



Memorandum

AGENDA ITEM 8

DATE: November 27, 2019
TO: Transportation Authority Board
FROM: Cynthia Fong - Deputy Director for Finance and Administration
SUBJECT: 12/10/2019 Board Meeting: Accept the Audit Report for the Fiscal Year Ended June 30, 2019

<p>RECOMMENDATION <input type="checkbox"/> Information <input checked="" type="checkbox"/> Action</p> <p>Accept the audit report for the fiscal year ended June 30, 2019</p> <p>SUMMARY</p> <p>The Transportation Authority’s financial records are required to be audited annually by an independent, certified public accountant. The Comprehensive Annual Financial Reporting (Audit Report) for the year ended June 30, 2019, was conducted in accordance with generally accepted auditing standards by the independent, certified public accounting firm of Eide Bailly LLP (formally Vavrinek, Trine, Day & Co., LLP). Since more than \$750,000 in federal grants were expended during the year, a single audit (compliance audit) was also performed on the I-80/Yerba Buena Island Interchange Improvement and Bridge Structures Project. The Transportation Authority received all unmodified (also known as a clean opinion/unqualified opinion) audit opinions from Eide Bailly, with no findings or recommendations for improvements. A representative from Eide Bailly will present the audit report and answer any questions at the Board meeting.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Fund Allocation <input type="checkbox"/> Fund Programming <input type="checkbox"/> Policy/Legislation <input type="checkbox"/> Plan/Study <input type="checkbox"/> Capital Project Oversight/Delivery <input checked="" type="checkbox"/> Budget/Finance <input type="checkbox"/> Contract/Agreement <input type="checkbox"/> Other: _____
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BACKGROUND.

Under its Fiscal Policy (Resolution 18-07), the Transportation Authority’s financial records are to be audited annually by an independent, certified public accounting firm. The audits for the fiscal year ended June 30, 2019, were conducted in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in the 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). The Audit Report contains formal opinions, or disclaimers thereof, issued by an independent, certified public accounting firm as a result of an external audit performed on an agency. An unmodified opinion (also known as a clean opinion/unqualified opinion) is the best type of report an agency may receive from an external audit and represents that the agency complied with direct and material regulatory requirements or that the agency's financial condition, position, and operations in all material respects were fairly presented.

DISCUSSION.

The Audit Report includes an introductory section, the overall basic financial statements, a management discussion and analysis of the Transportation Authority's financial performance during that fiscal year, footnotes, required supplemental information, and other supplementary information, which include the results from the single audit of federal awards, statistical section, and compliance section.

We are pleased to note that Eide Bailly issued all unmodified opinions and had no findings or recommendations for improvements. The Transportation Authority recognized all significant transactions in the financial statements in the proper period and received no adjustments to any estimates made in the financial statements. For the annual fiscal audit, Eide Bailly has issued an opinion stating that the financial statements present fairly, in all material respects, the financial position of the Transportation Authority. Since more than \$750,000 in federal grants was expended during the year, a single audit was performed on the I-80/Yerba Buena Island Interchange Improvement and Bridge Structures Project. For the single audit, Eide Bailly has issued an opinion, stating that the Transportation Authority complied in all material respects with the compliance requirements that could have a direct and material effect on the federal funds audited. The full audit report and separate report containing other required communications to the Board are enclosed.

FINANCIAL IMPACT

Expenditures did not exceed the amounts approved in the agency-wide amended Fiscal Year 2018/19 budget. Budgeted expenditures that were not expended in FY 2018/19 will be included in the FY 2019/20 mid-year amendment.

SUPPLEMENTAL MATERIALS

Attachment 1 - Separate Report Containing Other Required Communications to the Board

Enclosure 1 - Comprehensive Annual Financial Report for the Year Ended June 30, 2019



December 3, 2019

The Board of Commissioners
San Francisco County Transportation Authority
San Francisco, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco County Transportation Authority (Transportation Authority) a component unit of the City and County of San Francisco, California, for the year ended June 30, 2019.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated June 7, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the Transportation Authority complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Transportation Authority's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Transportation Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the Transportation Authority major federal program compliance, is to express an opinion on the compliance for each of the Transportation Authority major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing 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 internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the Transportation Authority's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our 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* dated December 3, 2019. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated December 3, 2019.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Transportation Authority is included in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are related to the Transportation Authority's net pension liabilities, net other postemployment benefits liability (OPEB) and related deferred inflows of resources, deferred outflows of resources.

Management's estimate of the net pension, net OPEB liabilities and related deferrals is based on actuarial valuations performed by management specialists. We evaluated the key factors and assumptions used to develop these liabilities and determined that they were reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Transportation Authority's financial statements relate to:

The Transportation Authority's disclosure of the net pension, net OPEB liabilities and related deferred inflows of resources and deferred outflows of resources required by the Transportation Authority's reporting of the related information, are particularly sensitive. As disclosed in the notes, a 1% increase or decrease in the rates has a material effect on the Transportation Authority's net pension liability.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no corrected or uncorrected misstatements noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated December 3, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Transportation Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Transportation Authority's auditors.

This report is intended solely for the information and use of the governing board, and management of the Transportation Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Palo Alto, California