



# **Metropolitan Transportation Commission**

**Reports on Federal Awards in Accordance  
with OMB Uniform Guidance  
For the Year Ended June 30, 2022**

<b>Auditee</b>	<b>EIN</b>
<b>Metropolitan Transportation Commission</b>	<b>94-1749911</b>

**Metropolitan Transportation Commission**  
**Reports on Federal Awards in Accordance with OMB Uniform Guidance**  
**For the Year Ended June 30, 2022**


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INDEPENDENT AUDITOR'S 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

Commissioners  
Metropolitan Transportation Commission  
San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Metropolitan Transportation Commission (the "Commission") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated , 2022.

#### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

#### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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(Continued)

## **Commission's Response to Findings**

Government Auditing Standards requires the auditor to perform limited procedures on the Commission's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

San Francisco, California  
<>, 2022

Draft

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Commissioners  
Metropolitan Transportation Commission  
San Francisco, California

**Report on Compliance for Each Major Federal Program**

***Opinion on Major Federal Program***

We have audited the Metropolitan Transportation Commission's (the "Commission") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the Commission's major federal program for the year ended June 30, 2022. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

***Basis for Opinion on Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Commission's federal programs.

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### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 Commission's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Commission's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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(Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Commission as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements. We issued our report thereon dated <>, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe LLP

San Francisco, California  
October <>, 2022

**METROPOLITAN TRANSPORTATION COMMISSION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2022

<u>Federal Grantor/Pass Through Grantor Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Sub-Recipients</u>	<u>Total Federal Expenditures</u>
<b>Federal Highway Administration (FHWA)</b>				
Highway Research and Development Program				
Department of Transportation				
Pass Through from the California Department of Transportation				
Highway Research and Development Program				
	20.200	SHRP2L-6084 (192)	\$ 4,610	\$ 29,594
	20.200	FHWA Work Zone Data Center	-	147,327
<b>Total Highway Research and Development Program</b>			<u>4,610</u>	<u>176,921</u>
<b>Highway Planning and Construction Cluster</b>				
Department of Transportation				
Pass Through from the California Department of Transportation				
Highway Planning and Construction				
	20.205	04 OWPMTCM (FHWA TC)	35,000	8,576,917
	20.205	SP&R FHWA Next Generation	-	37,122
	20.205	STPL-6084 (186)	496,160	496,160
	20.205	CML-6084 (190)	-	475,000
	20.205	STPL-6084 (197)	-	298,950
	20.205	STPL-6084 (198)	-	142,581
	20.205	STPLNI-6084 (205)	-	194,435
	20.205	CML-6084 (202)	195,390	195,390
	20.205	CML-6084 (209)	-	989,970
	20.205	STPL-6084 (206)	10,858,822	10,858,822
	20.205	STPL-6084 (207)	255,349	1,861,861
	20.205	CML-6084 (211)	-	246,592
	20.205	CML-6084 (210)	16,168	2,958,494
	20.205	CML-6084 (215)	-	548,722
	20.205	CMLNI-6084 (216)	-	832,342
	20.205	CMLNI-6084 (208)	-	366,323
	20.205	STPLNI-6084 (213)	-	1,440,154
	20.205	STPLNI-6084 (212)	-	295,028
	20.205	STPLNI-6084 (222)	-	513,291
	20.205	STPLNI-6084 (225)	-	40,615
	20.205	CMLNI-6084 (220)	-	109,058
	20.205	STPLNI-6084 (232)	1,352,010	1,349,944
	20.205	CMLNI-6084 (219)	41,178	42,678
	20.205	STPLNI-6084 (226)	-	2,656,260
	20.205	STPLNI-6084 (227)	1,754,900	1,878,360
	20.205	STPLNI-6084 (230)	-	329,996
	20.205	STPLNI-6084 (231)	-	391,632
	20.205	STPLNI-6084 (233)	2,983,966	2,983,966
	20.205	STPL-6084 (235)	-	20,000
	20.205	STPLNI-6084(241)	-	189,514
	20.205	CMLNI-6084(242)	-	35,639
	20.205	CMLNI-6084(243)	-	118,092
	20.205	STPLNI-6084(255)	-	1,493,385
	20.205	STPLNI-6084(254)	-	14,103
	20.205	STPLNI-6084(244)	-	195,780
	20.205	STPL-6084(259)	-	291,790
	20.205	STPLNI-6084 (260)	-	2,891,338
	20.205	STPLNI-6084 (263)	-	713,644
	20.205	STPLNI-6084 (264)	-	204,506
	20.205	STPLNI-6084 (262)	-	1,445,312
	20.205	STPL-6084(268)	59,399	525,101
	20.205	STPL-6084 (269)	-	22,291
	20.205	STPL-6084(273)	-	26,286
	20.205	STOL 6084 (279)	-	3,694
<b>Total Highway and Planning and Construction Cluster</b>			<u>18,048,342</u>	<u>49,301,138</u>
<b>Total Federal Highway Administration (FHWA)</b>			<b>18,052,952</b>	<b>49,478,059</b>
<b>Federal Transit Administration (FTA)</b>				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research Program				
Pass Through from the California Department of Transportation				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research				
	20.505	04 OWPMTCM (FTA 5303 TC)	30,000	3,563,721
	20.505	04 OWPMTCM (FTA 5304 TC)	-	211,643
	20.505	04 OWPMTCM (FTA 5304 TC)	-	253,007
	20.505	04 OWPMTCM (FTA 5304 TC)	367,134	367,134
<b>Total Pass Through from the California Department of Transportation</b>			<u>397,134</u>	<u>4,395,505</u>
<b>Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research Program</b>			<b>397,134</b>	<b>4,395,505</b>

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**METROPOLITAN TRANSPORTATION COMMISSION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2022

Federal Grantor/Pass Through Grantor Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Sub-Recipients	Total Federal Expenditures
<b>Federal Transit Cluster</b>				
Department of Transportation				
Federal Transit Capital Investment Grants				
Pass-Through From SFMTA	20.500	CA-03-0767-05	\$ -	\$ 75,659
Subtotal: ALN 20.500			-	75,659
Federal Transit Formula Grants				
Direct Awards				
COVID-19: CA-2020-224-00	20.507		-	3,553,880
CA-2020-232-02 5307-3	20.507		-	13,177,588
CA-2020-232-02 5307-2A	20.507		-	7,850,340
Pass-Through From Golden Gate Bridge, Highway & Transportation District	20.507	CA-2016-120-00 (FTA 5307)	-	156,664
Subtotal: ALN 20.507			-	24,738,472
State of Good Repair Grants Program				
Pass-Through From Golden Gate Bridge, Highway & Transportation District	20.525	CA-2016-120-00 (FTA 5337)	-	248,918
Pass-Through From Golden Gate Bridge, Highway & Transportation District	20.525	CA-2017-162-00 (FTA 5337)	-	1,235,747
Subtotal: ALN 20.525			-	1,484,665
<b>Total Federal Transit Cluster</b>				
			-	26,298,796
<b>Transit Services Program Cluster</b>				
Department of Transportation				
Enhanced Mobility of Seniors & Individuals with Disabilities				
Pass-Through from the California Department of Transportation	20.513	64AM19-01194	-	77,106
Subtotal: ALN 20.513			-	77,106
Direct Awards				
Job Access And Reverse Commute Program				
CA-37-X177-00 (JARC)	20.516		12,129	15,755
Subtotal: ALN 20.516			12,129	15,755
New Freedom Program				
CA-57-X023-00 (New Freedom)	20.521		64,685	64,685
CA-57-X109-00 (New Freedom)	20.521		-	48,970
Subtotal: ALN 20.521			64,685	113,655
<b>Total Transit Services Program Cluster</b>				
			76,814	206,516
<b>Total Federal Transit Administration (FTA)</b>			473,948	30,900,817
<b>United States Environmental Protection Agency</b>				
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements				
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements				
Pass-Through from Association of Bay Area Governments	66.818	BF-99761501	-	76,898
Subtotal: ALN 66.818			-	76,898
<b>Total United States Environmental Protection Agency</b>				
			-	76,898
<b>Department of Homeland Security</b>				
Cooperating Technical Partners				
Direct Awards				
EMF-2020-CA-0017-S01	97.045	EMF-2020-CA-00017	-	86,537
Subtotal: ALN 97.045			-	86,537
<b>Total Department of Homeland Security</b>				
			-	86,537
<b>Total Expenditures for Federal Awards</b>			<b>\$ 18,526,900</b>	<b>\$ 80,542,311</b>

See accompanying notes to the schedule of expenditures of federal awards.

METROPOLITAN TRANSPORTATION COMMISSION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2022

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**NOTE 1 – Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all expenditures of federal awards of the Metropolitan Transportation Commission (“MTC”).

The Schedule is presented using the modified accrual basis of accounting. MTC’s financial statements are prepared on the accrual basis for proprietary and fiduciary activities and modified accrual basis for governmental activities, which are described in Note 1 of the notes to MTC’s financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the “Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in preparation of, the financial statements. Expenditures reported on the Schedule are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 2 – Indirect Cost Rate**

MTC applies its predetermined approved indirect cost rate when charging indirect costs to federal awards rather than the 10% de minimis indirect cost rate described in Section 200.414 of the Uniform Guidance. MTC’s indirect cost rate is approved by its cognizant agency.

METROPOLITAN TRANSPORTATION COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2022

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**SUMMARY OF AUDITORS' RESULTS**

**Financial Statements:**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

  X   Yes           No

Significant deficiency(ies) identified?

       Yes      X   None reported

Noncompliance material to financial statements noted?

       Yes      X   No

**Federal Awards:**

Internal control over major federal programs:

Material weakness(es) identified?

       Yes      X   No

Significant deficiency(ies) identified?

       Yes      X   None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

       Yes      X   No

Identification of major federal programs:

Assistance Listing 20.500, 20.507, 20.525

Federal Transit Cluster

Dollar threshold used to distinguish type A and B programs:

  \$ 2,416,269  

Auditee qualified as low-risk auditee?

  X   Yes           No

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(Continued)

METROPOLITAN TRANSPORTATION COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2022

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**2022-01- Internal Controls over Financial Reporting (Material Weakness)**

**Criteria:**

The reporting entity is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), paragraph 24 notes the term *capital assets* includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

GASB 51 paragraph 2 notes that an intangible asset is an asset that possesses all of the following characteristics:

- a. Lack of physical substance. An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
- b. Nonfinancial nature. In the context of this Statement, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
- c. Initial useful life extending beyond a single reporting period.

GASB 51, paragraph 8, notes that outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:

- a. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.
- b. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
- c. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

GASB 51, paragraph 128, notes that computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the government's personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this section. For example, licensed financial accounting software that the government modifies to add special reporting capabilities would be considered internally generated.

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METROPOLITAN TRANSPORTATION COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2022

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In addition, GASB Statement No. 84 *Fiduciary Activities* (GASB 84), paragraph 21, notes that except for entities that are required to apply paragraph 22, a liability to the beneficiaries of a fiduciary activity should be recognized in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

**Condition:**

The Metropolitan Transportation Commission (Commission) 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:

1. 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.
2. 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.

**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 were more properly reflected as an addition to the fiduciary fund. To qualify as a liability, an event has to occur to compel a 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 is primarily the patron utilizing their Clipper card on one of the transit operators or less commonly, a patron requesting a refund from the Commission for any unused Clipper card balances. As a result of management's review, they reflected a prior period adjustment to record the prepaid unused Clipper card balances as an addition rather than a liability.

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METROPOLITAN TRANSPORTATION COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2022

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**Cause:**

The Clipper enterprise fund and business-type activities error was due to a change in the 2016 Amended MOU with the transit operators that established that the Commission had ownership of the license to utilize the Clipper fare payment system and related equipment purchased for the transit operators. Management did not consider the impact of the 2016 Amended MOU on their accounting and financial reporting of the Clipper fund financial statements.

For the Clipper Fiduciary fund error, the incorrect recording of the liability in the custodial fund was due to the misinterpretation of the definition of a liability in the custodial fund as outlined in paragraph 21 of GASB 84.

**Effect or potential effect:**

Annual financial statements may not be presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

**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.

**Views of responsible officials and planned corrective actions:**

Management concurs with Crowe LLP's observation and acknowledges that there are opportunities for process improvements as they relate to evaluating contracts and amendments for proper accounting treatment and reporting.

Management will expand the distribution of contracts and amendments to include the financial reporting section. This section will review and evaluate the proper accounting treatment and reporting of contract activities and document the results of this evaluation. Amendments will be reviewed for impacts on existing accounting treatment and reporting, and any necessary changes will be documented.

Additionally, Management will encourage collaboration between departments to evaluate reporting requirements for unusual and complex agreements to ensure that proper reporting structure is documented and in place upon execution of the agreement.

Management will expand the financial reporting section to include a capital asset accountant who will perform and coordinate this contract review and ensure that capital assets are properly reported. This position will review and interpret new accounting pronouncements and consider their impact on existing contracts and implement necessary changes.

Management will strengthen their review and evaluation of new accounting pronouncements and their impact on existing financial reporting and accounting procedures. Management will attend training on new pronouncements and if needed seek advice on the application of current pronouncement on unique or unusual transactions from external resources. Management will document the review performed and any impact it has on financial reporting and existing policies and procedures.

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