

CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT
ARTICLE III FUND
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021

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**CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
Basic Financial Statements
For the Years Ended June 30, 2022 and 2021**

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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 the Audit of the Financial Statements

Opinions

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, 2022 and 2021, and related notes to the financial statements as listed in the Table of Contents.

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, 2022 and 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirement relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2022 and 2021 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 opinions are not modified with respect to this matter.

Responsibilities of Management 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2022, 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 solely 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 the effectiveness of the TDA Fund's 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
December 16, 2022

CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND
COMPARATIVE BALANCE SHEETS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Due from Metropolitan Transportation Commission	\$ 400,000	\$ -
Total Assets	\$400,000	\$ -
LIABILITIES		
Due to the City	\$ 400,000	\$ -
Total Liabilities	400,000	-
FUND BALANCE	-	-
Total Fund Balance	-	-
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ -	\$ -

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
REVENUES		
TDA Article 3.0 (Note 2)	<u>\$ 400,000</u>	<u>\$ 325,847</u>
Total Revenues	<u>400,000</u>	<u>325,847</u>
EXPENDITURES		
Linden Avenue Complete Streets Safety Project	-	325,847
East Grand Avenue - CalTrain Bicycle and Pedestrian Access	<u>400,000</u>	<u>-</u>
Total Expenditures	<u>400,000</u>	<u>325,847</u>
Net change in fund balance	-	-
Fund balance at beginning of year, as restated (Note 2)	<u>-</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</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, 2022 and 2021

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 Annual Comprehensive 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, 2022 and 2021

NOTE 2 – TDA ARTICLE 3.0 REVENUE

For the years ended June 30, 2022 and 2021 the City received allocation instructions from the Metropolitan Transportation Commission for the following projects:

Instruction Number	Project Name	Grant Award	Expended in June 30, 2022	Revenue in June 30, 2022	Expenditures to date through June 30, 2022	Revenue to date through June 30, 2022
18001094 and 20001115 (A)	Linden Avenue Complete Streets Safety Project	\$ 363,300	\$ -	\$ -	\$ 363,300	\$ 363,300
20001106	East Grand Avenue - CalTrain Bicycle and Pedestrian Access	400,000	400,000	400,000	400,000	400,000
		<u>\$ 763,300</u>	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 763,300</u>	<u>\$ 763,300</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.

During fiscal year 2021, the City determined that prior year expenditures for the Linden Avenue Complete Streets Safety Project (Allocation Instruction #18001094/20001115) had been overstated in the amount of \$40,789 during the year ended June 30, 2020 and in the amount of \$89,253 prior to July 1, 2019. As a result, beginning fund balance as of July 1, 2020 has been restated and increased in the amount of \$130,042 and due from Metropolitan Transportation Commission and Due to the City have been reduced and restated in the same amount.

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, 2022, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2022

Report on 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) as a basis for designing 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. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
December 16, 2022

**CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND**

STATUS OF PRIOR YEAR FINDINGS AND RESPONSES

TDA2021-01 – 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 reports of TDA project expenditures provided for audit totaled to \$757,519 across three projects that incurred costs during fiscal year 2021.

As we began testing the amounts reported, we noted the following:

- The December 2020 reimbursement request of \$325,847 for the Linden Avenue Complete Streets Safety Project (Allocation Instruction #20001115) included three vendor payments that had occurred in fiscal year 2021. However, expenditures had been included in the prior year TDA reports totaling \$130,042, which were comprised of \$40,789 in the fiscal year 2020 report and \$89,253 of expenditures incurred prior to July 1, 2019.
- The City reported expenditures of \$5,506 for the Regional Bike Network Connectivity Project North (Allocation Instruction #18001084), but that project had been completed and fully reimbursed in the prior fiscal year.
- The City reported expenditures of \$5,337 for the SSF Pedestrian and Bicycle Master Planning Project (Allocation Instruction #18001085), but that project had been completed and fully reimbursed in the prior fiscal year.

After we discussed the above issues with City staff, City staff determined that the project expenditures for the Linden Avenue Complete Streets Safety Project (Allocation Instruction #20001115) had been overstated in the prior year TDA reports, because those project costs were not applied to the TDA funding. And, the other two projects listed above incurred project expenditures during fiscal year 2021, but they should not have been included in the expenditures provided for the fiscal year 2021 TDA report.

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 lead to inaccurate reporting in the TDA financial statements.

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

Recommendation: The City must develop procedures to ensure that the TDA financial statements include only eligible project costs that will be applied to the TDA funding and requested for reimbursement from MTC. In addition, the TDA financial statements should be reviewed when reimbursement requests are filed to determine whether eligible project costs incurred reconcile and agree to those previously reported in the TDA financial statements.

**CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND**

STATUS OF PRIOR YEAR FINDINGS AND RESPONSES

TDA2021-01 – Accurate TDA Program Reimbursement Requests and Reporting (Continued)

Current Status:

Implemented – The City has taken to steps to improve internal controls related to TDA program reimbursements, requiring program managers to provide data to Finance prior to requesting reimbursement such that reconciliation to the general ledger can be performed and invoices checked to ensure no consolidation of multiple projects on a single invoice. A requirement to request reimbursement on a more regular basis has also been communicated to avoid time pressures when requesting reimbursement at year end.

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.

**CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND**

STATUS OF PRIOR YEAR FINDINGS AND RESPONSES

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

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.

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.

Current Status: The City agrees with the audit finding that internal controls need to be strengthened 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.

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.

**CITY OF SOUTH SAN FRANCISCO
TRANSPORTATION DEVELOPMENT ACT ARTICLE III FUND**

STATUS OF PRIOR YEAR FINDINGS AND RESPONSES

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

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, City did not receive a request from MTC to return any interest earned. If required to return any interest earnings, the City will reimburse MTC from its General Fund.

See also finding TDA2021-01.