

MINUTES
MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT AND OVERSIGHT COMMITTEE

February 1, 2024

[Clerk's note: Except where noted, public, staff and board member comments are paraphrased. The full comment can be heard by reviewing the recording at the [MTS website](#).]

1. Roll Call

Chair Whitburn called the Audit Oversight Committee meeting to order at 9:04 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. Public Comments

There were no Public Comments.

3. Approval of Minutes

Vice Chair Goble moved to approve the minutes of the November 3, 2023, MTS Audit Oversight Committee meeting. Board Member Frank seconded the motion, and the vote was 6 to 0 in favor with Board Member Montgomery Steppe absent.

COMMITTEE DISCUSSION ITEMS

4. External Auditing Services – Contract Award (Erin Dunn and Brianda Diaz)

Erin Dunn, MTS Controller, and Brianda Diaz, Procurement Specialist, presented on external auditing services contract award. They outlined: the service background and scope of work, historical and existing contract, solicitation process, the proposed bidder and staff's recommendation.

Committee Comments

Board Member Elo-Rivera asked about the familiarity threat definition of an auditor. Ms. Dunn replied that many times, auditor is referred to as the partner, which is why there is a mandate that there must be a rotation every five years. He asked if a partner rotation is considered the best practice to mitigate for familiarity threat. Ms. Dunn introduced Toufic Tabshouri, MTS Internal Auditor, that explained government audit standards list seven threats to independence, with the familiarity threat being the most applicable to MTS. Because audit standards do not explicitly state how to mitigate the threat, it becomes the judgement call of MTS and the Board. Mr. Tabshouri said that by replacing the staff and introducing another layer of review, MTS deems this change satisfactory to mitigate the threat. Board Member Elo-Rivera ask if the peer review was of the accounting firm and not MTS. Mr. Tabshouri clarified that this is a three year requirement for firms conducting these external financial audits. He noted quality control processes and sampling of various audits are performed. Board Member Elo-Rivera asked if it would be unorthodox to ask for a peer review of the quality standards of MTS's specific audit. Mr. Tabshouri replied that it was atypical for that type of review. Mr. Pun replied that the peer reviewer has their own judgment to perform the review. The ASCPA has changed the quality control of the review, and they review the entire quality managed system, rather than a selective approach on the engagement itself. On an annual basis, internal inspection is performed as an internal practice within the firm. Board Member Elo-Rivera understood the peer review practices and clarified that he was interested in a specific audit being reviewed and acknowledged that now understanding the process, the request was not necessary.

Vice Chair Goble summarized his understanding of the checks and balances of the auditors. He noted that other accounting firms succumb to a peer review style and then submit that to the state. He noted that what prevents collusion is accountability to the state. Mr. Tabshouri replied that the California Board of Accountancy publishes a quarterly newsletter and lists all the audit firms that have failed peer reviews and note the sanctions. Vice Chair Goble asked if pass was the highest grade possible. Mr. Tabshouri confirmed it was.

Chair Whitburn asked Mr. Pun to explain how they mitigate the familiarity threat. Mr. Pun explained that the threat comes about with a long-term relationship with a client. Mr. Pun noted that he has been rotated out and does not touch the financial statements. He only offers technical guidance to the team. Over the last 20 years, the firm has rotated its team and with the new contract, the state requires engagement partners to rotate out every six years. The Pun Group's internal policies dictate a rotation of every five years. The firm has also reduced the familiarity threat by rotating out some positions, along with using Artificial Intelligence (AI), and the firm uses human judgment to select samples in scanning antitechnology samples. Chair Whitburn asked about the significant bid difference. Ms. Dunn referenced slide 7 and noted that the higher the price, the lower the score, and she assured the Board that MTS attempted to negotiate price adjustments. Ms. Diaz added that the price revision was not competitive enough to surpass The Pun Group's pricing.

Action Taken

Chair Whitburn moved to forward a recommendation to the Board of Directors to authorize the Chief Executive Officer (CEO) to: 1) Execute MTS Doc. G2788.0-24, with The Pun Group, Inc. (The Pun Group) for External Auditing Services for a five (5) year base period in the amount of \$1,143,722.35, plus three (3) 1-year options in the amount of \$771,190.85 for a total contract amount of \$1,914,913.20; and 2) Exercise the option years at the CEO's discretion. Vice Chair Goble seconded the motion, and the vote was 6 to 0 in favor with Board Member Montgomery Steppe and absent.

OTHER ITEMS

5. Committee Member Communications and Other Business


There was no Committee Member Communications and Other Business discussion.

6. Next Meeting Date

The next Audit Oversight Committee meeting is to be determined.

7. Adjournment

Chair Whitburn adjourned the meeting at 9:29 a.m.



Chairperson
San Diego Metropolitan Transit System



Clerk of the Board
San Diego Metropolitan Transit System

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE

ROLL CALL

MEETING OF (DATE): February 1, 2024 CALL TO ORDER (TIME): 9:04 a.m.
 RECESS: _____ RECONVENE: _____
 CLOSED SESSION: _____ RECONVENE: _____
 PUBLIC HEARING: _____ RECONVENE: _____
 ORDINANCES ADOPTED: _____ ADJOURN: 9:29 a.m.

REPRESENTING	BOARD MEMBER	ALTERNATE	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
Chair	Whitburn <input checked="" type="checkbox"/>	No Alternate <input type="checkbox"/>	9:04 a.m.	9:29 a.m.
City of San Diego	Elo-Rivera <input checked="" type="checkbox"/>	Joe LaCava <input type="checkbox"/>	9:04 a.m.	9:29 a.m.
County of San Diego	Montgomery Steppe <input type="checkbox"/>	Vargas <input type="checkbox"/>	ABSENT	ABSENT
East County	Frank <input checked="" type="checkbox"/>	Hall <input type="checkbox"/>	9:04 a.m.	9:29 a.m.
SANDAG Transportation Committee	Moreno <input checked="" type="checkbox"/>	Bush <input type="checkbox"/>	9:04 a.m.	9:29 a.m.
South Bay	Bush <input checked="" type="checkbox"/>	Leyba- Gonzalez <input type="checkbox"/>	9:04 a.m.	9:29 a.m.
Vice Chair	Goble <input checked="" type="checkbox"/>	No Alternate <input type="checkbox"/>	9:04 a.m.	9:29 a.m.

SIGNED BY THE CLERK OF THE BOARD: 