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# ***Metropolitan Transportation Commission***

## **Internal Controls Report**

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*October 17, 2018*





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Mr. Brian Mayhew  
Chief Financial Officer  
Metropolitan Transportation Commission  
375 Beale Street  
San Francisco, CA 94105

Dear Brian:

In planning and performing our audit of the financial statements of the Metropolitan Transportation Commission ("MTC") as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on MTC's internal control over financial reporting. Accordingly, we do not express an opinion on MTC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

AICPA AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*, of the AICPA Professional Standards includes the following definitions of a deficiency, a significant deficiency and a material weakness:

Deficiency - 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.

Significant deficiency - a deficiency, or 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.

Material weakness - a deficiency, or 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.

Based on prior years' practice, we are providing you with a report of any deficiencies for which we have recommendations. A complete list of any material weaknesses or significant deficiencies is included within the Report to the Audit Committee.



This letter is intended solely for the information and use of the Commissioners, management, others within MTC and governmental granting agencies and is not intended to be and should not be used by anyone other than these specified parties.

If you would like any further information or would like to discuss any of the issues raised, please contact Ian Fleming at (415) 377-4410.

Very truly yours,

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP

cc: Steve Heminger, Executive Director  
Arleicka Conley, Section Director, Finance & Accounting  
Debbie Atmaja, Assistant Director/Financial Reporting  
Susan Woo, Section Director, Treasury & Revenue  
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## ***Current Year Recommendations***

### **A. Business Process Controls**

There were no new business process control findings to report in the current year.

## B. Information Technology General Controls

### 1. Developer Access to Production (ATCAS II & Express Lane Revenue System)

#### **Status**

Repeat finding for ATCAS II. New finding for Express Lane Revenue System.

#### **Observation**

As part of our audit, we identified multiple contracting software developers with access to the ATCAS II and the Express Lane Revenue System production operating system and database.

#### **Impact**

Developer access to a software production environment creates a risk of inappropriate system changes with a limited possibility of being able to log and detect those changes. This creates the opportunity for fraud and increases the risk of undiscovered errors.

#### **Recommendation**

We recommended that developers not be given access to production. If developer access is deemed vital for efficient operating procedures, the goal of segregation of duties can be achieved by allowing developer changes to be made to the production environment only after the change has been appropriately reviewed and approved by IT Operations.

#### **PwC Update for 2018**

Noted that Management has procured file integrity monitoring (FIM) software Tripwire to be installed on all systems running ATCAS II software code. However, noted that Tripwire is still in process of being configured to identify all modifications to ATCAS II production software. In addition, a process to review changes identified by Tripwire by BATA and TransCore, to ensure all changes occur during authorized ATCAS II software releases, has not been implemented. This is the first year the Express Lane Revenue System has been in scope for testing, and as such, this is considered to be a new finding for this system.

#### **Management Response for 2018**

Installation of Tripwire file integrity monitoring software to all ATCAS II systems was completed by September 30, 2018. Tripwire alerts have been configured to notify BATA and Transcore IT of modifications to files containing ATCAS II software code. All alerts will be reviewed by BATA and Transcore IT to ensure they correspond with approved ATCAS II software releases.

BAIFA staff is working with TransCore management to determine the appropriate level of access and IT controls for Developers to the Express Lanes production environment. This analysis will be completed within 2 months of BAIFA approval of the I-680 South

Operations Test. BAIFA will target implementation of the solution for the end of the FY2018-2019 fiscal year.

## 2. Logical Access: Terminations (ATCAS II & Express Lane Revenue System)

### **Status**

New finding

### **Observation**

As part of our audit, we noted that one user was terminated on 8/19/2017, however, this user had last logged into the ATCAS II application during on 9/21/2017. Noted BATA IT was not notified by HR of this termination and therefore access removal was not actioned timely.

### **Impact**

Unauthorized access to a financially significant data creates a risk of inappropriate data changes. This creates the opportunity for fraud and increases the risk of unauthorized data changes.

### **Recommendation**

We recommend that terminated user access should be disabled in a timely manner so that only appropriate and authorized personnel have access to data.

### **Management Response**

BATA IT staff has been added to the HR Employee/Staff Separation Authorization distribution list. BATA IT will disable ATCAS and Express Lanes access for MTC separated employee/staff on the listed Date of Termination. Additionally, all accounts are reviewed periodically per BATA's Desktop Security New Request Processing as a mitigating control.

## ***Closed Prior Years' Recommendations***

### **A. Business Process Controls**

#### **1. Accounting for Unusual Transactions**

##### **Status**

Closed finding

##### **Observation**

In our review of the financial statements, we identified errors in the accounting for two transactions that were unusual in nature and relatively significant to the 2017 financial statements. The errors were corrected by management and were as follows:

- 1) As part of the transition of Bay Area Metro Center responsibilities from BAHA to the 375 Beale Street Inc. (the "Condo Association,") the Condo Association was allocated portions of the building management activity throughout the year. However, because the Condo Association was not legally formed until June 22, 2017, the financial activity before that point truly belonged to BAHA. As a result, management booked an adjustment which increased assets \$1.9 million, liabilities \$0.8 million, revenues \$4.5 million, and expenses \$3.4 million.
- 2) In 2017, BAHA contributed \$30 million to BATA. \$19 million of this was the BAAQMD Certificate of Participation. The BATA Statement of Cash Flows incorrectly reflected a \$19 million financing cash inflow and investment purchase outflow for this noncash item.

##### **Impact**

On occasion, MTC enters into unusual transactions, and given the varying nature of these transactions, it can be difficult to determine the proper accounting treatment for them. Although the risk of misreporting such occurrences is not considered to be pervasive given their infrequency, they are often a focal point for users of the financial statements due to their nature and significance. Given the impact of the misreporting in the 2017 financial statements of the two transactions that we identified, we consider this a significant deficiency in internal control.

##### **Recommendation**

For any significant transaction that is unusual in nature for MTC, we recommend management ensure that the full financial statement impact of the transaction be evaluated. This includes determining the impact to each of the financial statements and related disclosures.

##### **PwC Update for 2018**

Management accounted for several unusual transactions in the current year and the audit team observed a robust process in place to ensure the transactions were accounted for appropriately.



## 2. Ensuring the Physical Existence of Fixed Assets

### **Status**

The prior year management response has not been implemented. However, there were no exceptions identified in the current year. Therefore, the reporting of the finding is being closed.

### **Observation**

We observed that management currently does not have a formal procedure to monitor the existence and usage of non-IT assets individually below \$5,000 and used for more than one year as these assets are not capitalized in MTC's fixed asset ledger and therefore tracked. Furthermore, the process to track the existence of IT assets (laptops, phones, tablets, etc.) is performed by the IT Department but this process is not formalized nor is the IT department's IT asset listing reconciled to the fixed asset ledger records maintained by the Finance Department.

### **Impact**

Management has limited capability to ensure that purchased items valued individually less than \$5,000 are still in the possession of the entity as these assets are not identified in formal records and therefore their existence is not monitored. There is a risk/possibility of asset misappropriation/theft and the entity incurring additional expenses to then replace the asset.

### **Recommendation**

We recommend that management a) re-consider the capitalization threshold of \$5,000 as this amount is relatively high compared to the price of certain items typically included in MTC's fixed assets and b) consider whether this is an optimal threshold of fixed assets to track for existence. The process of ensuring the physical existence of assets has become more crucial as MTC moved to its new headquarters and has purchased a significant amount of fixed assets.

### **Management Response for 2017**

Management purchased a fixed asset tracking system to utilize with One Solution in 2016. However, due to office relocation, building sale, merger, and retirements within the Administrative Services section, the project was not undertaken in 2017. The project will be initiated in 2018 and completed by Fall 2018.

### 3. Monitoring of Wage Rate Requirements (Davis-Bacon) Compliance

#### **Status**

Closed finding

#### **Observation**

Per MTC's Uniform Guidance policy, contracts subject to Davis-Bacon wage rate requirements will include the required state and federal contract clauses, as applicable. We observed that a change order on one Clipper contract that is subject to wage rate requirements did not include the required contract clauses and was not logged in MTC's contracts database as subject to wage rate requirements. Furthermore, the listing of contracts subject to wage rate requirements provided to us was manually compiled at the time of the audit and did not include the aforementioned contract.

#### **Impact**

An absence of a formal monitoring process related to Wage Rate Requirements creates the risk that work subject to prevailing wages may be performed without adequate compensation and monitoring of compensation by the non-federal entity and contractor. Non-compliance with wage rate requirements could lead to the federal government refusing to pay MTC for work performed under the non-compliant contracts.

#### **Recommendation**

We recommend that MTC implement additional monitoring procedures to ensure that all contracts subject to prevailing wage rate requirements include the required clauses before the contracts are signed. Increased oversight by management and a more formalized process for determining applicability of the requirements to a given contract would help mitigate the risk of non-compliance.

Additionally, it is recommended that management formally maintain documentation evidencing the monitoring process including rationale for any decisions to not include prevailing wage rate clauses in any contract that could be interpreted to involve the construction, alteration, and/or repair of a public building or public work and any determinations made for whether individual types of labor are subject to wage rate compliance within a contract is considered to contain public works.

#### **Management Response**

MTC erred in not including the Wage Rate Requirements in a contract that could be interpreted to involve the construction, alteration and/or repair of a public facility. MTC is in process of adding Davis Bacon Act and California Prevailing Wage language to the subject contract in connection with public works activities performed under the contract. In addition, MTC will extend the mandate of its Contracts Section to monitor contracting activities to ensure that federal Wage Rate Requirements, when applicable, are included in contracts before they are signed to all federally-funded contracts.

#### **PwC Update for 2018**

It was noted that appropriate contract language was added to the contract in question from the prior year. Further, no other findings were identified as part of the current year audit.

#### 4. Ensuring Purchase Requisitions Obtain the Proper Level of Approval

##### **Status**

The prior year management response has not been implemented. However, there were no exceptions identified in the current year. Therefore, the reporting of the finding is being closed.

##### **Observation**

Per MTC's Purchase Requisition Approval policy, General Requisition in an amount under \$25,000 may be signed and approved by the relevant Section Director. Purchase requisitions between \$25,001 and \$200,000 must be signed by the Deputy Executive Director and Requisitions over \$200,000 must be approved by Committee and signed by the Executive Director. Additional approval may need to be acquired from Office of General Counsel, Manager of Administrative Technology Services, or Administration Committee depending on the type of purchase.

As part of our testing of internal controls in 2016, we observed a purchase requisition in the amount of \$32,420 which lacked required approval by a Deputy Executive Director.

##### **Impact**

If the purchase requisition approval process is not adhered to, there is a risk that unauthorized or inappropriate purchase requisitions could be approved which could lead to the inappropriate expenditure of funds.

##### **Recommendation**

We recommend that MTC re-emphasize the importance of adhering to approval requirements in internal communication/training and implement monitoring controls to ensure the policies and procedures are complied with. Some examples of safeguards are manual reviews or system based workflow restrictions.

##### **Management Response for 2017**

MTC has purchased the software for the electronic routing of purchase requisitions, and staff is currently working to create the electronic dataflow that will map to our current signature approval hierarchy that is necessary to allow for electronic processing of requisitions. Once this is established, testing will be performed to ensure proper protocols and controls are in place before the electronic requisitions are implemented. We anticipate this project to be completed prior to June 30, 2018.

## **B. Information Technology General Controls**

### **1. Improve Change Management Processes (OneSolution)**

#### **Status**

Closed finding

#### **Observation**

As part of our audit, testing was performed over a sample of application changes in OneSolution. We discovered that some changes were not reviewed or approved and/or formal documentation was not maintained of the review/approval.

As a result, we were required to perform additional manual substantive testing to support the fiscal 2017 financial statement audit.

#### **Impact**

We believe a formal change policy is vital to a mature IT control environment. Clearly communicated policies can provide guidance on the nature and extent of testing and review performed in a test or production environment depending on the assessed risk. In addition, such policies, when adhered to, can ensure that all changes are reviewed and approved as desired. A lack of effectively operating change management controls increases the risk that inappropriate or erroneous changes could be made without detection.

#### **Recommendation**

We recommend that MTC ensures that application changes are reviewed and approved and that such review and approval is formally documented. Building specificity around the level of review needed for different types of changes would aid MTC in appropriately executing change management controls.

#### **Management Response for 2017**

Tickets are opened and monitored so long as the work is in progress. The ticket is closed when staff determines that the correction, modification or report is completed. Evidence of satisfactory resolution, including acceptance testing when applicable, will be maintained with the ticket correspondence.

#### **PwC Update for 2018**

For the period 7/1/2017 through 6/30/2018, per inspection of documentation obtained around change management, noted that application changes are reviewed and approved and that such review and approval is formally documented. As such, this finding is considered to be closed.

