

October 28, 2020

Management of the Metropolitan Transportation Commission  
C/o Brian Mayhew, Chief Financial Officer  
Metropolitan Transportation Commission  
375 Beale Street  
San Francisco, California 94105

Management of the Metropolitan Transportation Commission,

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Transportation Commission ("MTC") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered MTC's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MTC's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain matters that we are required to or wish to communicate to you. Matters communicated in this letter are classified as follows.

- Deficiency – A control deficiency 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.

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

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the MTC's internal control over financial reporting or on compliance. This letter is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MTC's internal control over financial reporting and compliance. Accordingly, this letter is not suitable for any other purpose.

Crowe LLP

San Francisco, California  
October 28, 2020

Cc: Therese McMillan, Executive Director

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## 2020-001 Governmental Fund Revenue Recognition and Availability Criterion

### **Classification:**

Deficiency

### **Applicable Entities:**

MTC

### **Observation:**

Generally accepted accounting principles requires that governmental fund revenue should be recognized in the accounting period in which they become both measurable and available. The term available means that they are collected or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The length of time selected by a government during which revenues are considered available, which typically falls between thirty days and one year, defines the critical aspect of when revenues are recognized in a governmental fund.

During our audit we noted that management consistently treated and recognized governmental revenue to be available if they are collected or expected to be collected within 210 days after year end. However, their summary of significant accounting policies reflected a 90-day availability period, which did not accurately represent their current practice.

### **Impact:**

Management's financial reporting close process did not incorporate an internal control to ensure that their accounting policy for governmental revenue recognition was consistent with current practice. As a result, we proposed and management reflected the correct 210-day availability period within their summary of significant accounting policies.

### **Recommendation:**

We recommend that management strengthen their review process to ensure that the information included within their summary of significant accounting policies is accurate and reflects current practice.

### **Management Response:**

The management of the Metropolitan Transportation Commission (MTC) concurs with the finding and recommendation. Management believes revenue is properly recorded when the expense is paid and the grant billed for reimbursement. However, given the fact year end processing can take anywhere from 60 to 90 days following the close of the fiscal year, we revised the revenue recognition policy to 210 days to align with current practice.

## 2020-002 Management Review over Service Organization Controls (SOC) Reports

### **Classification:**

Deficiency

### **Applicable Entities:**

MTC

### **Observation:**

Reports on controls at a service organization (SOC reports) are intended to meet the needs of entities who use service organizations in evaluating the effect of its internal controls on the user entity. MTC utilizes several external service organizations to process transactions, including its payroll system and the electronic tolling customer service center system. While MTC requested and obtained SOC reports from each service organization, there was no evidence of management's formal review of the payroll and electronic tolling customer service center SOC reports.

### **Impact:**

Lack of formal review and documented assessment of the SOC reports may lead to unidentified internal control gaps at a service organization.

### **Recommendation:**

We recommend that management obtain SOC reports for service organizations in a timely manner relative to their fiscal year audits, implement formal procedures to review the SOC reports, and document management's assessment of relevant internal control findings, their potential impact and complementary user entity controls.

### **Management Response:**

The management of the Metropolitan Transportation Commission (MTC) concurs with the finding and recommendation. In the future we will add a documented review of all SOC reports and the accompanying information.

## 2020-003 Benefits Reconciliation

### **Classification:**

Deficiency

### **Applicable Entities:**

MTC

### **Observation:**

Benefit reconciliations are internal controls designed to compare an entity's payroll deductions with the related health insurance premium invoices paid to ensure completeness and accuracy of benefit expenses incurred. MTC offers a variety of benefit programs to their employees, with one of the largest being their medical coverage benefit administered through CalPERS. During our audit, we performed a benefit reconciliation for the medical benefits of all employees for the fiscal year ended June 30, 2020, and noted the following observations:

- (a) For eleven employees, there were payments included in the CalPERS monthly invoices, however there were no payroll deductions taken resulting in potential amounts due from employees totaling \$987 for the employees' portion of the premium payment.
- (b) For 37 employees, we noted unreconciled variances between employees' payroll deductions and CalPERS monthly premium invoices with a net difference of \$17,533.

### **Impact:**

Management did not have an internal control in place to perform benefit reconciliations between employees' payroll deductions and CalPERS monthly premium invoices. As a result, errors such as over-and-under payments, or incorrect benefit election rates applied to employees may occur undetected. Further, should errors not be discovered and corrected in a timely manner, employees can potentially experience loss of coverage or unexpected retroactive premium payments.

### **Recommendation:**

We recommend that management implement an internal control to perform benefit reconciliations on a monthly basis to identify, investigate and correct any resulting discrepancies in a timely manner.

### **Management Response:**

The management of the Metropolitan Transportation Commission (MTC) concurs with the finding and recommendation. Management has already implemented certain changes to improve controls over timely payment of benefit invoices and correcting some of the immediate errors. However, a comprehensive review of internal controls related to benefit administration and payments is underway, which should be completed by December, 2020. Thereafter, a more detailed set of corrective actions will be presented.

## 2020-004 Proper Coding of Vendor Invoices

### **Classification:**

Deficiency

### **Applicable Entities:**

Bay Area Infrastructure Financing Authority (BAIFA) and ABAG Financing Authority for Nonprofit Corporations (ABAG FAN)

### **Observation:**

MTC centrally performs the accounting and financial reporting for several entities, including BAIFA and ABAG FAN. Invoices processed should be reviewed for completeness and accuracy and recorded in the appropriate entity for which goods or services were provided. During our audit, we reviewed legal expenses and noted an invoice in the amount of \$62,000 that was related to ABAG FAN but was incorrectly charged to BAIFA.

### **Impact:**

The vendor regularly performs work for both BAIFA and ABAG FAN and clearly documented the services performed were for the benefit of ABAG FAN. However, the reviewers of the invoice inadvertently miscoded the expense, as the vendor does perform other legal services for BAIFA. In a centralized accounting environment for several entities with vendors who likewise perform services across multiple departments, there is an increased risk of miscoding of expenses when detailed reviews are not performed on invoices provided.

### **Recommendation:**

We recommend that management strengthen their internal controls over the review of invoices particular to vendors who perform multiple services benefiting more than one entity. The accuracy of such reviews has become increasingly important as MTC has taken on the administration, accounting and financial reporting for additional entities over time.

### **Management Response:**

The management of the Metropolitan Transportation Commission (MTC) concurs with the finding and recommendation. We have implemented a procedure to require a second review on similar invoices.