

FINANCIAL MANAGEMENT OVERSIGHT PROGRAM

AGREED-UPON PROCEDURES REVIEW

OF

San Francisco Municipal Transportation Agency

PERFORMED FOR
U.S. DEPARTMENT OF TRANSPORTATION

FEDERAL TRANSIT ADMINISTRATION

Prepared by

**Financial Business Solutions, LLC with
Holmes & Company, LLC**

Under

CONTRACT NUMBER: DTFT60-10-D-00003

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Report Date: April 29, 2013

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San Francisco Municipal Transportation Agency
Federal Transit Administration
Agreed-Upon Procedures Engagement

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INDEPENDENT ACCOUNTANTS' REPORT

To the Regional Administrator
Federal Transit Administration Region IX:

We have performed certain agreed-upon procedures, as summarized in Section II of this report, which were agreed to by your office, solely to assist the FTA in evaluating the implementation of certain new procedures by San Francisco Municipal Transit Agency (SFMTA). SFMTA's management is responsible for maintaining a financial management system following criteria that have been set forth by FTA standards. This agreed-upon procedures engagement was conducted in accordance with Attestation Standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Section II either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures and the related findings are enumerated in Section II and Section III of this report, respectively.

We were not engaged and did not conduct an examination, the objective of which would be the expression of an opinion on SFMTA's financial management system. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of FTA and SFMTA and is not intended to be and should not be used by anyone other than these specified parties.

Holmes & Company LLC

Woodbury, New Jersey 08096
April 29, 2013

SECTION I

San Francisco Municipal Transportation Agency

BRIEF DESCRIPTION

SECTION I: BRIEF DESCRIPTION
San Francisco Municipal Transportation Agency

Background

The San Francisco Municipal Railway (MUNI) began service in 1912 as one of the first publicly owned and operated transit systems in the United States. In 1944, MUNI absorbed the privately owned Market Street Railway, which more than doubled the size of the system. All of the transit services within San Francisco were brought under public control when the City acquired the California Street Cable Railroad in 1952. From 1932 until 1994, MUNI was governed by the City's Public Utilities Commission (PUC). In November 1993, Proposition M was passed by the City's voters, creating the Public Transportation Commission (PTC) and the Public Transportation Department (PTD). MUNI was made part of the PTD and came under control of the PTC in June 1994.

In November 1999, the voters of San Francisco passed a charter amendment, known as Proposition E, which consolidated MUNI and the Department of Parking and Traffic into a new San Francisco Municipal Transportation Agency (SFMTA), led by a Director of Transportation and a seven-member Board of Directors. The SFMTA Board of Directors is appointed by the Mayor and has the authority to appoint the Director of Transportation, approve the budget, and set agency policy.

In addition to the Board of Directors, SFMTA has a number of councils and committees that are authorized to facilitate agency governance regarding a host of critical transportation areas. Some of these entities are internal to the agency, with members who are SFMTA staff. Others are interagency committees staffed by SFMTA and other City departments. There are also a number of citizen councils and committees designed to provide public input and involvement in the governance of the agency.

SFMTA oversees public transit, parking and traffic, and taxis. What has historically been branded and known as MUNI represents, and functions to provide, SFMTA's public transit service. With five modes of transit (bus, trolley bus, light rail, historic streetcar, and cable car), SFMTA provides more than 700,000 passenger boardings each day. It is the largest transit system in the San Francisco Bay Area and seventh largest in the nation, serving more than 200 million customers each year. SFMTA's fleet is unique and includes historic streetcars, biodiesel and electric hybrid buses, electric trolley coaches, light rail vehicles, Para transit cabs and vans, and the world-famous cable cars.

SFMTA's service area includes the entire city and county of San Francisco, which has a total population of 805,000 individuals, according to the 2010 U.S. Census. SFMTA has 75 routes throughout the city and county of San Francisco, with stops within a quarter mile of most residences in the city. SFMTA provides service 24 hours a day, 7 days a week. Short segments of a few SFMTA routes operate within San Mateo County, and one SFMTA route operates in Marin County on Sundays and holidays. The majority of routes operate between 5:00 AM and 12:00 AM; however, SFMTA's service includes 10 evening

Owl routes that operate between 12:00 AM and 5:00 AM. To operate service, SFMTA maintains a fleet of approximately 506 buses, 313 electric vehicle trolley coaches, 151 Breda light rail vehicles (LRV), 24 historic streetcars, and 40 cable car vehicles. SFMTA also maintains a series of amenities located throughout the transit stop network, which includes approximately 3,800 transit stops. Transit stops in the system include passenger amenities such as shelters, NextMuni (real-time bus arrival information systems), stop IDs, and Landor (flag) signs.

SFMTA has more than 4,500 employees in the following 5 major divisions: Capital Programs and Construction; Finance and Information Technology; Human Resources; Sustainable Streets; System Safety; Transit; Taxi and Accessible Services. In addition to those divisions, there is also the Director of Transportation's office.

The current full cash fare for all SFMTA services, except the cable cars, is \$2.00 (including a free transfer that is good for 90 minutes). Older adults (age 65 and over), youth (5–17), people with disabilities, and Medicare Card holders can show a valid Regional Transit Connection (RTC) Discount card or other valid ID and pay a discounted fare of \$0.75. Cable car trips cost \$6.00 per single ride. Before 7:00 AM and after 9:00 PM, cable car trips for individuals with valid IDs cost \$3.00 per single ride. Cable cars do not accept or issue transfers.

Capital Programs

The Capital Program is composed of three primary documents that outline the agency's long-term (20-year Capital Plan), mid-term (5-year Capital Improvement Plan) and short-term (2-year Capital Budget) strategy for implementing all capital projects and programs.

On January 3, 2012, the SFMTA Board adopted the 20-year Capital Plan. The Capital Plan represents the unconstrained list of capital needs for the coming 20 years. These investments have been identified to ensure system safety, maintain a state of good repair, implement complete streets and improve transit reliability. The projects have been prioritized using a set of capital project criteria that consider the projects benefit to: safety and security, state of good repair, enhancements or expansion, environmental sustainability, and financial sustainability. All projects must be in the Capital Plan to be considered for inclusion in the 5-year CIP and 2-year Capital Budget. The Capital Plan is a living document and will be revised as needed through the policies and procedures established by the SFMTA's Transportation Capital Committee. The Capital Plan will be formally updated every two years.

Grants

The following is a list of FTA grants:

Grant #	Description	Amount	Expended at 12/131/2012
CA030673	Muni's FY 2004 Section	\$ 35,351,840	\$ 35,004,704
CA030708	FY 2005 Sect 5309 Fixed Guideway	\$ 23,305,667	\$ 16,581,119
CA030767	3rd St LT Rail -Phase	\$ 157,162,500	\$ 71,614,674
CA030811	Van Ness Avenue BRT	\$ 15,396,000	\$ 396,000
CA040007	Des/Const Islais Creek	\$ 3,693,215	\$ 3,653,574
CA040008	Glen Park Intermodal	\$ 3,440,568	\$ 891,432
CA040051	Islais Creek & ITS	\$ 5,793,480	\$ 5,351,772
CA040072	FY 2008 Bus & Bus Fac	\$ 980,000	\$ 517,426
CA040196	State of Good Repair	\$ 43,800,000	\$ 631,373
CA040247	Phelan Loop	\$ 6,822,106	\$ 535,823
CA050200	FY 2006 Sect 5309 Fixed	\$ 29,453,769	\$ 28,852,410
CA050215	FY 2007 Fixed Guideway	\$ 46,547,421	\$ 40,170,807
CA050225	FY 08 Fixed Guideway	\$ 41,180,417	\$ 22,105,393
CA050241	FY 2009 Fixed Guideway	\$ 37,330,575	\$ 9,145,908
CA050259	FY2011 Fixed Guideway	\$ 67,382,500	\$ 1,313,509
CA050272	FY2012 Fixed Guideway	\$ 69,409,386	\$ -
CA050742	FY2010 Fixed Guideway	\$ 63,772,057	\$ 561,718
CA260057	Sfgo Transit Priority	\$ 240,521	\$ -
CA550002	HPP FLEX FUNDS FOR SF	\$ 5,038,879	\$ 1,301,590
CA57X077	New Freedom: Accessible	\$ 200,000	\$ -
CA70X013	SFgo Market Street	\$ 490,000	\$ -
CA90X957	Grant for FY99-00.	\$ 109,537,310	\$ 109,262,061

CA90Y124 FY 2002-2003 FTA Form	\$ 82,156,753	\$ 79,592,122
CA90Y245 MUNI Section 5307 FY	\$ 50,202,071	\$ 50,190,434
CA90Y348 MUNI Section 5307 FY	\$ 65,840,680	\$ 64,155,458
CA90Y424 FY 2006 Section 5307	\$ 46,175,552	\$ 45,052,540
CA90Y533 Section 5307 Formula	\$ 31,854,482	\$ 21,841,694
CA90Y624 FY 2008 Section 5307	\$ 38,169,738	\$ 28,440,348
CA90Y749 FY 2009 Section 5307	\$ 30,916,609	\$ 12,432,801
CA90Y822 FY 2010 Section 5307	\$ 23,553,162	\$ 11,623,636
CA90Y905 FY 2011 Section 5307	\$ 14,889,334	\$ 5,983,197
CA90Y995 FY 2012 Section 5307	\$ 9,940,234	\$ 3,758,618
CA95X057 CENT SUB-3RD ST LRP	\$ 41,025,000	\$ 41,025,000
CA95X150 SFgo - Corridor Manag	\$ 6,000,000	\$ 904
CA95X164 Market Haight Project	\$ 2,800,000	\$ 303,155
CA95X179 Phelan Loop and Church	\$ 915,000	\$ -
CA95X199 Signal Rehab/Upgrade	\$ 517,015	\$ -
CA95X219 Transit Performance	\$ 10,766,969	\$ -
CA96X014 Infrastructure Enhance	\$ 85,467,854	\$ 83,685,603
Total	\$1,307,518,664	\$ 795,976,803

SECTION II

San Francisco Municipal Transportation Agency

AGREED-UPON PROCEDURES

SECTION II: AGREED-UPON PROCEDURES

Grants Management

1. Perform a detailed review of the Grantee's Grants Management system. Review the entire cycle, from initiation to final closeout. Review the detailed process and procedures, both automated and manual, at each stage of the process, and identify the controls in place to ensure these activities are authorized, are processed accurately, completely and in a timely manner. Identify and review the actual documents used throughout this process. Follow the process through to summary recording in the detailed system, and the interface of that detailed system to the general ledger and final reporting.
2. Review open grant agreements and perform the following procedures:
 - a. Obtain the approved program budget and agree to the approved grant amount.
 - b. Agree capital grant dollar amount in grant agreement (including revisions) to the Grantee's Capital Program records.
 - c. Agree grant dollar amount to the FTA TEAM Report to determine if grant is properly reflected and if funds are available. Determine if latest budget revisions are properly reflected.
3. Select a sample of grants to review their FFRs and MPRs filed with FTA and ensure the following disclosure criteria are met:
 - a. Determine if all essential financial facts relating to the scope and purpose of each financial report and applicable reporting period are completely and clearly displayed in the reports. Determine if a narrative is present for each quarterly report that addresses each activity line item or project within the grant reported. Financial data is accurate and timely. The requirement for accuracy does not rule out inclusion of reasonable estimates when precise measurement is impractical, uneconomical, unnecessary, or conducive to delay. Review any estimates and judgments the Grantee uses to prepare financial reports provided to the FTA. Determine what procedures the Grantee follows to prepare estimates and assess the reasonableness of these procedures and judgments.
 - b. Financial reports are based on the required supporting documentation maintained under an adequate accounting system that produces information that objectively discloses financial aspects of events or transactions.
 - c. Financial data reported is derived from accounts that are maintained on a consistent, periodic basis; material changes in accounting policies or methods and their effect is clearly explained. Determine that accounts are being prepared on a basis at least consistent with the prior year financial statements and prior period financial reports to the FTA.
 - d. Reporting terminology used in financial reports to FTA is consistent with receipt and expense classifications included in the latest approved project budget. Determine that reporting terminology used in financial reports to the FTA is consistent with cash receipt and expense classifications included in the latest approved budget.

- e. Reconcile key balances shown in these reports (focusing on those pertaining to capital projects and grants) to the general ledger and appropriate supporting ledgers (grants records, for instance).
 - f. Review the appropriateness of any adjustments made to reclassify or adjust these detail records to those reported internally or externally.
 - i. Determine if the financial reports submitted to the FTA are stated on a full accrual basis. Grantee's financial accounting system does not need to be on an accrual basis; however, an effective conversion to accrual basis for financial reporting purposes must be performed. To the extent a conversion to accrual accounting is performed, determine that the conversion was properly completed.
 - j. Determine that all required financial information is properly reported (i.e., current period and cumulative outlays, obligations, unobligated balances, indirect expenses, and indirect expense allocation methods used). Consider also special reporting requirements (if any) of grant agreements.
 - k. Determine whether all reports were filed timely. Quarterly reports are due 30 days after the end of the quarter.
 - l. Review SFMTA's fiscal year closeout process to identify potential impacts to the corresponding FTA TEAM FFR reports.
4. Review the most recent job order and/or indirect administrative charges posted to the grants. Determine if they are:
 - a. Calculated accurately and proper application of the charges;
 - b. Applicability to this grant;
 - c. Support for the items – documentation;
 - d. Verification that the formulas used agree to the most recent Cost Allocation Plan filed with the Regional Office of the FTA.
 5. Review Grantee's procedures for encumbrance records posting and maintenance.
 - a. Review the current encumbrance's outstanding balance for selected grants. Examine support and determine that the encumbrance balance shown is valid.
 - b. Identify two pending purchases that would be included within the Federal grant, and verify that the anticipated costs are encumbered in that grant record.
 6. From the grant logs, select certain recent Federal and state reimbursements relative to capital grants. Verify that these have been accurately and timely posted to the grants management records.
 7. Obtain detailed TEAM printouts showing drawdowns (detail and cumulative total) for the grants selected for testing. Verify that the cumulative drawdowns number reported on the TEAM printouts agrees with the Grantee's grant management system.
 8. Inquire whether any reconciliation process was involved between the general ledger and the grants detail records. If such reconciliation exists, review for timeliness, completeness, approvals and resolution plans for outstanding items.
 9. Changes in the purpose, scope, description, terms and conditions or cost of an approved grant may require a modification to a grant. Modifications fall into several types including: revisions, budget line transfers, administrative amendments, or full amendments. Review Grantee controls over project change orders particularly for the Central Subway Project and the Islais Creek projects. From the review of active capital grants, identify four recent grant amendments – some with, and some without, dollar impact to the total grant.

- a. Review the documentation supporting this change for proper Grantee authorizations.
 - b. Review Grantee's copies of documentation from the FTA that authorize the amendment, and verify that this agrees with the change reflected in the Grantee's grant management and project management records.
 - c. Verify that these amendments have been properly summarized and reflected within the summary grants/projects records. Determine that the grant records reflect the original balance and the history of amendments-dates and amounts.
 - d. Transfers of funds between or among line items that cumulatively do not exceed 20 percent of the originally approved budget generally do not require FTA approval unless the line items have different matching ratios. Other budgetary changes generally do require FTA prior approval. Obtain a copy of the original budgets for each grant. Review any changes made to grant budgets and determine whether the Grantee has notified the FTA and sought FTA approval in a timely and appropriate manner.
10. Determine at which dollar amount project budget transfers require management and/or board level authorization. Agree budget transfers at various levels to appropriate documentation authorizing transfers.
 11. Determine whether any grant balances are being carried forward beyond their close-out period and verify that justification for delayed closeout is appropriate.

Cash Management

1. Perform a detailed review of the Grantee's funding cycle/system. Review the entire cycle, from initiation to final closeout. Review the detailed procedures, both automated and manual, at each stage of the process, and identify the controls in place to ensure these activities are authorized, are processed accurately, completely and in a timely manner. Identify and review the actual documents used throughout this process. Follow the process through to summary recording in the detailed system, and the interface of that detailed system to the general ledger and final reporting.
2. Perform a detailed review of the Grantee's farebox revenue collection system. Review the procedures, both automated and manual, at each stage of the Grantee's farebox revenue and collection system. Focus especially on the controls in place to ensure these assets are properly controlled and accounted for at each step in the process.
3. Observe these controls in effect during a tour of the farebox revenue collection operations area. Observe that such an area is physically segregated with controlled, limited access, and that the activities of employees are monitored.

Fixed Assets

1. Perform a detailed review of the Grantee's fixed asset tracking cycle/system (and/or inventory of spare parts). Review the entire cycle, from initiation to final closeout. Review the detailed procedures, both automated and manual, at each stage of the process, and identify the controls in place to ensure these activities are authorized, are processed accurately, completely and in a timely manner. Identify and review the

actual documents used throughout this process. Follow the process through to summary recording in the detailed system, and the interface of that detailed system to the general ledger and final reporting.

2. Determine if there is any impairment on fixed assets with Federal participation. Any impairment must be approved in advance by FTA.
3. Review insurance coverage for assets paid for by FTA (buses, facilities, trains, etc.) If self-insured, determine the adequacy of procedures to estimate loss exposure and to minimize risks.

Project Management

1. Perform a detailed review of the Grantee's Project Management system. Review the entire cycle, from initiation to final closeout. Review the detailed procedures, both automated and manual, at each stage of the process, and identify the controls in place to ensure these activities are authorized, are processed accurately, completely and in a timely manner. Identify and review the actual documents used throughout this process. Follow the process through to summary recording in the detailed system, and the interface of that detailed system to the general ledger and final reporting.
2. Determine whether the capital projects management staff maintains any schedules of percentage of completion, or benchmarks of construction work in progress relative to financial progress for the projects that they are managing.
3. Review other project management controls such as inspection reports, engineering reports, acceptance tests, etc. to determine whether management is obtaining meaningful, relevant information regarding project progress.
4. Review the Grantee's procedures for identifying and addressing problems on capital projects.
5. Review any "Project Status Reports" used internally and/or provided to the FTA as part of the quarterly reporting process. Assess the adequacy and usefulness of this report as a management and reporting tool.
6. Determine whether variance analyses consider non-financial data (i.e., performance data such as project milestones for capital projects).
7. Discuss the budget variance reporting process with selected project managers. Inquire whether the budget process is an effective management tool for them.

SECTION III

San Francisco Municipal Transportation Agency

FINDINGS

Agreed-Upon Procedures listed in Section II that resulted in findings/observations to report are discussed below.

Determine if the financial reports submitted to the FTA are stated on a full accrual basis. Grantee's financial accounting system does not need to be on an accrual basis; however, an effective conversion to accrual basis for financial reporting purposes must be performed. To the extent a conversion to accrual accounting is performed, determine that the conversion was properly completed.

Finding

FFRs are not filed on the accrual basis.

Discussion

At month/quarter end incomplete accruals are prepared for Spent to Date for comparison to the budget categories for each project. We were advised during the internal control questionnaire review that a complete accrual was not being prepared for Projects. Further discussions with the Capital Controls Section Lead regarding how he was preparing the Spent to Date amounts for February 2013 confirmed that he would use January 2013 actuals plus invoices in the accounting system. There appears to be no effort to determine estimates for work performed by month end for which no invoices have been received. Project Management is able to estimate the budget work to be performed for a specific period of time, but full accruals are not determined. When the new system, Capital Program Controls System (CPCS) is implemented fully and used by all departments, improved accruals should be readily available. In the interim, communication of estimated accruals would improve the financial knowledge of projects. All departments should be inputting estimated hours to complete a Project so that Estimate at Completion is more accurate. Otherwise recognition of increases in Estimate at Completion is delayed as with the Islais Creek Phase I February 2013 Project Status Report for monthly internal distribution.

Perform a detailed review of the Grantee's farebox revenue collection system. Review the procedures, both automated and manual, at each stage of the Grantee's farebox revenue and collection system. Focus especially on the controls in place to ensure these assets are properly controlled and accounted for at each step in the process.

Finding

Comparisons of Farebox Probing/Mobile Safe Information to Cash Count are not performed on a regular basis or subjected to defined criteria regarding follow-up procedures.

Discussion

SFMTA uses the CUBIC farebox system which upon probing of the fareboxes, generates a "PROBE and VAULT Activity" report (B415) that indicates the farebox numbers dumped into each mobile safe. Although this is an old system with inherent limitations and subject to increasing mechanical problems, it does represent somewhat of a revenue recognition system. For each mobile safe there is also a "Mobile Safe Removal Cash Breakdown" report (R431) indicating amounts collected. This report shows coin counts by denomination, bill counts, and total cash. However, one limitation of the system is that it cannot distinguish the denomination of bills.

Per discussion, we were informed that in 2011 SFMTA attempted to reconcile probing results to actual cash counted in the money room but experienced discrepancies indicating that the probe results were unreliable. SFMTA indicated that they since have performed comparisons only on a random basis and limited to bill and coin counts from R431 reports to respective money room data. We were shown several comparisons from 2012 and noted large discrepancies in both bill and coin counts with no indication that any follow-up was performed.

Criteria for which discrepancies require follow-up can be set to compensate for inherent problems in the farebox system, but identification of and resolution of discrepancies between the farebox system and money room counts is a key internal control that should be performed on a regular basis.

Determine if there is any impairment on fixed assets with Federal participation. Any impairment must be approved in advance by FTA.

Finding

Asset condition code in detailed fixed asset records is not being maintained.

Discussion

We determined that a Defeased Lease-Leaseback Transaction for Light Rail Vehicles (LRVs) had received FTA approval per January 29, 2002 letter. We also determined through inquiry that the only federally funded assets used as security for any financing are the Breda LRV's that have been identified, and through review of SFMTA financials that other long term obligations consisted of Revenue Bonds.

Requested information regarding damaged assets and received the Long-Term Holds Report which lists vehicles that have been out of service for more than 90 days. It should be noted that the 9 LRVs on the report have been out of service for an average of over 6 years. We also intended to obtain additional information regarding damaged assets from the detailed fixed asset records, but upon comparison of selected items on the Long-Term Hold Report, determined that the condition field is not being maintained as it was identified that wrecked LRVs are listed in the fixed asset record as fully operational.

Review insurance coverage for assets paid for by FTA (buses, facilities, trains, etc.) If self-insured, determine the adequacy of procedures to estimate loss exposure and to minimize risks.

Finding

Property Insurance coverage of \$1.3 billion generally only includes vehicles at covered premises and excludes earthquakes.

Discussion

In addition to its commercial insurance policy for property damage, SFMTA has funded a catastrophic self-insurance reserve of \$6 million, attributable to all claims. This reserve is structured to annually place on reserve the amount of the currently proposed premium (\$2.4 million for 2013) to help cover future large claims. Also SFMTA has indicated that its annual budget appropriation attributable to all claims of \$20 million is not fully expended each year.

The appropriate level of insurance, appropriations, and reserves is the subjective determination of SFMTA management; however, the current level does not appear to be the deciding factor in delaying repairs to damaged assets on the Long-Term Hold Report discussed in the previous finding.

EXHIBIT I

SUMMARY OF RECOMMENDATIONS

SUMMARY OF RECOMMENDATIONS

Control Activity	Finding	Recommendation	Corrective Action Implementation Date	FMO Assessment of Grantee Response (Response Attached)
Grants Management/Project Management.	FFRs are not filed on the accrual basis.	SMFTA should develop and implement a comprehensive procedure to capture and report goods and services received, including construction costs incurred, but not yet invoiced, on at least a quarterly basis.	This recommendation should be implemented by September 30, 2013.	FTA Circular 5010.1D does not require grantees to maintain their accounting records on an accrual basis. However, Circular 5010.1D does require the FFRs to be on the accrual basis. Thus, the City's restriction against recording estimates is not applicable. Finally, the grantee has made no commitment to reflecting major services received not yet invoiced in its FFR filings. Therefore, response is not adequate.

Cash management	Comparisons of Farebox Probing/Mobile Safe Information to Cash Count are not performed on a regular basis or subjected to defined criteria regarding follow-up procedures.	SMFTA should develop and implement a comprehensive procedure to analyze the differences between fare collection reports generated from bus probing data and cash counted. This analysis should be performed on a regular basis, and the related variance reports should be reviewed by someone independent of the counting process.	This recommendation should be implemented by September 30, 2013.	Assuming implementation date is met, response is adequate.
Fixed Assets	Asset condition code in detailed fixed asset records is not being maintained.	SFMTA should ensure that the FTA required data fields are properly maintained in its detailed fixed asset records.	This recommendation should be implemented by September 30, 2013 for assets on the Long-Term Hold Report and for all assets when performing the next FTA required biannual fixed asset inventory.	Response is adequate.
Fixed Assets	Property Insurance coverage of \$1.3 billion generally only includes vehicles at covered premises and excludes earthquakes.	N/A	N/A	N/A

EXHIBIT II

GRANTEE'S RESPONSE (Full Text)

June 25, 2013

Mr. Leslie Rogers
Regional Administrator, Region IX
Federal Transit Administration
U.S. Department of Transportation
701 Mission St., Ste. 1650
San Francisco, CA 94105-1800

Subject: SFMTA's Response to FTA's Financial Management Oversight
Program: Agreed-Upon Procedures

Dear Mr. Rogers:

Please find attached the San Francisco Municipal Transportation Agency's (SFMTA) responses to the recent Agreed-Upon Procedures (AUP) Review of the SFMTA, as part of the FTA's Financial Management Oversight Program.

SFMTA very much appreciates the time and effort of the consultants who were on-site to conduct the AUP this year and we were very impressed with their level of professionalism and expertise.

If you have any questions or require further information, please call me at 415.701.4617. Thank you.

Sincerely,



Sarah Bose
Chief Financial Officer

Attachment

Edward M. Lee
Mayor
Tommy Lee
Deputy Mayor
Theresa B. Lee
Deputy Mayor
John F. Johnson
Deputy Mayor
Michael H. Lee
Deputy Mayor
Gary Lee
Deputy Mayor
Jeffrey Lee
Deputy Mayor
Cristina M. Lee
Deputy Mayor
Edward O. Lee
Deputy Mayor
Michael H. Lee
Deputy Mayor

One South Van Ness Ave.
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Attachment: SFMTA's Response to FTA's Financial Management Oversight Program: Agreed-Upon Procedures

Control Activity	Finding	Recommendation	Corrective Action Implementation Date	SFMTA Response
Grants Management/ Project Management	FFRs are not filed on the accrual basis.	SFMTA should develop and implement a comprehensive procedure to capture and report goods and services received, including construction costs incurred, but not yet invoiced, on at least a quarterly basis.	This recommendation should be implemented by September 30, 2013. This implementation date is not relevant given SFMTA's response that we do not believe that we are non-compliant (see next column).	<p>The SFMTA understands fully the requirement to report the FFRs on the full accrual basis of accounting as stated in FTA Circular C-5010.1D, Chapter III.3.5. We believe we meet this requirement with our current accounting procedures and therefore disagree with this finding.</p> <p>The SFMTA files its FFRs on the full accrual basis at its fiscal year end, June 30th, and partially on the accrual basis for the three other interim periods. The finding applies to the interim periods. All FFRs are prepared based on general ledger balances. For the interim reporting periods all transactions that are posted prior to the accounting period end cut-off date – 11 business days after the period end – are included in the FFRs. Most costs are captured during this time period. The costs that are completely captured include salaries and fringe benefits and indirect overhead charges.</p> <p>The City's policies require that all expenditures and contracts be encumbered prior to being procured, which includes contracts, materials, and services. The encumbrance information is reported in the FFRs. Thus, while actual contract payments, materials and services purchased, where the invoice or payment request has not been received prior to the accounting cut-off, are not included in the interim reporting period, the relevant financial information regarding future obligations is reported and meets the accrual reporting requirement. In other words, the legal obligation has been recorded through the posting of the encumbrance.</p> <p>The SFMTA, as a City Department, uses the automated financial accounting system (FAMS) managed by the Controller's Office of the City and County of San Francisco (CCSF). As a result, the SFMTA must follow accounting policies and procedures established by the Controller's Office. Estimates are not allowed to be posted except at the fiscal year end in FAMS and then the accounting system is held open an additional 60 days in order to be able to accurately capture this information.</p>

Control Activity	Finding	Recommendation	Corrective Action Implementation Date	SFMTA Response
Cash management	Comparisons of Farebox Probing/Mobile Safe Information to Cash Count are not performed on a regular basis or subjected to defined criteria regarding follow-up procedures.	SFMTA should develop and implement a comprehensive procedure to analyze the differences between fare collection reports generated from bus probing data and cash counted. This analysis should be	This recommendation should be implemented by September 30, 2013.	<p>Additionally, the new Capital Projects Control System (CPCS) currently does not include all capital projects. The data that is currently available is in the form of estimated schedules from contractors submitted at the time the contract is awarded, is solely used for project management purposes and does not meet the threshold for financial reporting at this stage of the implementation. The information from CPCS cannot be integrated into the FAMIS general ledger given the City's accounting policies and using it would require keeping an "off system" set of accounting records in a spreadsheet. The sub ledgers would require additional reconciliation steps in the preparation of the JERs and would be subject to human error, not to mention an additional administrative burden on the Agency. In summary, the SFMTA cannot use sub ledgers and can only use financial data that is recorded directly into the City's system of record, FAMIS.</p> <p>SFMTA recognizes that there is always room for improvement and to further improve our processes we will review existing practices to determine if there are any additional steps that could be taken to capture more transactions for services received, including construction costs incurred but not yet invoiced, for the interim reporting periods. One possible solution is to require over 150 project managers to route invoices and contract payment requests for payment in a more timely manner, which would require a phased-in implementation.</p> <p>SFMTA is working on developing automated reporting that will compare CUBIC bill counts vs. bill processed in the Money Room that will be produced on a daily basis for review. In addition, we are in the process of establishing methodology based on historical data, to determine acceptable thresholds and procedures to investigate variances. The Revenue Operations Analyst, who is a staff from another section, will be responsible for daily review and reporting.</p> <p>This procedure will be implemented by September 30, 2013.</p>

Control Activity	Finding	Recommendation	Corrective Action Implementation Date	SFMTA Response
		performed on a regular basis, and the related variance reports should be reviewed by someone independent of the counting process.		
Fixed Assets	Asset condition code in detailed fixed asset records is not being maintained.	SFMTA should ensure that the FTA required data fields are properly maintained in its detailed fixed asset records.	This recommendation should be implemented by September 30, 2013 for assets on the Long-Term Fixed Report and for all assets when performing the next FTA required biannual fixed asset inventory.	Already implemented in April 2013. Upon receipt of the monthly long term hold report from Transit, FAACS system is updated to notate the condition of the vehicle/asset. SFMTA will update the procedures in conducting the next biennial fixed asset physical inventory. This will include formal certification statements from custodians of the conditions of all assets and to ensure that the information is updated into the FAACS system.
Fixed Assets	Property Insurance coverage of \$1.3 billion generally only includes vehicles at covered premises and excludes earthquakes.	N/A	N/A	Although no corrective action is required on the part of the SFMTA, it is important to note that the SFMTA risk management program includes purchased coverage, self-insurance, and reserves. Insurance is purchased by the City's Risk Management Division. Self-insurance is addressed by the SFMTA operating budget where funds are set aside each year to pay for claims and settlements as required. In addition, SFMTA has set aside a reserve fund, approved by the SFMTA Board of Directors, for catastrophic loss which is increased annually equal to the premium for catastrophic coverage.

REPORT ON THE REVIEW OF THE
COST ALLOCATION PLAN
OF
SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

PERFORMED FOR
U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION



PERFORMED BY
SAMLIN MILLIGAN
UNDER CONTRACT: DTFT60-10-D-00007

Report Date: September 30, 2012
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U.S DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION
REPORT ON THE REVIEW OF THE
COST ALLOCATION PLAN

San Francisco Municipal Transportation Agency

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The San Francisco Municipal Transportation Agency (SFMTA) submitted a fiscal year (FY) 2011-2012 Indirect Cost Allocation Plan (ICAP) to the U.S. Department of Transportation (DOT) Federal Transit Administration (FTA) for the FTA's approval. The ICAP proposed indirect cost rates for two of SFMTA's six operating departments. SFMTA is proposing indirect rates for these two departments because they are the only departments which charge indirect costs to federal grants.

FTA contracted Samlin Milligan to perform a review of SFMTA's ICAP rate submission. This review was performed to determine if the ICAP submission meets the requirements of 2 CFR Part 225, "Cost Principles for State, Local and Indian Tribal Governments," and other applicable Federal regulations.

Conclusion

Samlin Milligan's review of SFMTA's FY 2011-2012 ICAP rate submission indicated that SFMTA's methodology was compliant with the requirements of 2 CFR Part 225 and FTA Circular 5010.1D.

Based on the results of our review of SFMTA's ICAP submission, we recommend that FTA approve the proposed rates and approve the following department's indirect rates:

- Transit Capital 138.5%
- Sustainable Streets Capital 80.3%

The rates proposed were reasonable. However, Samlin Milligan noted issues, which did not have a material impact on the calculation of the indirect cost rate, but which are opportunities for improvement in the preparation of future ICAPs. Those issues are discussed on the final page of this report.

SECTION I

SCOPE

SCOPE

1.1 Objective

Under contract to FTA, Samlin Milligan performed a review of SFMTA's ICAP submission to FTA to determine if the amounts claimed by SFMTA meet the requirements of 2 CFR Part 225, "Cost Principles for State, Local and Indian Tribal Governments," FTA policies, and other applicable Federal regulations

2 CFR Part 225 allows the Grantee considerable discretion in the methods that can be used in determining allowable indirect cost and in applying the indirect cost rate(s) that result from the methods, so long as the method used results in a fair allocation or distribution of allowable costs. Additional factors, where applicable, were considered during the review of the ICAP submission, including:

- Purpose of the Federal awards and their reimbursement provisions;
- Methodology used by SFMTA to develop the ICAP;
- Cost groupings used to accumulate common costs for allocation to benefiting agency units and awards;
- Appropriateness of the statistical bases used to allocate the costs of the selected cost groupings to the activities that benefit from them;
- Type of rate (provisional/final, fixed rate, or predetermined) to be approved;
- Period for which the approval will be given; and
- Outstanding issues, which might be warranted as a condition of approval.

1.2 Limitations on Reliability of the Data and Use of the Report

This report does not constitute an audit of any financial statements prepared by SFMTA. Instead, this report is a comprehensive, professional analysis focused on compliance with applicable Federal regulations. Since data provided by SFMTA were assumed to be accurate, any inherent limitations, errors, or fraud that may have occurred might not have been detected.

This report is intended for the information of FTA and SFMTA, and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

1.3 Background

The San Francisco Municipal Transportation Agency (SFMTA) is the City of San Francisco's ("City") mobility manager and operates the entire surface transportation network that encompasses pedestrians, bicycling, transit, traffic and parking and regulates the taxi industry. Proposition E, passed by voters in November 1999, amended the City Charter, calling for the creation of the SFMTA through consolidation of the Municipal Railway and the Department of Parking and Traffic on July 1, 2002.

In November 2007 voters approved Proposition A which resulted in the SFMTA assuming responsibility for taxi regulation, which occurred on March 1, 2009. In the fall of 2009 the SFMTA was extensively transformed to place the emphasis not on any one mode, but on sustainable streets for the City of San Francisco.

The Municipal Railway, known universally as Muni, is one of the oldest transit systems on the nation, dating from 1912. It is the largest transit system in the Bay Area and seventh largest in the nation, serving more than 200 million customers a year. The Muni fleet is unique and includes: historic streetcars, biodiesel and electric hybrid buses and electric trolley coaches, light rail vehicles, paratransit cabs and vans, and the world-famous cable cars.

With its focus on sustainable streets, the SFMTA provides multi-modal transportation planning, engineering and operational improvements to the surface transportation network to support sustainable community and economic development within the context of the Transit First Policy. SFMTA staff achieves this by closely coordinating the planning, design, engineering, and construction of improvements for each mode across the City's surface transportation network.

The SFMTA also is responsible for managing 19 parking garages and 21 surface parking lots accounting for 15,000 parking spaces and 24,000 on-street parking meters. Moreover, the SFMTA oversees 946 miles of lane striping, 1,200 signalized intersections, 6,500 color curb zones, 79 miles of exclusive bike lanes, and 98 miles of shared roadways.

SECTION 2

OVERVIEW

OVERVIEW

2.1 Cost Allocation Plan Approach

Indirect costs represent the expenses that are attributable to the general operation of the organization but are not directly tied to a particular grant, contract, project function or activity. An indirect cost allocation plan was prepared so that SFMTA is allowed to charge indirect costs to the FTA funded projects.

SFMTA utilizes MGT of America, Inc. (MGT), a third party consultant, to prepare the Cost Allocation Plan. MGT utilized its double step-down methodology in preparing the plan. MGT's double step-down methodology summarizes the steps performed in the preparation of the ICAPs as follows:

- Identification of the SFMTA departments that provide support to other SFMTA departments/divisions. These divisions are referred to as central service or allocating departments.
- Identification of the departments of SFMTA that receive support from other departments. These departments are referred to as grantee or receiving departments.
- Accumulation of the allowable actual expenditures of the SFMTA departments that provide support to other departments.
- Distribution, or allocation, of the allowable expenditures of the SFMTA departments that provide support to other departments based on available allocation statistics that match the cost of the service provided to the value of the service received.
- Determine the prior year's indirect cost carry forward amount to be considered when using the Fixed Rate with Carry Forward method.
- Accumulation of the departments' direct cost base to which the indirect rate will be applied
- Calculation of the indirect rates.

The "double step-down allocation" methodology is used to distribute the allowable costs of central service departments. This methodology recognizes the cross support provided by the central service departments. For example, accounting supports information services by providing payroll, paying vouchers and other accounting related services. Information services, however, also supports accounting by providing software and hardware and by maintaining and administering various applications and systems.

"The double step-down method requires an initial sequencing of allocating departments. In the first step of the double-step methodology, allowable costs from central service departments are allocated in the sequence selected to other divisions; including to other central service divisions. The second step in the double-step down methodology is made to fully account for the cross support provided between central service divisions. Central service divisions are closed after the second step in the double-step down allocation methodology."

SFMTA has six operating centers as follows:

- Transit Capital*
- Transit Operations
- Sustainable Streets Engineering Capital*
- Sustainable Streets Engineering Operations
- Sustainable Streets Operating
- Sustainable Streets Enforcement

*Only the Transit Capital and Sustainable Streets Engineering Capital departments receive federal grants. Therefore, indirect rates are calculated for these departments only.

2.2 Proposed Indirect Cost Rates

The proposed indirect rates for Transit Capital and Sustainable Streets Engineering are as follows:

- | | |
|---|--------|
| • Transit Capital | 138.5% |
| • Sustainable Streets Engineering Capital | 80.3% |

SECTION 3

EVALUATION OF COST ALLOCATION PLAN

SECTION 4

CONCLUSION

EVALUATION OF ICAP

3.1 Evaluation of ICAP Submission

We performed a general review of SFMTA's ICAP submission and other documents to become familiar with SFMTA's operations, accounting system, and cost allocation practices. During the review, we assessed the reasonableness of the costs assigned to SFMTA direct cost centers and the overhead cost pool. SFMTA prepared and submitted its ICAP based SFMTA's fiscal year 2010-2011 audited costs.

We reviewed SFMTA's audited financial statements and agreed reported amounts with those used to prepare SFMTA's ICAP. In determining the procedures and the level of detail to review SFMTA's ICAP, we took into consideration that SFMTA's indirect cost allocation plan and rate are reviewed annually for compliance by SFMTA's independent auditors. In our review of SFMTA's Single Audit Reports, there were no exceptions reported to indicate the grantee is charging costs to Federal programs inappropriately or that the grantee was at any point not in compliance 2 CFR Part 225.

We reviewed the detailed calculations of the indirect rates, along with the supporting accounting schedules. We required the assistance of SFMTA to fully follow the ICAP's cost throughout the document because the schedules were not adequately cross referenced. Management was able to assist us in understanding the schedules by explaining certain documents and providing additional documentation.

We obtained an understanding of the functions of the central service centers and the operating centers sufficient to determine that the statistical bases used to distribute or allocate the cost to operating centers are appropriate.

We discussed with management their methodology to identify and eliminate non-allowable costs from the indirect cost pools.

We reviewed the consultant's calculation where the prior year's carry forward amounts were applied to the to the current year's estimated costs. We noted that the consultant's calculation was not correctly performed. The amounts involved in this calculation were not so much to distort the calculation of a fair rate. However, this miscalculation has the potential to result in material errors.

We reviewed the summary calculation of the indirect rates and noted that the calculations were accurate.

Based on the results of inquiries and documentation provided by SFMTA, no additional procedures were deemed necessary to conclude that the indirect cost rates calculated by SFMTA were reasonable and generally complies with 2 CFR Part 225.

CONCLUSION

Conclusion

Samlin Milligan's review of SFMTA's FY 2011-2012 ICAP rate submission indicated that SFMTA's methodology was compliant with the requirements of 2 CFR Part 225 and FTA Circular 5010.1D.

Based on the results of our review of SFMTA's ICAP submission, we recommend that FTA approve the proposed rates and approve the following department's indirect rates:

- Transit Capital 138.5%
- Sustainable Streets Engineering Capital 80.3%

The rates proposed were reasonable. However, Samlin Milligan noted the following issues, which did not have a material impact on the calculation of the indirect cost rate, but which are opportunities for improvement in the preparation of future ICAPs.

- The ICAP uses the fixed rate with carry-forward methodology. The ICAP calculations did not apply the carry-forward amount from the previous year correctly. Although this error did not have a material impact on this year's ICAP, it could potentially have a material impact on future ICAPs. SFMTA should ensure that future years' carry-forward calculations are applied correctly.
- The ICAP doesn't clearly cross reference schedules which contain the indirect rate calculations to the supporting schedules that document the costs. This makes it difficult for a party who did not participate in the preparation of the document to easily follow the information flow. The ICAP should clearly cross reference the numbers used in the summary calculation of the rates back to supporting detail information, including the reconciliation to the financial statements, reconciliation of direct base costs, and to the detailed schedules supporting indirect costs. The information should be cross-referenced sufficiently to permit a reviewer to follow the flow of the data while performing a desk review of the ICAP without needing direction from the grantee.
- As we noted above, the ICAP is proposing indirect cost rates for only two of its six operating divisions. Page 4 of the ICAP narrative states that in the event that one of the excluded divisions receives grant funds in the future, the rate lower of the two existing rates will be applied until the next year's plan is developed. SFMTA's management should clearly understand that no indirect cost can be charged to any FTA grant until the indirect rate is approved for the department charging costs to the grant.