

CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT
ARTICLE III FUND
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019

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**CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
Basic Financial Statements
For the Years Ended June 30, 2020 and 2019**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Fund Financial Statements:	
Comparative Balance Sheets	3
Comparative Statements of Revenues and Expenditures.....	4
Notes to the Financial Statements.....	5
Independent Auditor's Report on Internal Control Over Financial Reporting, on Compliance with the Transportation Development Act and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	7
Schedule of Current Year Findings and Responses	9

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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council of the
City of South San Francisco
South San Francisco, California

Report on Financial Statements

We have audited the accompanying financial statements of the City of South San Francisco Transportation Development Act Article III Fund (TDA Fund), which are included in the Capital Projects Fund of the City of South San Francisco (City), California, as of and for the years ended June 30, 2020 and 2019, and related notes to the financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the TDA Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TDA Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the TDA Fund as of June 30, 2020 and 2019, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Fund and do not purport to, and do not present fairly the financial positions of the City as of June 30, 2020 and 2019 or the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021 on our consideration of the TDA Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TDA Fund's internal control over financial reporting and compliance.



Pleasant Hill, California
March 31, 2021

CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
COMPARATIVE BALANCE SHEETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Due from Metropolitan Transportation Commission	<u>\$441,986</u>	<u>\$202,606</u>
Total Assets	<u><u>\$441,986</u></u>	<u><u>\$202,606</u></u>
LIABILITIES		
Due to the City	<u>\$441,986</u>	<u>\$202,606</u>
Total Liabilities	<u>441,986</u>	<u>202,606</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	<u>130,042</u>	<u>202,606</u>
Total Deferred Inflows of Resources	<u>130,042</u>	<u>202,606</u>
FUND BALANCE (DEFICIT)	<u>(130,042)</u>	<u>(202,606)</u>
Total Fund Balance (Deficit)	<u>(130,042)</u>	<u>(202,606)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance (Deficit)	<u><u>\$441,986</u></u>	<u><u>\$202,606</u></u>

See accompanying notes to financial statements

CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
REVENUES		
TDA Article 3.0 (Note 2)	<u>\$411,994</u>	<u> </u>
Total Revenues	<u>411,994</u>	<u> </u>
EXPENDITURES		
Linden Ave. Complete Streets Safety Project	40,789	\$80,266
Regional Bike Network Connectivity Project: North	275,985	36,009
SSF Pedestrian and Bicycle Master Planning Project	<u>22,656</u>	<u>77,344</u>
Total Expenditures	<u>339,430</u>	<u>193,619</u>
Net change in fund balance	72,564	(193,619)
Fund balance (deficit) at beginning of year, as restated (Note 2)	<u>(202,606)</u>	<u>(8,987)</u>
Fund balance (deficit) at end of year	<u><u>(\$130,042)</u></u>	<u><u>(\$202,606)</u></u>

See accompanying notes to financial statements

CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The City of South San Francisco, California (City), Transportation Development Act Article III Fund (TDA Fund) includes the financial activities associated with the State of California Transportation Development Act. The State of California created a local transportation fund for each County funded by a portion of the State sales tax.

The TDA Fund is distributed through the Metropolitan Transportation Commission (MTC) which is the agency responsible for allocation of funds to eligible claimants within the greater San Francisco Bay Area.

The TDA Fund is included in a Capital Projects Fund of the Comprehensive Annual Financial Report of the City. The financial statements are intended to present the financial position and results of operation for the TDA Fund, and not those of the City as a whole.

B. *Basis of Accounting*

Basis of accounting refers to when revenues and expenditures are recognized. The TDA Fund is accounted for in a governmental fund type and the modified accrual basis of accounting is used. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. TDA Article 3.0 revenues are recognized when qualifying project expenditures are incurred. Expenditures are generally recognized when they are incurred.

C. *Deferred Inflows of Resources*

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the balance sheet. The TDA Fund reports unavailable revenues from grants receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE 2 – TDA ARTICLE 3.0 REVENUE

For the years ended June 30, 2020 and 2019 the City received allocation instructions from the Metropolitan Transportation Commission for the following projects:

Instruction Number	Project Name	Grant Award	Expended in June 30, 2020	Revenue in June 30, 2020	Expenditures to date through June 30, 2019 (as restated)	Revenue to date through June 30, 2019 (as restated)
18001094 and 20001115 (A)	Linden Avenue Complete Streets Safety Project	\$363,300	\$40,789		\$126,706	\$37,453
18001084	Regional Bike Network Connectivity Project: North	350,000	275,985	\$311,994	36,009	
18001085	SSF Pedestrian and Bicycle Master Planning Project	100,000	22,656	100,000	77,344	
20001106	East Grand Avenue - CalTrain Bicycle and Pedestrian Access	400,000				
		<u>\$1,213,300</u>	<u>\$339,430</u>	<u>\$411,994</u>	<u>\$240,059</u>	<u>\$37,453</u>

(A) Instruction number 18001094 expired on June 30, 2020, but the remaining balance of \$325,847 was reallocated under Instruction Number 20001115 in July 2020 with a new expiration date of June 30, 2022.

Expenditures for the Regional Bike Network Connectivity Project North (Allocation Instruction #18001084) of \$21,022 were incurred during the year ended June 30, 2019 and expenditures for the SSF Pedestrian and Bicycle Master Planning Project (Allocation Instruction #18001085) of \$22,656 were incurred during the year ended June 30, 2019. These expenditures are being reported as expenditures during the year ended June 30, 2020, because the City did not determine that they would be applied to the TDA Article 3.0 funding until fiscal year 2020.

During fiscal year 2020, the City discovered that prior year revenues and expenditures for the Linden Avenue Complete Streets Safety Project (Allocation Instruction #18001094) had been overstated in the amounts of \$39,669 and \$47,988, respectively, and beginning fund balance has been restated and increased in the net amount of \$8,319.

NOTE 3 – COMMITMENTS AND CONTINGENCIES

The City participates in several grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts to be immaterial.

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING,
ON COMPLIANCE WITH THE TRANSPORTATION DEVELOPMENT ACT
AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Members of the City Council of
City of South San Francisco
South San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transportation Development Act Article III Fund (the TDA Fund) of the City of South San Francisco (City), California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the TDA Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TDA Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the TDA Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the TDA Fund's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control we consider to be significant deficiencies as listed item TDA2020-01 on the Schedule of Current Year Findings and Responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain TDA Fund's provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our procedures included the applicable audit procedures contained in §6666 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the Allocation Instructions and Resolutions of the Metropolitan Transportation Commission. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are listed in the Schedule of Current Year Findings and Responses.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Current Year Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended solely for the information and use of the Metropolitan Transportation Commission, management, City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.



Pleasant Hill, California
March 31, 2021

**CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES**

TDA2020-01 – Accurate TDA Program Reimbursement Requests and Reporting

Criteria: Transportation Development Act (TDA) program expenditures should be reported in the proper period and requests for reimbursement should include only those costs that are eligible to be charged to the TDA program.

Condition: The original worksheet of TDA project expenditures provided for audit totaled to \$215,213 across the three projects that incurred costs during fiscal year 2020.

As we began testing the worksheet, we noted the following:

- The City had received reimbursement of \$100,000 for the SSF Pedestrian and Bicycle Master Planning Project (Allocation Instruction #18001085) for expenditures incurred in fiscal year 2019, but the worksheet included expenditures of only \$90,198.
- The City had received reimbursement of \$311,994 in August 2020 for the Regional Bike Network Connectivity Project North (Allocation Instruction #18001084) for expenditures incurred in fiscal years 2019 and 2020, but the worksheet included expenditures of only \$200,199 for those fiscal years.
- The July 2020 reimbursement request of \$311,994 for the Regional Bike Network Connectivity Project North (Allocation Instruction #18001084) included two duplicate vendor payments totaling \$5,141, included ineligible costs related to a vendor payment of \$16,994 for a non-TDA funded project, and included two vendor payments in the amounts of \$62,991 and \$91,458 that were gross of the vendor retention that was not paid to the vendor until December 2020.

After we discussed the above issues with City staff, City staff determined that the project expenditures for the SSF Pedestrian and Bicycle Master Planning Project (Allocation Instruction #18001085) had been understated on the worksheet provided for audit by the \$9,802. We also noted that the reimbursement request filed with the Metropolitan Transportation Commission for the project in February 2020 included eligible project expenditures totaling \$105,699, but also included unrelated expenditures of \$66,109.

For the Regional Bike Network Connectivity Project North (Allocation Instruction #18001084), the City filed a revised reimbursement request with the Metropolitan Transportation Commission in January 2021 to replace the ineligible costs of \$16,224 and the duplicate costs of \$5,141 with eligible costs, which was approved by the grantor. Although the City did not make the correction to the revised invoice to remove the retention payments that had not been paid to the vendor as of the date of the original reimbursement request filing in July 2020, we did note that the retention had been paid to the vendor in December 2020, which was prior to the revised reimbursement request filing date in January 2021.

The final, revised worksheet included project expenditures to be reported of \$339,430 for the three Allocation Instructions that incurred costs in fiscal year 2020 and the identification of expenditures in fiscal year 2019 that were not deemed to be eligible project costs until fiscal year 2020.

Cause: We understand that City staff that are responsible for preparing the reimbursement requests do not reconcile the project accounting information to the general ledger data for the projects or to the data previously reported in the Transportation Development Act Article III Fund financial statements, which leads to inaccurate reporting in the reimbursement requests and the TDA program worksheet.

**CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES**

TDA2020-01 – Accurate Grant Reporting and Reimbursement Requests (Continued)

Effect: When the City requests reimbursement for ineligible costs, the City is not in compliance with the requirements of the TDA program. And, when the worksheet provided for audit does not agree with the actual project costs incurred and reimbursed, it could lead to inaccurate reporting.

Recommendation: The City must develop procedures to ensure that reimbursement requests for the TDA program include only eligible costs incurred and that the amounts reported in the Transportation Development Act Article III Fund financial statements accurately include the eligible costs incurred for each project in each fiscal year.

In addition, the City should confirm with the Metropolitan Transportation Commission that the City does not need to return interest earned on the reimbursement of the retention payable total from the date the reimbursement was received in August 2020 to the date the retention was paid to the vendor in December 2020.

Management's Response: The City agrees with the audit finding that internal controls need to be strengthened in order to prevent inaccuracies related to grant reporting and reimbursement requests. Upon realizing the errors related to the TDA program expenditures, the City has actively changed procedures to broaden and strengthen the oversight of grant-funded projects and is in the process of developing a new model that includes training and coaching for all new program managers on the grants process as a preventive measure. In addition, all reimbursement requests will require additional review by divisional management staff and require the reconciling of revenues and expenditures to the general ledger as outlined in the City's Grant Management Policy, which was adopted in April 2020.

In order to enhance future oversight of grant-related projects, vendors for the City will no longer be allowed to submit a consolidated invoice for work related to multiple projects. The administrative change of requiring itemized invoices for specific projects will mitigate the chances of the inadvertent reimbursement requests for unrelated projects.

Related to the accurate tracking of project expenditures in each fiscal year, program managers will be required to reconcile all project expenditures quarterly. Any reconciliations that do not occur within the quarter the expense was incurred will require appropriate documentation as to why the request did not occur within the quarterly timeframe.

Lastly, the Grant Manager for the TDA funded project in question will confirm with the Metropolitan Transportation Commission ("MTC") that the City does not need to return interest earned on the reimbursement. If required to return any interest earnings, the City will reimburse MTC from its General Fund.