



Memorandum

AGENDA ITEM 5

DATE: December 2, 2024
TO: Transportation Authority Board
FROM: Cynthia Fong - Deputy Director for Finance and Administration
SUBJECT: 12/10/2024 Board Meeting: Accept the Audit Report for the Fiscal Year Ended June 30, 2024

<p>RECOMMENDATION <input type="checkbox"/> Information <input checked="" type="checkbox"/> Action</p> <p>Accept the audit report for the fiscal year ended June 30, 2024.</p> <p>SUMMARY</p> <p>The Transportation Authority's financial records are required to be audited annually by an independent, certified public accountant. The Annual Comprehensive Financial Reporting (Audit Report) for the year ended June 30, 2024, was conducted in accordance with generally accepted auditing standards by the independent, certified public accounting firm of Eide Bailly LLP. Since more than \$750,000 in federal grants were expended during the year, a single audit (compliance audit) was also performed on the Yerba Buena Island (YBI) West Side Bridges Project and the Surface Transportation Program (Congestion Management Agency planning funds). The Transportation Authority received all unmodified audit opinions from Eide Bailly LLP, with no findings or recommendations for improvements. A representative from Eide Bailly LLP 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 24-48), 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, 2024, 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 audit 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 LLP issued all unmodified opinions and for the annual fiscal audit, Eide Bailly LLP 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 were expended during the year, a single audit was performed on the YBI West Side Bridges Project and the Surface Transportation Program transportation planning and programming activities. For the single audit, Eide Bailly LLP 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 is enclosed. A separate report containing other required communications to the Board is attached.

FINANCIAL IMPACT

Expenditures did not exceed the amounts approved in the agency-wide amended Fiscal Year 2023/24 budget. Budgeted expenditures that were not expended in FY 2023/24 will be included in the FY 2024/25 mid-year amendment.

CAC POSITION

The audit report was not finalized in time to present to the Community Advisory Committee (CAC) on November 20, 2024, the last CAC meeting this year. We will agendize the audit as an information item at the CAC's January 22, 2025 meeting.



SUPPLEMENTAL MATERIALS

- Attachment 1 - Separate Report Containing Other Required Communications to the Board
- Attachment 2 - Motion
- Enclosure - Annual Comprehensive Financial Report for the Year Ended June 30, 2024



November 22, 2024

To the Governing Board
San Francisco County Transportation Authority
San Francisco, California

We have audited the financial statements of San Francisco County Transportation Authority (Transportation Authority) as of and for the year ended June 30, 2024, and have issued our report thereon dated November 22, 2024. Professional standards require that we advise you of the following matters relating to our audit.

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 July 1, 2024, 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 the Transportation Authority's major federal program. 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's major federal program compliance, is to express an opinion on the compliance for the Transportation Authority's 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 November 22, 2024. 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 November 22, 2024.

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.

Significant Risks Identified

As stated in our auditor's report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks." We have identified the following as significant risks.

- *Management Override of Controls* – professional standards require auditors to address the possibility of management overriding controls. Accordingly, we considered the possibility that management of the organization may have the ability to override controls that the organization has implemented. Management may override the organization's controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the organization's financial performance or with the intent of concealing fraudulent transactions. We are pleased to report that no such matters were identified during our audit.
- *Improper Revenue Recognition* – professional standards require auditors to presume that revenue recognition is a fraud risk. Therefore, improper revenue recognition was identified as a fraud risk due to possibility that revenue is not recorded in the proper period, in the incorrect amount, etc. either due to error or fraud. We are pleased to report that no actual instances were identified during our audit.
- *Estimates* – Generally Accepted Auditing Standards require a presumed risk of management bias when assumptions are used to calculate significant account balances, which for the Transportation Authority applies to pension and other post-employment benefits.

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 fiscal year 2024. 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.

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 is related to "pension" and "other post-employment benefits."

Management's estimates of the net pension liability and net other post-employment benefits liability, and related deferred inflows of resources and deferred outflows of resources are based on actuarial valuations. We evaluated the key factors and assumptions used to develop the estimates and determined that they are 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 Transportation Authority's financial statements relate to:

- **Note 2** summarizes the Transportation Authority's significant accounting policies.
- **Note 6** describes the Transportation Authority's related party transactions with the City and County of San Francisco.
- **Note 7** describes the Transportation Authority's long-term debt.
- **Notes 8 and 9** describes the valuation of the Authority's net pension liability, other postemployment benefits liability, and related deferred outflows and inflows of resources. Such amounts are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate. As disclosed, a one percent increase or decrease in the discount rate has a material effect on the 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. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole:

Sales Tax Fund: As a matter of convenience, the Transportation Authority did not recognize inflows and outflows related to the subscription-based information technology arrangement of \$488,467, with no effect on ending fund balance.

Governmental activities: Entity-wide expenses are overstated, and net position is understated by \$137,000 because of a one-year timing difference regarding the recognition of deferred contributions of the other post-employment benefits liability.

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.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. We did not identify any circumstances that affect the form and content of the auditor's report.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated November 22, 2024.

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, significant events or transactions that occurred during the year, 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 Transportation Authority's auditors.

Other Information Included in the Annual Comprehensive Financial Report (ACFR)

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in Transportation Authority's ACFR, does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

However, in accordance with such standards, we have read the other information and considered whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Treasure Island Mobility Management Agency

The ACFR includes the financial statements of the Transportation Authority and the Treasure Island Mobility Management Agency (TIMMA), a blended component unit, which we considered to be a significant component of the ACFR. Consistent with the audit of the basic financial statements of the Transportation Authority as a whole, our audit included obtaining an understanding of the Transportation Authority and TIMMA and their environment, including internal control, sufficient to assess the risks of material misstatement of the basic financial statements of the Transportation Authority and TIMMA and completion of further audit procedures.

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.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Menlo Park, California

ATTACHMENT 2



**San Francisco
County Transportation
Authority**

BD121024

MOTION NO. 25-01

MOTION ACCEPTING THE SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY'S AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2024

Pursuant to the annual audit requirements in its Fiscal Policy, the San Francisco County Transportation Authority hereby accepts the audit report for the fiscal year ended June 30, 2024.

Attachment:

1. Audit Report for the Year Ended June 30, 2024