

Metropolitan Transportation Commission

**Reports on Federal Awards in Accordance
With OMB Uniform Guidance
For the Year Ended June 30, 2016**

Component Unit

**Metropolitan Transportation Commission
MTC Service Authority for Freeways
and Expressways**

EIN

94-1749911

94-3196169

Metropolitan Transportation Commission

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Year ended June 30, 2016

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Report of Independent Auditors 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*

To the Commissioners of
the Metropolitan Transportation Commission

We have audited, in accordance with 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, the aggregate remaining fund information, and fiduciary funds of the Metropolitan Transportation Commission ("MTC") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MTC's basic financial statements, and have issued our report thereon dated October 26, 2016 which included a matter of emphasis paragraph concerning the manner in which MTC measures the fair value of certain investments and additional disclosures related to all fair value measurements. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MTC's internal control over financial reporting ("internal control") to determine the 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 MTC's internal control. Accordingly, we do not express an opinion on the effectiveness of MTC'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MTC'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 determination of financial statement amounts. 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*.

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.

[PricewaterhouseCoopers LLP (signed)]

San Francisco, California

October 26, 2016



**Report of Independent Auditors on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance with the Uniform Guidance**

To the Commissioners of
the Metropolitan Transportation Commission

Report on Compliance for Each Major Federal Program

We have audited Metropolitan Transportation Commission ("MTC")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of MTC's major federal programs for the year ended June 30, 2016. MTC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MTC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MTC's compliance.

Opinion on Each Major Federal Program

In our opinion, MTC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter.



MTC's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. MTC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of MTC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MTC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MTC's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

[PricewaterhouseCoopers LLP (signed)]

San Francisco, California

October 26, 2016

Metropolitan Transportation Commission
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2016

Federal Grantor/Pass Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed-Through to Sub-Recipients
Federal Highway Administration (FHWA)				
Highway Research and Development Program				
Department of Transportation				
Pass Through from the California Department of Transportation				
Highway Research and Development Program	20.200	ATF5512L 6084 (184)	\$ 8,157	8,157
	20.200	SHRP2L-6084 (192)	\$ 135,560	120,240
Total Highway Research and Development Program			143,717	128,397
Highway Planning and Construction Cluster				
Department of Transportation				
Pass Through from the California Department of Transportation				
Highway Planning and Construction	20.205	STPL-6084 (146)	863,508	863,508
	20.205	CML-6084 (160)	1,364,534	41,076
	20.205	CML-6084 (164)	1,028,417	260,000
	20.205	CML-6084 (165)	380,187	-
	20.205	VPPL-6084 (182)	118,506	-
	20.205	CML 6160 (020)	371,358	(25,000)
	20.205	STPL-6084 (175)	11,155,846	10,022,829
	20.205	STPL-6084 (178)	393,031	-
	20.205	STPL-6084 (179)	1,249,741	-
	20.205	STPL-6084 (180)	708,394	-
	20.205	STPL-6084 (187)	659,927	659,927
	20.205	STPL-6084 (186)	1,085,627	379,520
	20.205	CML-6084 (188)	66,605	-
	20.205	CML-6084 (190)	5,345,165	-
	20.205	STPCML-6160 (018)	2,006,088	51,640
	20.205	STPCML-6084 (177)	6,150,077	-
	20.205	STPCML-6084 (176)	15,029,668	450,000
	20.205	STPL-6084 (193)	106,928	55,062
Total Highway and Planning and Construction Cluster - MTC			48,083,607	12,758,562
	20.205	STPL 6160 (025)	2,047,267	-
Total Highway and Planning and Construction Cluster - SAFE			2,047,267	-
Total Highway Planning and Construction Cluster			50,130,874	12,758,562
Total Federal Highway Administration (FHWA)			50,274,591	12,886,959

Metropolitan Transportation Commission
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2016

Federal Grantor/Pass Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed-Through to Sub-Recipients
Federal Transit Administration (FTA)				
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 (FHWA TC)	7,511,222	1,014,968
	20.505	04 OWPMTCM (FTA 5303 TC)	2,330,002	440,162
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research Program			9,841,224	1,455,130
Federal Transit Cluster				
Department of Transportation				
Federal Transit Formula Grants				
Direct Awards				
CA-90-Y555-00	20.507		4,549	-
Pass-Through From City of Fairfield	20.507	CA-90-X977-00	98,873	-
Subtotal: CFDA 20.507			103,422	-
Bus and Bus Facilities Formula Program				
Direct Awards				
CA-34-0024-00 (FTA 5339)	20.526		432,386	432,386
CA-34-0032-00 (FTA 5339)	20.526		197,701	197,701
Subtotal: CFDA 20.526			630,087	630,087
Total Federal Transit Cluster			733,509	630,087

Metropolitan Transportation Commission
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2016

Federal Grantor/Pass Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed-Through to Sub-Recipients
Transit Services Program Cluster				
Department of Transportation				
Direct Awards				
Job Access And Reverse Commute Program				
CA-37-X133-00 (JARC)	20.516		115,268	115,268
CA-37-X164-00 (JARC)	20.516		203,313	187,787
CA-37-X177-00 (JARC)	20.516		454,448	454,448
Subtotal: CFDA 20.516			773,029	757,503
New Freedom Program				
CA-57-X023-00 (New Freedom)	20.521		16,106	16,106
CA-57-X032-00 (New Freedom Cycle 2)	20.521		7,093	7,093
CA-57-X050-00 (New Freedom, Cycle 3)	20.521		148,508	148,508
CA-57-X074-00 (New Freedom)	20.521		111,889	111,889
CA-57-X109-00 (New Freedom)	20.521		258,738	258,738
Subtotal: CFDA 20.521			542,334	542,334
Total Transit Services Program Cluster			1,315,363	1,299,837
National Infrastructure Investments				
Department of Transportation				
Direct Award				
National Infrastructure Investments				
CA-79-1001 (FTA TIGER VI)	20.933		427,051	-
Total National Infrastructure Investments			427,051	-
Total Federal Transit Administration (FTA)			12,317,147	3,385,054
Total Expenditures for Federal Awards			\$ 62,591,738	\$ 16,272,013

Metropolitan Transportation Commission
Reports on Federal Award Programs in Accordance With OMB Uniform Guidance
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

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"). MTC's reporting entity is defined in Note 1 to MTC's financial statements. The MTC Service Authority for Freeways & Expressways ("SAFE") is a blended component unit of 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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 as described in Section 200.414 of the Uniform Guidance. MTC's indirect cost rate is approved by their cognizant agency, the California Department of Transportation.

Metropolitan Transportation Commission
Reports on Federal Award Programs in Accordance With OMB Uniform Guidance
Summary of Auditor's Results
For the Year Ended June 30, 2016

Section I—Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

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

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

Identification of major programs:	Name of Federal Program or Cluster:
CFDA Number(s)	
20.205 MTC & SAFE	Highway Planning and Construction Cluster
20.507 & 20.526	Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs: \$1,877,752

Auditee qualified as low-risk auditee? Yes

Metropolitan Transportation Commission
Reports on Federal Award Programs in Accordance With OMB Uniform Guidance
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section II – Financial Statement Findings

There were no financial statement findings for the year ended June 30, 2016.

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Metropolitan Transportation Commission
Reports on Federal Award Programs in Accordance With OMB Uniform Guidance
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs

Finding 2016-001: Annual reporting requirements

National Infrastructure Investments
Federal Awarding Agency: Department of Transportation
CFDA #: 20.933
Program Name: National Infrastructure Investments
Award #: CA-79-1001
Award Year: 2014 - 2017

Criteria

The terms and conditions of the award requires the annual submission of a Budget Review and Program Plan, which is due sixty days prior to the end of each Agreement year as defined by the award.

Condition

One required report was neither prepared nor submitted within sixty days of the Agreement year ending during the audit period.

Questioned Cost

There are no questioned costs associated with this finding.

Cause

MTC did not enforce its established policies which require project teams to follow the reporting requirements on awards.

Effect

Lack of consistent financial reporting limits the ability of awarding agencies to monitor MTC's progress and compliance with regulations.

Recommendation

In order to address the issue of non-compliance with reporting requirements, MTC should enforce its policies and implement monitoring procedures in order to ensure award reporting requirements are followed.

Management's Views and Corrective Action Plan

Management's responses are reported in "Management's Views and Corrective Action Plan" and are considered part of this report.

Metropolitan Transportation Commission
Reports on Federal Award Programs in Accordance With OMB Uniform Guidance
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016

Finding 2015-001: Quarterly Reporting Requirements

Management implemented the following additional procedures as part of the Corrective Action Plan for Finding No. 2015-001

MTC Finance notifies project managers and section directors of pending reporting deadlines and confirms that reports have been entered into TEAM on a timely basis.

MTC has established a central control point within the Budget Section of our Finance department to monitor and enforce MTC's compliance with grant reporting requirements. Currently, MTC project managers prepare and report data directly to grant agencies via TEAM (Transportation Electronic Award Management System). MTC Finance department oversees submission by project managers to ensure that the amounts are correctly reported and that they meet reporting requirements and established deadlines. MTC Finance currently maintains a schedule of grants awards and tracks grant reporting requirements, including frequency and format. Additionally, a copy of the report submitted by project manager into TEAM is retained in the Finance department.

Management considers Finding 2015-001 closed.



METROPOLITAN
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October 13, 2016

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Santa Clara County

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Steve Heminger
Executive Director

Alix Bockelman
Deputy Executive Director, Policy

Andrew B. Fremier
Deputy Executive Director, Operations

The management of MTC concurs with the finding No. 2016-001, Annual Reporting Requirements, as stated within this report. We present the following corrective action plan.

Currently, the Budget Section of our Finance department ensures that MTC project managers prepare and report data directly to grant agencies via TrAMS (Transit Award Management System), formerly TEAM (Transportation Electronic Award Management System), on a timely basis in accordance with grant reporting requirements.

MTC will expand this procedure to include grants that may have alternative grant reporting requirements. The current schedule of grant awards will be modified to include these additional reporting variations and deadlines. The Budget Section will oversee submission of these reports by project managers and ensure they prepare and submit reports within established deadlines. Copies of these reports will be retained by the Finance department.

The contact person for this corrective action plan is Brian Mayhew. I can be reached at 415-778-6730.

Sincerely,



Brian Mayhew
Chief Financial Officer

BM: SB