



City and County of San Francisco Municipal Transportation Agency (SFMTA) Audit results

Financial statements for the year
ended June 30, 2017

December 5, 2017

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Auditors' Required Communications

There were no:

- Uncorrected or corrected misstatements identified during the audit
- Control deficiencies identified during the audit

Reporting Timeline:

- The audit was completed and the report was issued in accordance with set timeline.

Significant Risk



Skepticism

Management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that appear to be operating correctly.

Significant risk of fraud

The risk

- Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our response

Internal controls

- Assessed management's design and implementation of controls over journal entries and post-closing adjustments

Substantive procedures

- Tested post close and consolidating adjustments
- Audited significant accounting estimates
- Audited significant unusual transactions (none noted)
- Read board minutes

Significant Risk



Skepticism



Specialists

Accrued Worker's compensation and general liability

Management process used to develop significant accounting estimate

- Based upon a number of assumptions
- Methodology is consistent with prior year.
- Prepared by external actuarial experts based on information provided by management

Significant assumptions used that have a high degree of subjectivity

- None noted

Our response

Internal controls

- Assessed the test of design and implementation of management's review over the actuarial liability.

Substantive procedures

- Tested underlying data
- Engaged KPMG actuary to review assumptions
- Reviewed actuary report

Our findings

- No findings noted.
- Assumptions and inputs appear reasonable.
- No disconfirming evidence noted.

Significant Estimate



Pension Liability

Management process used to develop significant accounting estimate

- The City estimates the pension liability and allocates this estimate to the departments on a consistent methodology.

Our response

Substantive procedures

- Tested census data underlying data
- Engaged KPMG actuary to review assumptions
- Reviewed actuary report
- Recalculated the department's share of liability

Our findings

- No findings noted.
- Assumptions and inputs appear reasonable.
- No disconfirming evidence noted.

Significant accounting

Significant accounting policies and practices	Results of evaluation and conclusions about the qualitative aspects
Significant accounting policies/procedures are described in Note 2 to the financial statements	In accordance with generally accepted accounting principles and consistent with industry practices and standards

Required communications

Type	Response	Type	Response
Related parties	 None noted	Other information	 No material inconsistencies were identified related to other information in the annual report.
Illegal acts or fraud	 No actual or suspected fraud management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.	Significant difficulties encountered during the audit	 No matters to report.
Noncompliance with laws and regulations	 None noted.	Disagreements with management or scope limitations	 No matters to report.
Modifications to auditor's report	 None.	Management's consultation with other accountants	 No matters to report.
Subsequent events	 None noted	Significant issues discussed, or subject to correspondence with, management	 No matters to report.
		Difficult or contentious matters for which the auditors consulted	 No matters to report.
		Material Written Communications between KPMG and Management	 Engagement letter & Management representation letter to be requested upon request

Responsibilities



Management is responsible for:

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted auditing standards (GAAS)
- For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Ensuring that the SFMTA operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the SFMTA's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the SFMTA's financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud.

Responsibilities (continued)



The SFMTA Board of Directors is responsible for:

- Oversight of the financial reporting process and oversight of ICOFR
- Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud.

Management and the SFMTA Board of Directors are responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.

The audit of the financial statements does not relieve management or the SFMTA Board of Directors of their responsibilities.

Responsibilities (continued)



KPMG is responsible for:

- Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Conducting the audit in accordance with professional standards and complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the ethical standards of relevant CPA societies, and relevant state boards of accountancy
- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the SFMTA Board of Directors are presented fairly, in all material respects, in conformity with GAAS
- An audit of the 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.
- Communicating to the SFMTA Board of Directors all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Communicating to management and the SFMTA Board of Directors in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the Company's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.
- Communicating to the SFMTA Board of Directors circumstances that affect the form and content of the auditors' report, if any.

Responsibilities for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- The auditors' responsibility is to make appropriate arrangements with management or the SFMTA Board of Directors to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.
- We have performed the following procedures with respect to other information in documents:
 - Apply certain limited procedures to MD&A (management's discussion and analysis) as it is required to be presented to supplement the basic financial statements. No opinion is expressed and no assurance is provided on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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