

**SAN MATEO COUNTY TRANSIT DISTRICT (DISTRICT)
1250 SAN CARLOS AVENUE, SAN CARLOS, CALIFORNIA**

**MINUTES OF AUDIT COMMITTEE MEETING
DECEMBER 3, 2018**

Committee Members Present: C. Groom (Committee Chair), J. Gee

Committee Members Absent: R. Guilbault

Staff Present: J. Hartnett, J. Cassman, S. van Hoften (via telephone), D. Hansel, J. Ye, G. Martinez, D. Olmeda, J. Brook

Others Present: A. Gharaibeh, Vavrinek, Trine, Day & Co., LLP

CALL TO ORDER

Committee Chair Carole Groom called the meeting to order at 3:02 pm.

ROLL CALL

Assistant District Secretary Jean Brook called the roll. A quorum was present.

PUBLIC COMMENT

None.

APPROVAL OF AUDIT COMMITTEE MINUTES OF DECEMBER 11, 2017

Motion/Second: Gee/Groom

Ayes: Gee, Groom

Absent: Guilbault

SCOPE OF THE FISCAL YEAR 2018 AUDIT

Ahmad Gharaibeh, Partner, Vavrinek, Trine, Day & Co., LLP, said that the financial statements in the 2018 Comprehensive Annual Financial Report (CAFR) were fairly stated.

He said the audit process included confirming amounts and disclosures. He said the audit is typically split into an interim and a final phase. He explained the federal and state compliance requirements. He said that during the initial phase, the CAFR looks at the three agencies' processes for receipts, procurements, payroll, human resources policies. He said that during the final phase, they confirm the balances, they confirm sales tax and Transportation Development Act (TDA) money with the state. He said that at the end of the audit, they issue an opinion on the financial statements as to whether or not they are fairly stated.

He noted that all three agencies pass the compliance. He stated that the billing and cash reconciliations are up to date. He said there is a significant increase in liquidity for all three agencies likely due to the increased speed of processing and invoicing, and an upgrade to the accounting system. He said in prior years, they had made a finding that the reconciliations were not up to date. He stated that they have now removed

that finding so that SamTrans no longer has a “significant deficiency in internal controls.”

Mr. Gharaibeh said there are new accounting requirements from the Government Accounting Standards Board (GASB) this year with respect to local jurisdictions regarding pension liabilities and OPEB (other postemployment benefits) liabilities on the financial statements. He said that SamTrans liabilities of \$50 million were about 28 percent funded.

Committee Member Gee said it was great progress that last year's deficiency had been removed. He asked how frequently the software was being patched or upgraded.

Derek Hansel, Chief Financial Officer, said that the majority of the problems were with the business process and its integration with the software, not the software itself. He noted that there had been a history of bank reconciliations being behind by several years, but said that they are now all up to date. He confirmed with Committee Member Gee that the mobile app was released after the close of books for the current CAFR. Mr. Hansel also confirmed that operating encumbrances were now being looked at in a timely manner.

Mr. Gharaibeh said they looked at the ageing of the receivables, which is largely grant related. He said the billing has gotten a lot faster since 2016-17 with receipts coming in within 30 days of expenses going out.

STATUS OF THE FINDINGS NOTED IN THE FISCAL YEAR 2017 AUDIT

Mr. Gharaibeh said that the findings have been removed. He said the two most significant items were the billing and cash reconciliation, which are now up to date.

STATUS OF THE ACCOUNTS RECEIVABLE AND GRANTS BILLING

Mr. Hansel said accounts receivable and grants billing was most significant for JPB but had significant follow-on consequences for SamTrans. He said that at their peak, grants that had not yet been billed approached \$135 million. He said that number had been reduced to \$40 million for a few months, a portion of which has been tied up in FY 2018 and FY 2017. He said that unbilled grants averages \$22 million in FY 2019. As a result, he said they have been able to greatly increase liquidity on the JPB side and that they are anticipating a rating upgrade and credit increase. He added that a SamTrans receivable from the JPB was reduced by almost 75 percent since FY 2017.

Committee Member Gee asked if the amount owed SamTrans that's indicated on the JPB CAFR is a reasonable number mid-fiscal year, and Mr. Hansel concurred that it was. Committee Member Gee asked if the \$20 million average was per month. Mr. Hansel responded that the \$20 million reflected a rolling balance over a four-week period. He also confirmed that SamTrans was meeting all the requirements of its grantors.

Mr. Hansel said that the close process has been too slow and that they are working on how to speed the process up.

Grace Martinez, Director of Accounting, said that they looked at number of accrual entries for the District and it's approximately 150 per month. She said some of the entries

are immaterial, so they have been focusing on the more material entries to decide which entries they should keep on an accrual basis and which should move to cash for the monthly financial statements. She said their goal with reducing the number of accruals is to cut down on processing time by a couple of weeks. Mr. Hansel noted that having a mixture of cash and accrual is common for government agencies.

Committee Chair Groom asked why monthly accruals were done in the past since they take so much time to process. Ms. Martinez agreed with her that it perhaps was standard practice to do so. Mr. Hansel said this practice was more common in the corporate world but has no value in the public sector.

Ms. Martinez said in her experience with government agencies, the boards are more focused on revenues and expenses. Mr. Hansel concurred that the government emphasis was on performance versus budget.

Mr. Gharaibeh said that he planned to attend the Board of Directors meeting on December 5. He concluded by saying that they ran into no difficulties and made no adjustments to the financial statements.

ADJOURN

The meeting adjourned at 3:32 pm.