



Metropolitan Transportation Commission

Audit Results and Required Communications

November 16, 2022



Dear Members of the Audit Committee of Metropolitan Transportation Commission,

We are pleased to present our report on the audit of Metropolitan Transportation Commission. Our report includes a summary of the audit results and also required auditor communications under professional standards.

Our audit is substantially completed. The remaining open items typical of this stage are the receipt of the management representation letter and standard subsequent event procedures through the date of audit report issuance.

We welcome any questions you or others may have on our audit. Thank you for the opportunity to discuss the audit results.

Sincerely,

A handwritten signature in black ink that reads "Katherine V. Lai".

Katherine V. Lai
Engagement Partner

Client Service Team



Tony Boras
GASB Technical Reviewer

Bert Nuehring
Consulting Partner

Chris Moore
Derivatives Partner

Brian Archambeault
Uniform Guidance Technical Reviewer

Erik Nylund
Consulting Managing Director

Matt Geerdes
Accounting Advisory

Agenda

1

Audit Objectives

2

Audit Results

3

Required
Communications

Audit Objectives



Engagement Objectives

- The objective of an audit of financial statements is to express an opinion that the financial statements are in accordance with accounting principles generally accepted in the United States.
- The audit of financial statements will be performed in accordance with auditing standards generally accepted in the United States (GAAS) and generally accepted Government Auditing Standards (GAGAS).
- Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud.
- Our audit includes consideration of internal controls over financial reporting, but we do not express an opinion on the effectiveness of such internal controls. Management is responsible for the design and the effectiveness of internal controls.

Financial Statement Audit Deliverables

Metropolitan Transportation Commission
(MTC)

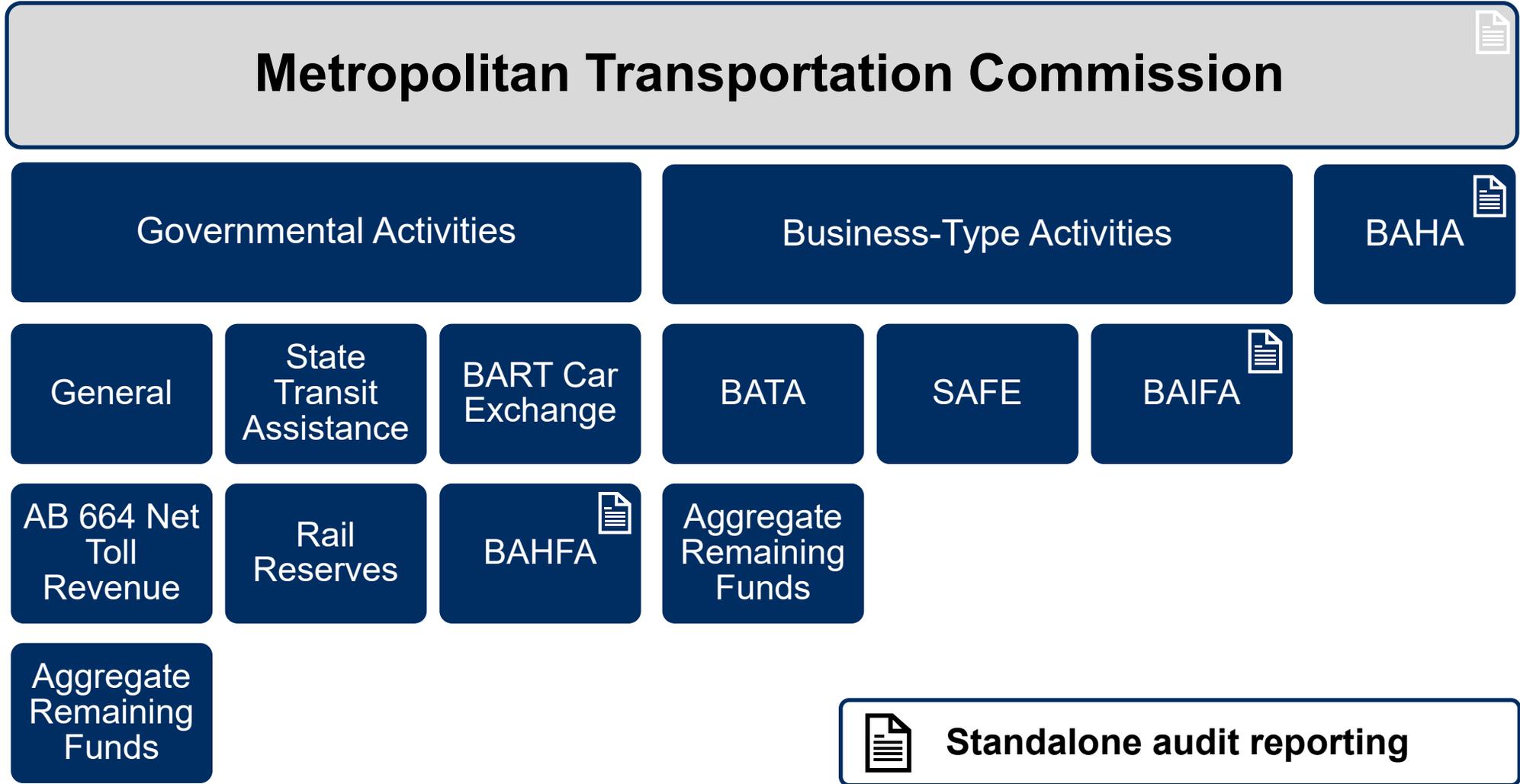
Bay Area Infrastructure Financing
Authority (BAIFA)

Bay Area Housing Finance Authority
(BAHFA)

Bay Area Headquarters Authority (BAHA)



Preliminary Opinion Units and Standalone Reporting



Audit Results

Financial Statement Audit Reports



- Independent Auditor's Report on the financial statements as of and for the year ending June 30, 2022.

Entity	Opinion
MTC	Unmodified
BAHA	Unmodified
BAIFA	Unmodified
BAHFA	Unmodified

Other Reporting- Compliance

Uniform Guidance Report (MTC)

- Major Program: Federal Transit Cluster.
- Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance.- No federal findings noted.
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
 - No instances of non-compliance or other matters noted.
 - **One material weakness noted.**



MTC Internal Control Recommendation

Internal Controls over Financial Reporting for Clipper Activities (Material Weakness)

Background/Context

The Commission has historically accounted for the costs associated with the Clipper fare payment system and related equipment utilized by the participating transit operators as a non-operating expense entitled “Distribution to other agencies for their capital purposes” on the Clipper fund financial statements. Management recorded these transactions in this manner based on their belief that the Clipper fare payment system and related equipment is for the benefit of the transit operators and is not used in MTC’s operations; the Commission is not a transit operator, and thus Management believed that the costs associated with the transactions did not meet the definition of a capital asset. In February 2016, the Commission entered into an Amended Memorandum of Understanding with the transit operators in which the Commission undertook additional obligations for creation and maintenance of all copyrights and other intellectual property necessary for the operation of the Clipper fare payment system, as well as for ownership of specified Clipper assets. Management has concluded that “MTC operations” for the purposes of the Clipper system is the service that is provided to the transit operators and not that provided to individual Clipper users. As a result, management reflected prior period adjustments to reflect the Commission’s ownership of the license to utilize the Clipper fare payment system and related equipment as capital assets since the Amended MOU was executed in 2016.

For the Clipper fiduciary fund, there were inconsistencies in the evaluation of whether the prepaid unused Clipper cards met the definition of a liability or would be more properly reflected as an addition to the fiduciary fund. To qualify as a liability, an event has to occur to compel the government to disburse the assets of the fiduciary fund. Management determined that the events that need to occur to compel the Commission to disburse the Clipper fiduciary fund assets are primarily the patron utilizing their Clipper card on one of the transit operators’ services or less commonly, a patron requesting a refund from the Commission for any unused Clipper card balances. As a result of management’s review, a prior period adjustment was reflected to record the prepaid unused Clipper card balances as an addition rather than a liability.

MTC Internal Control Recommendation - 1

Internal Controls over Financial Reporting for Clipper Activities (Material Weakness)

Observation:

The Commission's internal control environment over financial reporting did not timely detect certain adjustments related to the previous fiscal year that were needed to prevent the opening net position of the Clipper enterprise/business-type activities and the opening fiduciary net position of the Clipper fiduciary fund, respectively, from being materially misstated. Management corrected the errors and recorded the following prior period adjustments:

- Increase net book value of capital assets and beginning net position by \$53,194,059 for the Commission's license to use the Clipper fare payment system internally generated software and related equipment not previously recorded as capital assets in the business-type activities and Clipper enterprise fund.
- Decrease liabilities and increase beginning fiduciary net position by \$120,481,998 for the prepaid and unused Clipper card balances that were not previously recorded as an addition in the Clipper fiduciary fund.

Recommendation:

We recommend that the Commission strengthen their review of any changes in contracts and agreements and new accounting pronouncements to better evaluate the impact to their financial accounting and reporting. We recommend authoritative guidance be obtained and reviewed to ensure the proper accounting treatment for unique transactions.

Required Communications

Required Communications - 1

- Significant Accounting Policies: Those Charged with Governance should be informed of the initial selection of and changes in significant accounting policies or their application. Management has disclosed the summary of significant accounting policies in footnote 1 of each report.
- Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments.



Required Communications - 2

- Adoption of New Accounting Standards:
 - Leases (**GASB 87**)
 - Accounting for Interest Cost Incurred Before the End of a Construction Period (**GASB 89**)
 - Omnibus 2020 (**GASB 92, certain paragraphs**)
 - Replacement of Interbank Offered Rates (**GASB 93, paragraphs 13-14**)
 - CCUC and Section 457 Plans (**GASB 97, except paragraphs 4-5**)
 - The Annual Comprehensive Financial Report (**GASB 98**)
 - Omnibus 2022 (**GASB 99, paragraphs 26-32**)
 - Implementation Guide 2019-3 (**Leases**)
 - Implementation Guide 2020-1 (**Update 2020, Certain Questions**)
 - Implementation Guide 2021-1 (**Update 2021, Question 4.22**)



Required Communications - 3

- Corrected Misstatements: As noted previously, management corrected material misstatements pertaining to prior year activities in the Clipper enterprise and fiduciary funds.
- Uncorrected Misstatements: Any uncorrected misstatements that were brought to the attention of management were immaterial.



Required Communications - 4

We did not note:

- Significant Accounting Policies in Controversial or Emerging Areas
- Significant Unusual Transactions
- Significant Difficulties Encountered during the Audit
- Disagreements with Management
- Consultations with Other Accountants
- Significant Related Party Findings and Issues
- Independence matters



Questions?



Thank You

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Partner

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