSE ANYBODY WHO LOOKS, PARTICULARLY, AT PRINTED COPY OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT LOOKS AT IT AND SAYS, HMM... THIS IS A BOOK THAT'S FILLED WITH NUMBERS, VERY FEW OF WHICH I TRULY UNDERSTAND. AND THEY KIND OF GIVE UP. AND IT REALLY IS NOT ONE WHERE YOU SHOULD GIVE UP. KATHY TALKED ABOUT THE WAY THAT THE AUDIT PLAN IS WORKED UP, AND THE FINANCIAL RESULTS REALLY KIND OF SHOW UP IN THE SAME WAY. SO I JUST WANT TO TALK ABOUT SOME OF THE THINGS THAT WE'LL SEE IN FINANCIAL STATEMENTS, AND WHERE WE LOOK IN THE COMPREHENSIVE FINANCIAL REPORT TO DIG INTO MORE OF THE DETAILS. AS KATHY INDICATED THERE ARE MORE GOVERNMENTAL FUNDS IN THE AUDITED REPORTS, AND THEN THERE ARE

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THESE BUSINESS TYPE ACTIVITIES. AND THE IDEA IS THE BUSINESS TYPE ACTIVITIES I'M GOING TO TALK ABOUT THOSE FIRST BECAUSE IT'S EASIER TO GET OUR ARMS AROUND IT'S THOSE THINGS THAT HAVE REALLY DESIGNATED RESERVES AND -- OF FUNDS, AND ARE OPERATING IN A BUSINESS LIKE WAY. THE EASIEST ONE TO THINK ABOUT IS THE BAY AREA TOLL AUTHORITY. IT'S ONE WHERE THERE IS DEDICATED TOLL REVENUE THAT'S COMING IN, AND THERE ARE A WHOLE SET OF EXPENSES THAT ARE PARTICULAR TO THE BRIDGE OPERATION. YOU KNOW? THE EXPRESS LANES ARE ANOTHER. AND YOU CAN SEE ALL OF THOSE OTHER THINGS. GOVERNMENTAL FUNDS REALLY ACTING NOT IN A BUSINESS-LIKE WAY, BUT CERTAINLY FUNDS THAT ARE KIND OF ASSOCIATED WITH A PARTICULAR ITEM. NEXT SLIDE. AND I AM JUST GOING TO VERY, VERY QUICKLY WALK THROUGH, SHOW YOU THESE SLIDES. BUT THESE ARE JUST INTENDED TO SHOW YOU THAT THERE ARE DISTINCT PRESENTATIONS OF NET POSITION, WHICH IS, ESSENTIALLY, ASSETS AND LIABILITIES OF THESE VARIOUS FUNDS OR PROGRAMS. NEXT SLIDE. ASSOCIATED WITH GOVERNMENTAL ACTIVITIES. NEXT SLIDE. SPECIAL REVENUE FUNDS. NEXT SLIDE. TWO FORWARD. PROPRIETARY FUNDS, BUSINESS SITE FUNDS, INCLUDING, AGAIN, BATA, SAFE, BAIFA. GO TO SLIDE NINE FINANCIAL HIGHLIGHTS. ALL OF THESE ROLL UP INTO A SINGLE ACFA, AND MAYBE A GOOD QUESTION FOR CATHA AT SOME POINT WOULD BE, GEE, WHY DO ACCOUNTING STANDARDS REQUIRE THIS. BUT FUNDAMENTALLY ACCOUNTING STANDARDS REQUIRE THIS BECAUSE EVEN THOUGH SOME OF THESE ARE LEGALLY DISTINCT AGENCIES, BATA, BAIFA, LEGALLY DISTINCT AGENCY BUT

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BECAUSE OF BOARDS OF THOSE AGENCIES ARE THE SAME BOARD AS THE MTC BOARD, ACCOUNTING STANDARDS REQUIRE THEY ALL GET ROLLED UP INTO ONE SINGLE FINANCIAL STATEMENT. THEY CAN BE SHOWN SEPARATELY, BUT THEY ALL COME TOGETHER. SO, WE DO LOOK AT SOMETHING CALLED THE GOVERNMENT NET WIDE POSITION. THAT SAYS OUR NET POSITION IS NEGATIVE $6 BILLION. GEE, WHY DO WE HAVE A NET POSITION OF $6 BILLION? BECAUSE WE HAVE GOT A TON OF DEBT ASSOCIATED WITH BRIDGES WE DON'T OWN. WE HAVE GOT DEBT OF $9.7 BILLION ASSOCIATED WITH THOSE BRIDGES. AND, SO, THAT IS WHAT PRODUCES THAT. ON THE MTC SIDE WE RUN A GENERAL FUND BALANCE OF JUST OVER $65 MILLION, TOTAL CASH INVESTMENTS OF JUST OVER $3.6 BILLION, AND ON THE BATA SIDE, LIQUIDATE LIQUIDITY ALLOWS US TO MAINTAIN STRONG BOND RATINGS AND THEREFORE MINIMIZE BORROWING COSTS ALSO IN ORDER TO PROVIDE FOR LIQUIDITY THAT HAS CERTAINLY BEEN NECESSARY DURING THE PANDEMIC AS WE HAVE SEEN INCREASED EXPENSES AND SIGNIFICANT REVENUE LOSSES IS WE MAINTAIN VERY LARGE ESSENTIALLY UNCOMMITTED FUNDS ASSOCIATED WITH THE BRIDGE PROGRAM. WE CALL IT THE "HARD DECK" THERE ARE INDIVIDUAL COMPONENTS WITHIN THE HARD DECK. BOARD POLICY IS TO MAINTAIN THAT AT A LEVEL OF $1.06 BILLION, AND WE CONTINUE TO DO THAT. BRIDGE TRAFFIC CONTINUES TO REBOUND. WE WERE UP BY NEARLY 10 MILLION VEHICLES LAST YEAR. BRIDGE TOLL FOR LAST YEAR WAS JUST OVER 756 MILLION THAT INCLUDES RM3 FUNDS. I KNOW THAT PENSION AND OPEB HAVE BEEN A CONCERN FOR YEARS. WE ADDRESSED THAT UNDER PRIOR FINANCIAL ADMINISTRATIONS AND UNDER

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THE LEADERSHIP OF THERESE AND STEVE HEMINGER, BEFORE HER, AND GOT TO A PLACE WHERE WE HAVE A MINT PENSION ASSET OF JUNE 30, 202. I WANT TO MAKE A SPECIAL NOTE OF THAT NET PENSION ASSET, BECAUSE I'M GOING TO GIVE YOU THAT, THE GOOD NEWS IS THE NET PENSION ASSET WAS $15.6 MILLION AS OF JUNE 21ST, BASED ON THE LAST AUDITED NUMBERS FROM CALPERS. AGAIN. THAT'S THE GOOD NEWS. THE BAD NEWS IS CALPERS LOST 7% IN FISCAL '22. SO, WE SHOULD FULLY EXPECT THAT THAT NUMBER IS GOING TO GO DOWN SUBSTANTIALLY, IF NOT YET COMPLETELY ELIMINATED WHEN WE SEE NEXT YEARS'S FINANCIAL RESULTS. THE OPEB ASSET IS 2.8 MILLION AND THAT WILL NOT BE GOING AWAY. WE INVESTED VERY DIFFERENTLY. SO. NEXT SLIDE. AGAIN ON THE GENERAL FUNDS, WE TALKED ABOUT THAT BEING THE GENERAL FUND AS OPPOSED TO REVENUE FUNDS WITH RESTRICTED PURPOSES, OPERATING DEFICITS ASSOCIATED WITH ALLOCATIONS OUT OF THE A.B. 664 RESERVE AND BART CAR EXCHANGE. THOSE ALLOCATIONS BEING COVERED BY INVESTED FUNDS IN THOSE FUNDS. SO WE WOULD HAVE ANTICIPATED ON AN OPERATING BASIS THAT THEY SHOW A DEFICIT. IT JUST MEANS MONEY ISN'T COMING OUT THAT IS IN FACT GOING OUT BUT THAT WAS THE WHOLE PURPOSE OF THOSE FUNDS IN THE FIRST PLACE. ON THE MTC SIDE GENERAL FUND SURPLUS CONTINUES TO INCREASE. IT WAS UP TO 7.3 IN FISCAL 2022. PART OF THAT TIED TO WHAT'S HAPPENING ON THE PENSION SIDE BUT THERE ARE OTHER FACTORS. ON THE ENTERPRISE SIDE, WE HAVE FOUR SEPARATE TYPE OF BUSINESS ENTERPRISE FUNDS. BAIFA IS ADDED IN THIS YEAR. IT HASN'T BEEN THERE IN PRIOR YEARS AND IS ADDED AS

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AN ENTERPRISE FUND IN THIS WAY BECAUSE OF THE CHANGE THAT WAS MADE TO THE BOARD COMPOSITION IN THE SPRING. ON THE BATA SIDE, WE DID, IN FISCAL '22, 141 MILLION SURPLUS AGAIN TOTAL REVENUE, 756 MILLION, WHICH INCLUDES RM3. WE DID FUND $85 MILLION FOR CALTRANS CAPITAL PROJECTS REALLY GOOD DISTRIBUTING MONEY FOR RM2, WE HAVE RESERVED BUT NOT YET SPENT MONEY FOR THE VIOLATION PENALTY FUNDS. JUST AS AN ASIDE THOSE CHECKS ARE STARTING TO ROLL VERY, VERY SHORTLY AFTER SOME TECHNICAL ISSUES AND LITERALLY GETTING THE CHECKS PRINTED, BUT WE ANTICIPATE THOSE ARE GOING TO BE ALONG VERY SOON AND THAT PROJECT SHOULD BE DELETED HOPEFULLY LATE WINTER OR SPRING. CASH AND INVESTMENTS DID INCREASE TO NEARLY $2.7 BILLION. THAT INCREASE IS PRIMARILY RELATED TO THE ISSUANCE OF BONDS IN FISCAL '20 AND '21. LATE '21 CALENDAR. WHICH DID REPLENISH FUNDS. THOSE FUNDS ARE BOTH BEING USED TO REIMBURSE BATA FOR PRIOR EXPENDITURES, AS WELL AS TO FUND ADDITIONAL INFRASTRUCTURE, REHAB EXPENSES, AS THEY GO ON. ALL DEBT SERVICE COVERAGE DEBTS WERE MET. ON THE SAFE SIDE INCREASE IN NET POSITION TOTAL ENDING NET POSITION 21 MILLION ON THE CLIPPER SIDE INCREASE IN THE POSITION THAT IS PRIMARILY DUE TO THE CAPITAL GRANTS FOR CLIPPER 2.0 ESSENTIALLY WHAT OUR CHANGE MEANS NOW IS WHEN WE GET THESE GRANT FUNDS IN TO PLAY FOR CLIPPER EXPENSES ON THE OTHER SIDE OF THE LEDGER, RATHER THAN TREATING THESE AS EXPENSES WHERE THEY ALL GO OUT IN A SINGLE YEAR, WHAT WE'RE HAVING TO DO IS TO BOOK THOSE, ESSENTIALLY,

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AS AN ASSET. SO, AS WE'RE CREATING, YOU KNOW, AND DEVELOPING THE NEXGEN CLIPPER PROJECT, WE'RE CREATING AN ASSET THAT SHOWS UP ON THE CLIPPER BALANCE SHEET AND THERE WILL BE DEPRECIATION, OR AMORTIZATION EXPENSE OVER TIME ASSOCIATED WITH OUR USAGE OF THAT PROJECT, OVER ITS USEFUL LIFE. SO, CLIPPER THEN ENDS WITH A SIGNIFICANT NET POSITION, WHICH REFLECTS BOTH WHAT HAPPENED IN FISCAL '22, AND THE RESTATEMENT OF PRIOR YEARS. NOTE THAT OPERATOR PAYMENTS WERE JUST UNDER $12 MILLION, THIS'S UP SIGNIFICANTLY FROM FISCAL '21, AND IS RELATED TO MORE USAGE OF THE OPERATOR SYSTEM WHICH IS A GOOD THING. NEXT SLIDE, PLEASE. AGAIN. I MENTIONED THIS PRIEST ON THE PENSION AND OPEB SIDE. THE GOOD NEWS IS THAT PENSION ASSET OF $15.6 MILLION. THAT DOES NOT INCLUDE THE 115 TRUST ASSETS, BECAUSE WE CAN'T -- WE DON'T GET TO CALCULATE THAT IN THESE CALCULATION OF THE PENSION DEFICIT, BUT IT DOES SIT THERE AS SOMETHING THAT CAN BE USED TO MEET THOSE OBLIGATIONS. AGAIN, PERS IS FISCAL '22 PERFORMANCE WAY BELOW DISCOUNT RATE OF 6.8% AND THAT'S GOING TO NEGATIVELY IMPACT THE GOING FORWARD CALCULATIONS. AND I ALSO MENTIONED THE MTC OPEB ACCOUNT IS NOW SURPLUS, AND, AGAIN, GOOD NEWS. NEXT SLIDE, PLEASE. ON THE BAHA SIDE. THIS IS THE BAY AREA METRO CENTER. ALL RENT PAYMENTS CONTINUE TO BE CURRENT DESPITE THE PANDEMIC. WE DO HAVE CASH AND INVESTMENTS OF $31.2 MILLION AND WE CONTINUE TO MAINTAIN RESTRICTED FUNDS JUST UNDER $5 MILLION FOR NECESSARY CAPITAL REHAB OF THE FACILITY. NEXT SLIDE. INTERNAL CONTROLS

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RECOMMENDATION, WE AGREE WITH THE OBSERVATIONS THAT CROWE HAS MADE. AND, FRANKLY, OUR RESPONSE IS MUCH OF WHAT THEY SAID. YES, WE NEED TO MUCH BETTER INCORPORATE OUR FINANCIAL REPORTING SECTION INTO REVIEWING CONTRACTS AND AMENDMENTS FOR CAPITAL PROJECTS. AND, ESPECIALLY COMPLEX AGREEMENTS AND WE NEED TO RECOGNIZE THAT THE CAPITAL INTENSITY OF THE OVERALL MTC ORGANIZATION IS INCREASING. CLIPPER, NEXT GENERATION, A VERY LARGE THING. A VERY COMPLEX THING. WE REALLY NEED TO MAKE SURE FROM A FINANCIAL REPORTING SIDE THAT WE'RE MORE ALIGNED WITH WHAT'S GOING ON FROM A CAPITAL PROJECT SIDE. THIS IS GOING TO BE TRUE AS THERE IS MORE WORK ON THE EXPRESS LANES PROJECTS AROUND THE REGION. THIS IS GOING TO BE TRUE AS WE THINK ABOUT OPEN ROAD TOLLING. ANY NEW DEVELOPMENTS ON THE FASTRAK SIDE. WE JUST HAVE TO BE MORE EMBEDDED INTO WHAT'S GOING ON WITH THOSE THINGS. WE NEED TO DEVELOP AN IMPROVED CAPITAL ASSET ACCOUNTING FUNCTION. WE -- CAPITAL ASSET BEING SUGGEST A THING IT'S A BIT OF A SPECIALIZED THING THERE IS A LOT OF INTERNAL TRACKING, REPORTING, MONITORING THAT NEEDS TO BE DONE. WE ACTUALLY CREATED A POSITION THAT GOING TO BE A SPECIALIZED CAPITALIZED FIX ASSET ACCOUNTING AND THAT'S SOMETHING WE WILL BE PAYING MUCH MORE ATTENTION TO. FINALLY STRENGTHENING REVIEW AND INCORPORATION OF BOTH NEW ACCOUNTING PRONOUNCEMENTS AND MAKING SURE THAT WE ARE WORKING COLLABORATIVELY AGAIN ON THESE LARGE PROJECTS, SO IT'S SOMETHING WE'RE REALLY LOOKING AT AS AN ENTIRE FINANCE

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FINANCIAL REPORTING AND ACCOUNTING TEAM LOOKING AT THESE COMPLEX PROJECTS, SEEKING OUTSIDE COUNSEL AS APPROPRIATE WE HAVE A BENCH OF ACCOUNTANTS WE NEED TO TALK TO THEM AND HAVE DISCUSSIONS EARLY AND REGULARLY WITH OUR FINANCIAL AUDITORS, NOT THAT WE GET TO RELY DEFINITIVELY ON THEM, AS CROWE SAYS IN THEIR FINANCIAL REPORTS AND THE AUDITOR AND FINANCIAL STATEMENTS ARE OUR RESPONSIBILITY AS MANAGEMENT BUT WE DO NEED TO AS MANAGEMENT ENSURE WE'RE AS INFORMED IN THE RIGHT WAY TO THINK ABOUT THESE THINGS. SOME ARE VERY TECHNICAL. WE WANT TO THINK ABOUT ACCOUNTING, NOT ALL BLACK AND WHITE. THERE IS A DEGREE OF GRAY. AND WE REALLY HAVE TO MAKE SURE WE FULLY COMPREHEND WHERE THE GRAY IS, FIGURE OUT WHEN IT'S THE APPROPRIATE TREATMENT RECOGNIZING WHERE THE GRAY IS AND MAKING SURE WE FULLY DOCUMENT WHY WE'RE DOING THINGS IN A WAY THAT ARE SO PEOPLE CAN LOOK BACK AND SAY, OH. OKAY THAT'S HOW THIS CAME DOWN. NEXT SLIDE. NOW I'M OPEN TO QUESTIONS.

**THERESE MCMILLAN:** MR. CHAIR, I WOULD LIKE TO ADD TO SOME OF DEREK'S OBSERVATIONS. I THINK IT'S EXTREMELY IMPORTANT WHEN WE HAVE CIRCUMSTANCES LIKE THIS, AND MATERIAL WEAKNESS, THAT WE GO IN AS A LEADERSHIP TEAM NOT SAYING, OH, THIS IS A ONE-OFF EXCEPTION, BUT RATHER TORE TAKE IT, AN OPPORTUNITY TO VIEW IT AS, IS THIS INDICATIVE OF SOMETHING BROADER THAT WE NEED TO ADDRESS AS AN AGENCY. AND, FROM MY PERSPECTIVE, AND IT'S NOT JUST THE CIRCUMSTANCES OF THIS PARTICULAR FINANCIAL AUDIT, BUT

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SOME OTHER RECENT THINGS. WE REALLY NEED TO INCREASE OUR ATTENTION TO POLICY AND PROCEDURES. ESPECIALLY WHEN ALLEGATIONS ARE NEW OR SHIFTING, BUT ALSO ON AN ONGOING BASIS WHERE ENSURING POLICIES AND PROCEDURES COOPERATIVE AGREEMENTS AND THE LIKE IN PLACE ARE BEING ADHERED TO AND MANAGERS, SUPERVISOR, AND LEADERSHIP ARE BEING HELD ACCOUNTABLE TO THAT AND IT REFLECTS ON SOMETHING ELSE THAT I THINK DEREK WAS POINTING TO IS, I THINK A RECOGNITION NOW OF ESTABLISHING A MORE COLLABORATIVE AND INTENTIONAL CONSULTIVE ENVIRONMENT WITHIN SECTIONS, BUT, ALSO, ACROSS SECTIONS, WHERE THERE ARE MULTIPLE PARTIES THAT ARE REQUIRED TO DELIVER, YOU KNOW, COMPLEX PROJECTS AND PROGRAMS THAT WE HAVE IN PLACE. ESSENTIALLY, YOU KNOW, SORT OF, RECALIBRATING A CULTURE OF COMPLIANCE. AND I SAY THIS WITH AN EYE TO A FUTURE WHERE THE COMMISSION MAY BE CONSIDERING TAKING ON SOME SUBSTANTIAL NEW OBLIGATIONS. I THINK THE REGIONAL NETWORK MANAGEMENT DISCUSSIONS, WE ARE INVOLVED IN RIGHT NOW, COULD SUGGEST INCREASED OR DIFFERENT ROLES FOR THE COMMISSION IN TERMS OF PROVIDING REGIONAL PROGRAMS. YOU KNOW, THE WAY FINDING AND MAPPING, YOU KNOW, AS AN EXAMPLE WHERE MOST OF THAT IS PROVIDED BY THE TRANSIT OPERATORS, IS THERE A REGIONAL ROLE. I THINK WE NEED, YOU KNOW, TO CERTAINLY CONSIDER THAT, BUT BE MINDFUL THAT THE INFRASTRUCTURE TO SUPPORT THAT, INCLUDING ALL THE COMPLIANCE AND REQUIREMENTS ATTACHED TO CARRYING OUT THOSE OBLIGATIONS ARE IN PLACE BEFORE WE JUMP OFF THE CLIFF INTO NEW

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TERRITORY. AND, SO, I TAKE THIS -- AND I KNOW I WON'T BE HERE MUCH LONGER, BUT TO WORK WITH MY TEAM, TO START REALLY BUILDING THAT TYPE OF FOUNDATION BASED ON LCH LEARNED FROM THIS EXPERIENCE, AND IN THE FUTURE ANTICIPATING THINGS DOWN THE ROAD IN THE CULTURE OF COMPLIANCE AND ADHERENCE TO POLICY PROCEDURES AGREEMENTS ET CETERA IS MORE DEEPLY INGRAINED. I WANTED TO OFFER THOSE OBSERVATIONS.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU THERESE. DO I HAVE ANY QUESTIONS OR COMMENTS CENTER COMMISSIONER RABBIT?

**DAVID RABBIT:** I APPRECIATE THE DISCUSSION. I THINK YOU'RE RIGHT MATERIAL WEAKNESS IS SOMETHING THAT GRABS YOUR ATTENTION QUICKLY. APPRECIATE THE BRIEFING, AS WELL. TWO QUESTIONS. ONE IS REALLY, YOU KNOW, THIS WAS THE FIRST YEAR OUT OF HOW MANY YEARS THAT THIS WAS CAUGHT EITHER BY OUR AUDITOR OR OUR OWN STAFF AND AT THE END OF THE DAY, THAT'S INCONSEQUENTIAL, WE'RE GOING FORWARD. BUT GOING FORWARD, ANY CONSEQUENCE OF HAVING THIS MATERIAL WEAK ORDINANCE OUR BOOKS IN TERMS OF ANY OF THE BOOK OF BUSINESS THAT WE NEED TO DO, ARE THERE -- IS THERE CONSEQUENCES OF THAT IN TERMS OF PAYING ADDITIONAL DEBT SERVICE OR ANYTHING OF THE LIKE? JUST CURIOUS.

**DEREK HANSEL:** THANKS FOR THE QUESTION. AS KATHY INDICATED, THE FIRST TIME COULD THIS HAVE BEEN AN ISSUE WAS WHEN THE

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CONTRACT, THAT MEMORANDUM OF UNDERSTANDING AMONG MTC AND THE OPERATORS CHANGED IN 2016. WHICH DID CREATE NEW OBLIGATIONS FOR MTC, FOR OWNERSHIP AS THE CONTRACTING AGENCY. IT'S IMPORTANT TO NOTE THOUGH THAT IN 2016, THE PURCHASES OF CAPITAL ASSETS THAT WERE HAPPENING AT THAT TIME, UNTIL THE EXECUTION OF THE CONTRACT WITH CUBIC FOR THE NEXT GENERATION CLIPPER SYSTEM WERE RELATIVELY MODEST. NEXGEN CLIPPER REALLY DID KIND OF CHANGE THE UNDERLYING BACKGROUND OF EVERYTHING. AND, SO, THAT'S WHEN I THINK, AT LEAST FROM MY PERSPECTIVE, WITH A LITTLE HINDSIGHT, YOU KNOW, AND, AGAIN, IN THE WAY THAT WE'RE LOOKING FORWARD MORE IMPORTANTLY, IT'S THOSE KINDS OF THINGS THAT SHOULD REALLY TRIGGER, FOR US, AS FINANCE STAFF, WAYS TO, APPROXIMATE AGAIN, REALLY MUCH MORE COMPREHENSIVELY THINK ABOUT THESE KINDS OF CHALLENGES AND HOW WE ACCOUNT FOR THEM. SO, THAT'S TO THE 50. TO THE SECOND, YOU KNOW, THIS KIND OF THING, YOU KNOW, IT DOESN'T IMPACT THE BAD FINANCIALS. IT IS, AGAIN, THERE IS SOME GRAY IN HERE. SO, IF WE THINK WE HAVE APPROPRIATELY DEALT WITH THE GRAY, WE HAVE HAD CONSERVATIONS WITH BOTH OUR MUNICIPAL ADVISERS AND OUR BANKERS. WE DON'T ANTICIPATE ANY NEGATIVE ISSUES ON THE BATA SIDE.

**V. CHAIR, NICK JOSEFOWITZ:** COMMISSIONER DUTRA-VERNACI?

**CAROL DUTRA-VERNACI:** YES. THANK YOU. NO QUESTIONS. JUST COMMENTS. I WANTED TO THANK, DEREK, FIRSTS OF ALL, FOR THE

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FORMATTING OF THIS REPORT. IT IS VERY EASY TO UNDERSTAND. AND I APPRECIATE THAT. BECAUSE I'M A NUMBERS PERSON, OR WHAT YOU HAVE, AND ALWAYS LISTENING TO THIS PRESENTATION IS MUSIC TO MY EARS, SO TO SPEAK. BUT MORE IMPORTANTLY TO THE POINT, YOUR RESPONSE TO THE INTERNAL CONTROL RECOMMENDATIONS, I THINK, ARE RIGHT ON, IN TERMS OF WHERE WE NEED TO BE AS OUR AGENCY GROWS MORE COMPLEX WITH THE AMOUNT OF CAPITAL ASSETS THAT WE'RE BRINGING INTO THE PICTURE. SO, THANK YOU, AND I LOOK FORWARD TO THAT AS THAT MOVES FORWARD.

**DEREK HANSEL:** THANK YOU, COMMISSIONER.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU COMMISSIONER. COMMISSIONER WORTH?

**AMY R. WORTH:** GREAT. THANK YOU, MR. CHAIR. 50 OF ALL, I WANT TO ECHO MY COLLEAGUE COMMISSIONER DUTRA-VERNACI. IT'S ALWAYS NICE TO SERVE WITH THE PROFESSIONAL CPA WHO UNDERSTANDS ALL THESE FINANCES WHETHER THEY'RE IN GOOD FORM OR NOT. AND I WOULD CONCUR WITH HER, I APPRECIATE THE WORK THAT STAFF HAS DONE IN PRESENTING WITH OUR AUDITORS, AND PRESENTING THE, YOU KNOW, THE AUDIT. AND I'M ALSO MINDFUL OF OUR EXECUTIVE DIRECTOR'S COMMENTS. RELATIVE TO MOVING FORWARD. AND I THINK THAT'S IMPORTANT FOR THE LESSON FOR US ALL TO REMEMBER, MOVING FORWARD, AND AS OUR CFO MENTIONED, CLIPPER 2.0 IS GOING TO BE

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A MUCH MORE CAPITAL INTENSIVE INVESTMENT, AND YOU KNOW WITH THE BAHA AND, AS WE EXPAND EXPRESS LANE ENTERPRISE, THESE NUMBERS ARE GOING TO GROW, AND ARE THE -- THE COMPLEXITY IT IS VERY MUCH THERE. SO, I REALLY APPRECIATE STAFF'S JUMPING IN AND IDENTIFYING THE RESOURCES THAT WE'RE GOING TO NEED MOVING FORWARD TO ENSURE THAT WE'RE FOLLOWING THESE ROLES. IT'S IMPORTANT TO COMMENT THE FACT THAT THE MONEY HAS ALWAYS BEEN ACCOUNTED FOR. IT'S NOT THAT THERE WAS CHANGE IN THE -- MONEY WASN'T OUR ASSETS. IT'S JUST HERE WE KNOW NOW MOVING FORWARD YOU KNOW, FOLLOWING THE FEDERAL GUIDELINES, AND GASB, THAT THIS IS THE WAY WE NEED TO BE MOVING IN THE FUTURE. SO, DEREK, THANK YOU FOR TAKING THIS ON, AND TO CHARTING A COURSE FOR US TO PURSUE MOVING FORWARD.

**DEREK HANSEL:** THANK YOU.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU COMMISSIONER. YOU KNOW, I ALSO WANTED TO ECHO SOME OF THOSE COMMENTS ABOUT HOW THIS IS CONCERNING THAT THIS -- THAT WE HAVE A MATERIAL WEAKNESS, AND THAT IT'S ALSO ENCOURAGING TO HEAR STAFF TAKE IT SO SERIOUSLY, AND NOT, SORT OF, TRY AND DISMISS IT AS SOMETHING THAT'S NOT, SORT OF, A ONE OFF, AND MAYBE REPRESENTATIVE OF, SORT OF, BROADER CHANGES THAT NEED TO HAPPEN. AND I -- YOU KNOW, THERE WAS -- THERE WAS, SORT OF, A BUNCH OF MANAGEMENT SPEAK IN TERMS OF LIKE WHAT'S GOING ON, AND MAYBE I COULD GET A BIT

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MORE OF CLARIFICATION. BECAUSE THERE IS, SORT OF, TWO MAIN THINGS THAT WE DO, AND WE KIND OF -- IN THIS MOMENT WERE REMINDED OF IT, WE'RE KIND OF ACTING AS A BANKER FOR THE REGION AND APPLYING FOR GRANTS AND FUNDING AND ALL THAT STUFF AND THEN WE RUN BUSINESSES LIKE CLIPPER, EXPRESS LANES BRIDGE TOLLS OUT OF OPERATIONS UNIT. THERESE, DO YOU THINK -- IS THE FOCUS THAT YOU'RE GOING TO HAVE, ACROSS THE ORGANIZATION? OR DO YOU THINK THERE IS A PARTICULAR WEAKNESS IN KIND OF OUR OPERATIONS TEAM WHO IS, SORT OF, RUNNING THE BUSINESSES SO TO SPEAK IN TERMS OF, SORT OF, THE ACCOUNTING AND FINANCIAL MANAGEMENT?

**THERESE MCMILLAN:** I THINK THERE IS AN INTENSITY ON THE OPERATIONAL SIDE. INSOFAR AS, YOU KNOW, WHAT'S REQUIRED TO, AS YOU POINTED TO, LITERALLY TO RUN A BUSINESS, AND BEING ACCOUNTABLE TO THE CUSTOMERS AND ALL OF THE ATTENDED RAMIFICATIONS ATTACHED TO THAT CARRY A DIFFERENT LEVEL OF RISK THAN MIGHT BE ATTACHED TO OUR MORE QUOTE UNQUOTE TRADITIONAL, MPO RELATED THINGS. HAVING SAID THAT, MY OBSERVATION ABOUT REALLY FOCUSING ON A CULTURE OF COMPLIANCE EXTEND THROUGHOUT THE AGENCY. WE ARE A FEDERAL GRANTEE FOR HUNDREDS OF MILLIONS OF DOLLARS, AND WE HAVE TO BE VERY CAREFUL THAT WE ARE -- AND WE HAVE DONE A GOOD JOB IN THE PAST OF MAKING SURE THAT WE ARE ACCOUNTING FOR AND ADHERING TO ALL OF THE REQUIREMENTS THAT ARE ATTACHED IN PLANNING AND FINANCIAL REGULATIONS ATTACHED,

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YOU KNOW, IN THAT SPHERE, BUT WE HAVE HAD ISSUES RAISED IN THAT ASPECT AS WELL. AND AS MENTIONED BEFORE INDICATIVE OF THE NEED TO BRING THOSE TYPES OF CONCERN TO THE FOREFRONT AND VIEW THEM AS NOT NECESSARILY EVILS, SOMETIMES PEOPLE GO INTO THAT, THE BUREAUCRACY, ALL THESE RULES AND REGULATIONS, BUT INSTEAD DO IT AS THESE ARE THE PILLARS THAT PROTECT THE PUBLIC INTEREST ON A WHOLE NUMBER FRONTS AND WE NEED TO MAKE SURE WE'RE WALKING IN EYES WIDE OPEN OF HOW THAT'S CARRIED OUT. AND THE LAST THING I WOULD MENTION, AS YOU CAN TELL IT'S IMPORTANT TO ME, IS, AGAIN, REALIZING THAT, AS WE STEP INTO NEW SPACES, WE NEED TO PUT EVEN INCREASED ATTENTION TO THAT. FOR EXAMPLE, WHEN WE TOOK ON BAHFA, THERE WAS A -- YOU KNOW, I DIRECTED, AT THE TIME, BRIAN WAS THERE, BUT DEREK HAS INHERITED, YOU KNOW, THAT WE PUT REAL CLOSE AND TIGHT ATTENTION TO WHAT IS THE FINANCIAL STRUCTURES THAT NEED TO BE SET UP FOR HOUSING MONEY. IT'S NOT THE SAME AS TRANSPORTATION MONEY. THERE IS A LOT OF DIFFERENT THINGS THAT NEED TO BE ACCOUNTED FOR. AND SO, I THINK IT'S JUST RECOGNIZING, VICE CHAIR, THAT, AS WE STEP INTO THESE SPACES, THERE IS A LOT OF PREPARATORY WORK TO BE DONE. IT'S NOT A CIRCUMSTANCE OF, WE'LL FIGURE IT OUT AS WE GO ALONG. SO, THANKS.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU THERESE. THAT'S REALLY HELPFUL CONTEXT. AND YOU KNOW, THE ORGANIZATION, ESPECIALLY ON THE BUSINESS SIDE, HAS GROWN IMMEASURABLY OVER THE LAST

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DECADE, AND I THINK ANY ORGANIZATION NEEDS TO GRAPPLE WITH THAT IN TERMS OF BRINGING IN THE RIGHT PROCEDURES AND THE RIGHT PEOPLE. SO I'M GLAD YOU'RE ON TOP OF THAT. OKAY. IF -- IF THERE AREN'T ANY OTHER COMMENTS OR QUESTIONS FROM THE COMMISSION, DO I HAVE A MOTION AND A SECOND TO ACCEPT THE AUDITED FINANCIAL REPORTS OF FY 2021, 2022, AND APPROVAL TO RETAIN CROWE LLP AS THE EXTERNAL AUDIT FIRM TO FY 2022, 2023?

**AMY R. WORTH:** I'LL MOVE APPROVAL, MR. CHAIR.

**CAROL DUTRA-VERNACI:** DUTRA-VERNACI WILL SECOND.

**V. CHAIR, NICK JOSEFOWITZ:** MOVED BY WORTH. SECOND BY DUTRA-VERNACI. DO WE HAVE ANY PUBLIC COMMENT?

**CLERK, KIMBERLY WARD:** I SEE NO MEMBER OF THE PUBLIC WITH A HAND RAISED, AND I HAVE RECEIVED NOTHING IN WRITING FOR THIS ITEM.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU. LET'S DO A ROLL CALL VOTE.

**CLERK, KIMBERLY WARD:** VICE CHAIR JOSEFOWITZ?

**V. CHAIR, NICK JOSEFOWITZ:** YES.

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**CLERK, KIMBERLY WARD:** COMMISSIONER DUTRA-VERNACI?

**CAROL DUTRA-VERNACI:** AYE.

**CLERK, KIMBERLY WARD:** COMMISSIONER GLOVER IS ABSENT. RABBIT?

**DAVID RABBIT:** AYE.

**CLERK, KIMBERLY WARD:** WORTH?

**AMY R. WORTH:** AYE.

**CLERK, KIMBERLY WARD:** THANK YOU. MOTION PASSES UNANIMOUSLY BY ALL MEMBERS PRESENT.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU VERY MUCH, DEREK, AND YOUR TEAM FOR WHAT I KNOW IS A PERPETUALLY COMPLEX PROCESS, AND FOR BEING CLEAR AND TRANSPARENT WITH US ON THE THINGS THAT NEED TO BE IMPROVED. SO, THANK YOU.

**DEREK HANSEL:** THANK YOU.

**V. CHAIR, NICK JOSEFOWITZ:** AGENDA ITEM FOUR, PUBLIC COMMENT. OTHER BUSINESS. DO WE HAVE ANY OTHER PUBLIC COMMENT, KIMBERLY?

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**CLERK, KIMBERLY WARD:** I HAVE RECEIVED NOTHING IN WRITING AND I SEE NO MEMBER OF THE PUBLIC WITH THEIR HAND RAISED.

**V. CHAIR, NICK JOSEFOWITZ:** NEXT MEETING OF THE AUDIT COMMITTEE WILL BE HELD EIGHT TIME TO BE DULY NOTICED.

**ANDREW FREMIER:** THERE'S A MEMBER OF THE AUDIENCE THAT WOULD LIKE TO ASK A QUESTION.

**V. CHAIR, NICK JOSEFOWITZ:** OH. THANK YOU.

**ANDREW FREMIER:** WE'RE A BIT OUT OF PRACTICE.

**V. CHAIR, NICK JOSEFOWITZ:** LET'S GO TO THAT PERSON. SOUNDED LIKE YOU ANDY.

**ANDREW FREMIER:** ANDREW FREMIER, DEPUTY EXECUTIVE DIRECTOR.

**CLERK, KIMBERLY WARD:** HOW MUCH TIME WOULD YOU LIKE TO ALLOW, MR. CHAIR.

**V. CHAIR, NICK JOSEFOWITZ:** MINUTE AND A HALF.

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**SPEAKER:** HELLO. GOOD MORNING. MY NAME IS JIMMY HERNANDEZ A MEMBER OF THE PUBLIC COMING IN HERE TO FIGURE OUT A LITTLE BIT OF THE INNER WORKINGS OF BAHFA, IS IT? AND, SO, MTC HOUSE? AND HOW THAT -- IT'S AN AUDIT FIRM, FROM MY UNDERSTANDING. I'M SORRY. I WALKED IN A LITTLE LATE, BUT HOW WAS THAT CHOSEN? HOW WAS THAT CHOSEN? THAT WAS MY QUESTION.

**V. CHAIR, NICK JOSEFOWITZ:** THANK YOU FOR YOUR COMMENTS, SIR. WE'RE NOT ALLOWED -- MAYBE DEREK, IF YOU WOULD, YOU CAN HAVE A --

**DEREK HANSEL:** I CAN TAKE IT OFFLINE.

**V. CHAIR, NICK JOSEFOWITZ:** TAKE THAT GENTLEMAN ASIDE, AND ADDRESS THAT OFFLINE. THANK YOU VERY MUCH FOR YOUR COMMENTS. OKAY. THEN, ARE THERE ANY OTHER COMMENTS -- ANY OTHER PUBLIC COMMENT IN THE ROOM?

**DEREK HANSEL:** NONE THAT I SEE.

**V. CHAIR, NICK JOSEFOWITZ:** OKAY. NOW WE CAN PROPERLY ADJOURN AND THE NEXT MEETING OF THE AUDIT COMMITTEE WILL BE HELD AT A DATE AND TIME TO BE DULY NOTICED. THANK YOU VERY MUCH.

[ADJOURNED]

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