

Metropolitan Transportation Authority
2008-2009 Internal Control Certification and Summary

**Submitted as part of the MTA 2010 Annual Report
Pursuant to New York State Public Authorities Law Section 2800(1)(a)(2)(iii)**

2008 – 2009
Metropolitan Transportation Authority
-Internal Control-
Certification and Summary

Submitted By
MTA Corporate Compliance
2 Broadway, 16th Floor
New York, New York 10004



2008-09 INTERNAL CONTROL CERTIFICATION

Metropolitan Transportation Authority

Authority Name

Elliot G. Sander

Executive Director/Chief Executive Officer

347 Madison Avenue, New York New York 10017

Agency/Authority Address

212 878 7274

Telephone Number

Lamond W. Kearse, Chief Compliance Officer

Name of Internal Control Officer

646-252-1330

Telephone Number

Lkearse@mtahq.org


Email Address of Internal Control Officer

I hereby certify the agency or authority is:

- Fully Compliant (Full compliance with all provisions)**
- Partially Compliant (Partial compliance with some or all provisions)**
- Not Compliant (Noncompliance with all provisions)**

With the New York State Governmental Accountability, Audit and Internal Control Act.

This certification is supported with detailed justification of actions taken and/or outlines specific actions needed to address areas of partial compliance or noncompliance as described in the preceding Internal Control Summary.



Elliot G. Sander
Executive Director/Chief Executive Officer

4/29/09
Date

2008-09 INTERNAL CONTROL SUMMARY & CERTIFICATION FORM

The Internal Control Summary and Certification Form provides supporting justification for an authority's level of compliance with the requirements of the Internal Control Act as outlined below. This form requests information regarding specific actions taken, or needed to be taken, by authorities to comply with each of the Act's requirements as described in Budget Policy and Reporting Manual (BPRM) Item B-350. A completed and signed Internal Control Summary and Certification Form should be submitted by April 30, 2009, via e-mail as an attached PDF file to the Division of the Budget's internal control reporting mailbox at dob.sm.icreporting@budget.state.ny.us.

METROPOLITAN TRANSPORTATION AUTHORITY

Authority Name

Date **April 30, 2009**

Completed by (Name)

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Long Island Rail Road

Mark Young

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Metro-North Railroad

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Bridges and Tunnels

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Capital Construction

Richard Hoffman

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MTA Bus Company

Robert Picarelli

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A. Establish and maintain guidelines for a system of internal controls for the authority. Internal control guidelines communicate an organization's management and programmatic objectives to its employees and provide the methods and procedures used to assess the effectiveness of its internal controls in supporting those objectives. Internal control guidelines should:

1. State the authority head's support of internal controls to provide staff with an understanding of the benefits of effective controls;
2. Identify the authority's primary responsibilities and the objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of the authorities management and supervisors and agency staff;
5. Acknowledge that internal controls adhere to accepted standards; and,
6. Describe the organization's process for evaluating internal controls.

For this requirement, the authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your authority has taken, or are needed, to comply with this requirement.

In 1990, the Metropolitan Transportation Authority (“MTA”) Board adopted MTA All-Agency Accountability and Internal Control Policy Directive 11-008 which applies to the Metropolitan Transportation Authority and its subsidiary and affiliated agencies. The Policy Directive became effective upon the signature of the MTA Board Chairman on June 8, 1990.

The policy establishes the MTA Board’s support of internal controls and its commitment to provide staff with an understanding of the benefits of effective controls. Policy Statement 11-008 also identifies the Authority’s primary responsibilities and the objectives; explains how internal controls are organized and managed; defines responsibilities of the Authority’s management, supervisors and Authority staff; acknowledge that MTA’s internal controls adhere to accepted standards; and describes the organization’s process for evaluating internal controls.

Pursuant to Public Authorities Law Section 2931, the MTA Board designed its Chief Compliance Officer as the MTA’s Internal Control Officer (“ICO”) with responsibilities for overseeing MTA’s Corporate Compliance efforts, which include corporate governance, internal controls, ethics and compliance. The program is compliant with the Public Authority Law as amended by the New York State Governmental Accountability, Audit and Internal Act (“Act”), the Standards for Internal Control in New York State published by the Office of the State Comptroller, New York State Authority Budget Office guidelines, and the Commission of Sponsoring Organizations (“COSO”) standards. MTA’s internal control program is modeled after current best practices of integrating corporate governance, internal controls, compliance and ethics.

Metropolitan Transportation Authority Headquarters

The Metropolitan Transportation Authority (“MTAHQ”) Executive Director and Chief Executive Officer Elliot G. Sander sets the appropriate tone at the top in his support of the MTA’s internal control program. He continues to communicate his expectation that MTA employees not only comply with all applicable laws, rules, regulations, policies, and procedures but also that they conduct the business of the MTA with the highest level of integrity.

MTAHQ’s ICO is Michael Amrick. He administers the program and assures compliance with the Internal Control review process by all departments. The ICO provides Internal Control training to all MTAHQ employees, especially the Internal Control Coordinators (“ICC”) and other personnel involved in the internal control program. Each department has an ICC, who acts as the department's representative to evaluate the Internal Controls in that ICC's area, make recommendations to such controls, and to collect ideas on how work activities can be improved. Each coordinator does a yearly "risk assessment" which is reviewed with the ICO and forwarded to Senior Management. The ICO prepares MTAHQ’s annual Internal Control Summary and Certification.

MTAHQ’s program is administered pursuant to the Act and MTA Board approved guidelines discussed above and is compliant with Public Authorities Law Section

2931. The program adheres to all guidelines and standards issues by the Office of the State Comptroller, Authority Budget Office and COSO.

New York City Transit

The President of MTA New York City Transit (NYCT) Howard Roberts is a firm supporter of the conceptual and practical application of internal controls. He is firmly committed to the MTA's Internal Controls Program and the value that it lends to the organization. This fact has been stated and reiterated via numerous memoranda in which the President has clearly communicated his expectation that all employees adhere to the rules, regulations, policies, procedures and applicable laws that govern the activities and functions that are performed within NYCT.

The tone at the top is established by the President who supports the internal control initiative, and has communicated his commitment to all members of the workforce. The President has appointed NYCT Controller Kevin F. McKenna as ICO to manage, maintain and review the system of Internal Controls within NYCT. The ICO also prepares NYCT's annual Internal Control Summary and Certification which is submitted to MTAHQ. He keeps the departments and divisions apprised of their responsibility to comply with the provisions of the Act and NYCT Internal Control Policy / Instruction 1.8.1. The ICO is assisted by an ICC and other dedicated members of staff within the Office of the Controller who facilitate, coordinate and oversee all aspects of the internal control program. Management is required to develop and implement a system of internal controls by ensuring that all major activities are listed, assessed and reviewed in accordance with all applicable laws, rules, regulations and standards.

In addition, department/division heads designate an Internal Control Manager ("ICM") to organize and supervise the internal control program in their areas of responsibility. Once appointed by the Department/Division Head, the ICM undertakes the role of coordinator and facilitator of the program, as well as liaison with the Office of the Controller. That individual oversees and monitors the program's activities to ensure the accurate preparation and timely submission of all internal control documentation. The ICM, in turn, works with the testers, activity managers, division heads and other IC staff to compile a list of activities, identify and assess the risks for each activity, develop a system of controls to manage the risks and to periodically test the controls to determine if they are functioning as intended or contain weaknesses.

The responsibility for managing and maintaining the internal control program for NYCT is widely dispersed throughout the organization. The internal control process at NYCT requires that each department/division establish and maintain a system of internal controls. Departments/divisions must perform a self-assessment of existing internal controls for selected high-risk activities each year. Department/Division heads, with assistance from the Internal Control Manager and other dedicated staff, are required to list their major activities, conduct a vulnerability assessment for each activity, develop a system of controls to manage the risk, and schedule activities for testing according to the level of inherent risk. Testing of controls is required to determine whether they are

functioning as intended, and the adequacy of those controls. If weaknesses are revealed during testing, the department must submit an action plan to correct each weakness and a timetable for implementation.

The internal control program at NYCT adheres to accepted standards, both internal and external. The program complies with the provisions and requirements of the Act, the Standards for Internal Control in New York State published by the Office of the State Comptroller and the MTA All-Agency Internal Control Policy. These three publications provide the framework for the internal control effort that is undertaken by NYCT. The ICO, ICC and supporting staff review, interpret and promulgate the guiding principles that are set in place by the State, State Comptroller's Office and MTAHQ for the benefit of the departments/divisions. This is accomplished by the issuance of Internal Control Policy/Instruction 1.8.1, which establishes guidelines for the NYCT based on the information contained in the three principal documents. This Policy/Instruction sets forth the requirements for each department/division to establish and maintain a system of internal controls that conforms to all of the prescribed standards.

Long Island Rail Road

Since the program's inception in 1992-1993 all Long Island Rail Road ("LIRR") presidents, including the current President, Helena Williams, have strongly supported the internal control program by instituting a "top down" methodology. As a result, an ICO was designated to oversee the internal control program at LIRR. Internal Controls, also referred to as Management Controls, are discussed at senior staff meetings throughout the year. To further enhance the efficiency and effectiveness of the Management Control Review ("MCR") Program, in 2008, under the direction of the ICO, the Re-engineering & Internal Controls Department began coordinating and monitoring audits performed by MTA Audit Services and MTAIG.

Throughout the year, senior staff members discuss with their department heads the importance of sound internal control practices and compliance with the Act. Emphasized is the responsibility of department heads to ensure that their managers and supervisors are engaging in sound management control practices on a continuous basis. To aid management and supervision at the department level, each department has a Manager or Managers of Control Assessment ("MOCAs"). MOCAs coordinate all internal control activities on behalf of their departments.

At the corporate level, the administration and coordination of the program is the responsibility of the Chief Financial & Internal Control Officer who delegates the handling of the program to the Re-engineering & Internal Control Directors of Control Assessment ("DCAs"). The DCAs work closely with the MOCAs throughout the year, ensuring that the elements of the Act are adhered to and the LIRR's internal control system is functioning as intended.

The systematic approach for evaluating internal controls is one of "self-assessment" at the department level. With continued support and guidance from

the DCAs, it is the responsibility of each department to identify key business activities, the associated risk and the evaluation of controls.

LIRR's program is administered pursuant to the guidelines discussed above.

Metro-North Railroad

Metro-North's Railroad President Howard Permut has set the appropriate tone at the top by communicating his support for the internal control program. Charlie Wytenus was the ICO for Metro-North Railroad ("Metro-North") during the reporting period. He administers the internal control program and monitors compliance with the program¹. The primary goal is to identify internal control weaknesses and actions needed to correct these weaknesses. The internal control process at Metro-North is governed by Metro-North Corporate Policy 10-008 entitled, Internal Controls, which clarifies responsibilities and describes the process. This policy is compliant with guidelines discussed above.

Metro-North developed an electronic internal control system ("ICS") which mirrors the manual process utilized by Metro-North. Of the 365 internal control reviews processed during the 2008-09 reporting cycle, 60% were conducted on-line. Documents processed on-line include conducting vulnerability assessments coupled with electronic authorizations. Automatically generated E-mails direct the process through departmental administrators and coordinators who guide the process at the departmental level. Metro-North's ICO is the system owner and has authorization, monitoring, and tracking tools, as well reporting tools and a database. Security access is password controlled to authorized users only within their respective departments. In the 2008-09 reporting cycle, submitted paper reviews have been combined with electronic submissions for reporting in this report.

The ICS home page includes active links to the Internal Control System Manual, an updated Internal Control Review Handbook which describe the process for conducting vulnerability assessments and internal control reviews, and the NYS Managers Guide for Testing. Departmental administrators and coordinators work closely with the ICO to guide departmental activities and reporting.

An updated summary of business activities, including vulnerability assessments, is submitted annually to the ICO along with all internal control reviews conducted during the year. Department heads and vice presidents certify departmental and divisional compliance with the provisions of the Act annually. This certification mirrors the Act's requirements for Metro-North. Certification in 2008-09 combined submitted paper certifications along with on-line electronic certifications. Internal control reviews for all activities conducted are maintained on file at the departmental level along with backup documentation, which supports testing activities. All material is subject to review by MTA Chief Compliance Officer and audit by MTA Audit Services.

¹ Mr. Wytenus retired in 2009.

Bus Operations (Long Island Bus, MTA Bus Company, NYCT Bus)²

The President of MTA Bus and Long Island Bus and head of NYCT Department of Buses, Joseph Smith, has communicated his support of the Internal Control program to senior management and staff. ICO Robert Picarelli administers the Internal control program and monitors compliance with the program. In 2008, the internal control programs for NYCT Bus, LI Bus, and MTA Bus were performed independently. In late 2008, internal control program coordinators were advised that the programs would henceforth be coordinated by the Internal Studies & Operations Improvement Division, to ensure consistency and use of best practices throughout the bus operations. This division also is responsible for coordinating external audits of the MTA's bus operations. Accordingly, findings and recommendations made during these audits can be effectively shared throughout the bus operations.

Prior to commencing internal control testing in 2008, MTA Bus performed a limited vulnerability assessment to identify high-risk areas. Testing of depot activities was performed according to prescribed standards. The Internal control program was supplemented by a rigorous audit program conducted by MTA Audit Services. During that period, the scope of that audit program obviated the testing of many functions by MTA Bus.

The bus program is administered pursuant to the Act, MTA Board approved guidelines discussed above and is compliant with Public Authorities Law Section 2931. The program adheres to all guidelines and standards issues by the Office of the State Comptroller, Authority Budget Office and COSO.

Bridges and Tunnels

The President of MTA Bridges and Tunnels (B&T), Susan Kupferman, has communicated her support of the internal control program to senior management and staff. ICO James Elkin administers the internal control program and monitors compliance with the program. B&T conducts its business primarily by reference to written Presidential Policies, its plan of organization, the formal delegation of responsibilities, and departmental procedures. Copies of these Presidential Policies and departmental procedures are maintained within each division as well as by the Authority's ICO. B&T's internal control program to evaluate controls has evolved towards a self-testing process to determine if controls work, and to track corrections to weaknesses that are found.

B&T's program is administered pursuant to the Act, MTA Board approved guidelines discussed above and is compliant with Public Authorities Law Section 2931. The program adheres to all guidelines and standards issues by the Office of the State Comptroller, Authority Budget Office, and COSO.

² Management of the MTA's bus operations – LI Bus, MTA Bus Company (MTA Bus), and NYC Transit Department of Buses (NYCT Bus) – have been integrated, although each retains a separate corporate identity (with NYCT Bus remaining a department of NYC Transit).

Capital Construction

On January 20, 2009, a memorandum from the President of MTA Capital Construction Michael Horodniceanu was sent to all employees reaffirming MTA Capital Construction's ("MTACC") policy on internal control. The memorandum stressed the importance of having an effective and efficient Internal control program, and emphasized management's responsibility to conduct effective management control review, and MTACC's obligation to comply with the requirements of New York State Law and internal control standards developed by the State Comptroller.

Attached to this memorandum was a pamphlet entitled Internal Controls and You. The objective of the pamphlet is to provide employees with a basic understanding of internal controls and demonstrate how controls help meet MTACC's operational goals.

MTACC was formed in July 2003, with the mission to serve the changing transportation needs of MTA's customers for the 21st century by planning, designing and building projects that expand the reach and capacity of the MTA network in a timely, creative and cost –efficient manner.

MTACC focuses on multi-billion dollar projects that will expand the nation's largest regional transportation network. East Side Access will bring LIRR commuters into Grand Central Terminal, creating a terminal on Manhattan's East Side to compliment Penn Station on the West Side. Second Avenue Subway will relieve pressure on the overcrowded Lexington Avenue Line and improve access to downtown Manhattan. The extension of the 7 Line Subway service to the far West Side will provide a link to the Javits Convention Center. Fulton Transit Center will replace the current maze of tunnels and stairways that connect subway lines originally built by the City and various private companies. South Ferry Terminal replaces the existing single track loop with a two-track station providing faster loading and unloading of trains, improved access to the Staten Island Ferry, Battery Park and other Lower Manhattan destinations.

MTACC's ICO Richard Hoffman reports to MTACC's Chief Financial Officer, with an indirect reporting relationship to MTA's CCO. The ICO, with the assistance of Internal Control Coordinators, directs and continually evaluates and accesses MTACC's system of internal control.

Another area of responsibility is to ensure that supervisory personnel have the skill, knowledge and ability to perform their job responsibilities. This is accomplished by establishing levels of knowledge and skill for every position; verifying the qualification of job candidates; and hiring and promoting only those with the required skills and knowledge.

Managers are accountable, for the funds spent on a program and they are required to demonstrate the value of the program and its accomplishments. MTACC's system of internal control gives managers the means to provide accountability for their programs, as well as the means to obtain reasonable assurance that the programs they direct meet established goals and objectives.

While managers have a significant impact on the organization's system of internal controls, every employee has a responsibility and a role in ensuring that the system of internal controls is effective in achieving MTACC's mission.

Program areas and departments are required to establish a detailed risk-based testing plan that closely links control testing frequency to the relative risk defined in each area's vulnerability assessment. This plan allows managers to allocate resources for testing. Using this plan, each area's ICC establishes goals for testing with the ICO. The results of testing are reported to the ICO. In some cases, the ICO performs the testing to further assure independence. Based on the results of the tests a corrective action implementation plan is proposed for the following certification period. A more detailed description of MTACC's process for evaluating internal control can be found in MTACC's Internal Control Training Manual.

B. Establish and maintain a system of internal controls and a program of internal control review for the authority. The system of internal control should be developed using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) conceptual framework adopted in the *Standards for Internal Controls in New York State Government*, and should incorporate COSO's five basic components of internal control: control environment, vulnerability assessment, control activities, information and communication and monitoring.

The program of internal control review shall be a structured, continuing and well documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the authority's internal controls.

Organizations can adopt a system of internal control review tailored to their needs, size and degree of centralization. The procedures for evaluating the adequacy of that system also vary, but at a minimum should:

1. Identify and clearly document the primary operating responsibilities (functions) of the authority;
2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions;
3. Identify/document the policies and procedures used to execute functions;
4. Identify the major functions of each of the authority's assessable units;
5. Develop a process or cycle to assess risk and test controls for major functions;
6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions;
7. Test controls to ensure they are working as intended (see the "Manager's Testing Guide" which can be downloaded from BPRM Item B-350);
8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions.

For this requirement, the authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your authority has taken, or are needed, to comply with this requirement and specifically address the following points:

1. Describe the process used to review the authority's internal controls.
2. List all high-risk activities and indicate which were reviewed during 2008-09.
3. Identify the significant deficiencies revealed during the 2008-09 review process. Outline the actions taken, or planned, to eliminate deficiencies, highlighting the most important improvements made during the year.

4. Describe the monitoring system installed by the authority to verify that corrective actions are taken. Discuss the extent to which IT systems are used to track corrective actions.
5. Summarize specific actions the authority has taken to install a compliance testing program. Describe actions taken during 2008-09 to verify test results and expand the testing program.
6. Describe measures instituted to sustain the effectiveness of the internal control program during 2008-09. Include information on reorganizations and other revisions in the program to enhance operations.
7. Describe efforts the authority management has taken to coordinate and integrate the documentation and reporting of activities the Office of the State Comptroller's *Standards for Internal Controls in New York State Government* recognize as supporting a good internal control system: evaluation, strategic planning and internal audit.
8. Describe efforts the authority management has taken to effectively communicate information within the organization. Information should be communicated to management and other employees who need it in a form and within a time frame that helps them to carry out their responsibilities. Communication is not an isolated internal control component. It affects every aspect of an organization's operations and helps support its system of internal control. The feedback from this communication network can help management evaluate how well the various components of the system of internal control are working.

Metropolitan Transportation Authority Headquarters

Continuing with a program begun in 2007, pursuant to the recommendations of the New York State Internal Control Taskforce, MTAHQ continued to roll out a "targeted marketing" communication program, concentrating on the issuance of department specific e-mails. These e-mails were sent for the second consecutive year to employees of specific departments listing the core elements of internal controls, the name and phone number of their department ICC and encouraging employees to support the program.

MTAHQ's Senior Management continued to support the program by raising the importance of the internal control program to their direct reports during staff meetings.

The ICO distributed booklets on employees' role in the internal control process. The ICC's were again re-trained in the internal control process and then met with their departmental management and updated, revised and reviewed all the major activities and associated risks and controls with them and listed them on "vulnerability sheets" which were done in an Excel format. These listings were reviewed by the ICO with each appropriate coordinator and by departmental management. The coordinators were encouraged to also discuss the "vulnerability assessments" with departmental employees in order to widen

understanding of the program and to encourage greater “ownership.” This process is to be continued during the next few years and supported by expanded training to all employees on the internal control process and goals and with increased “informational meetings” to employees.

MTAHQ will continue the process of cross checking the vulnerability assessments with different departments to see if there are any common concerns or issues which can be addressed. In addition, several meetings are held each year with counterparts in the MTA. These meeting are used to exchange ideas on the program, to discuss strengths and weakness in the program, and to exchange assessments to look for common elements of risk or concerns.

MTAHQ also continued its practice of holding numerous individual one-on-one meetings with department staff to discuss the program and to review their vulnerability assessments.

During 2008-2009 internal controls relative to high-risks activities were identified and reviewed, including the activities listed below:

DEPARTMENTS	ACTIVITIES
Arts for Transit	Server Space for Data Storage Physical Storage of Artwork
Budget	Report Preparation to Finance Committee Establishment of Agency Deficit / Income Targets Preparation (assist in) of MTA Agency Budgets
Corporate Compliance: Internal Controls	Evaluation of Effectiveness of Communication of Program Training Activities on Internal Controls
Comptrollers	PeopleSoft Time Balance Tracking Improvements Accuracy of Payroll Checks with New Software Recordings in General Ledger Back-up System for Check Generation
Construction Oversight	Effective Communication About Special Projects with Impacted Groups
Contract Integrity Monitoring	Participation in Selection Process by Clarifying Reporting Requirements to Bidders Tracking and Review of Contractors to DWM Goals Site Visits (on sample bases) to Contractors
Facility	Building Access Security

Financial Management	Tracking MTAPD Overtime Expenditures
Government Affairs	Effective Interface with Elected Officials to Make Them Aware of MTA Needs
Human Resources	Flexible Spending and Deferred Comp Providers Review Floor security Data Security Background Checks
MTA Police	Weapons Training Random Drug Testing
Office of Civil Rights	Reports Generation Staffing needs
Procurement	Recording and Securing Bid Proposals Use of PeopleSoft System to Process Procurements
Transit Museum	Revenue Generation and Tracking

The performance of internal control reviews and related testing revealed a number of significant deficiencies and other less significant weakness. Corresponding corrective actions were established for the deficiencies, which are listed below.

The Arts for Transit Department found that some artwork was not being stored properly. The department worked with building management to have artwork stored in a proper manner.

The Office of Civil Rights re-trained their staff regarding their role in the contract selection process. They improved DMWBE contract tracking methodology and developed a procedure to improve both the quantity and quality of site visits in 2009 for this purpose.

MTA Corporate Compliance: Internal Controls Department, re-evaluated the communication plan of the internal control program and found that the need exists for expanded training and education. A new training program is being developed with a planned implementation in late 2009.

Upon review, Corporate Compliance determined that some MTA policies were out of date or no longer applicable. Consistent with good internal control, Corporate Compliance has undertaken a long range program to update and modify MTA policies and procedures as necessary.

The Human Resources Department built a security entrance door in the recruitment area, addressing a safety concern. The Deferred Compensation area selected a new vendor to address a lack of service that employees had expressed over the prior vendor.

The Chief Compliance Officer met with the Information Technology Department to discuss controls designed to limit access to certain data types.

Corporate Compliance will be working with building management on a corrective action plan to address issues with building security.

Comptrollers and Human Resources continue to have administrative problems over some timesheets not being processed properly. However the rate at which this is occurring has decreased over the past year. The problem centers on employees' failure to correctly complete or timely file their timesheets. In addition, managers are not reviewing timesheets in a timely manner. The matter will again be raised to management for resolution.

The MTA is currently implementing shared services under which certain administrative and technology areas will be transferred to the Business Service Center. As shared services is developed, there may be greater accountability and transparency.

MTAHQ management is required to respond to internal audit recommendations with a corrective action plan detailing steps that have or will be taken to address the recommendation. Beginning in 2009, Corporate Compliance will monitor all outstanding audit recommendations and report to the MTA Audit Committee all audit recommendations that have exceeded six months beyond their planned implementation date.

In departments in which it was determined that corrective actions was needed, the ICC met with the appropriate level of management to address the item. The ICO also discussed the matter with the coordinators and appropriate management.

Both the audit recommendations and the vulnerability assessments are stored electronically. As in the past, hard copies of the list of vulnerability assessments will be sent to Senior Management.

Vulnerability assessment sheets for 2007-2008 were sent to all departments through their ICCs. The sheets were reviewed and modified where necessary. The ICCs met with departmental management to update the vulnerability assessment. Some new risks were added, some changed, some deleted as major business activities changed. Controls included on the vulnerability assessments were reviewed and researched by the coordinators individually or with departmental management. Each vulnerability assessment was "ranked". Items listed as "high" are tested annually, other rankings have a schedule for testing from once every three years to once every five years.

Each department, with the assistance of its ICC, is required to establish a testing plan which will be used for testing in that department. These standards must be consistent with the training which the coordinators receive from the ICC.

Test results were reviewed with departmental management, and items where corrective actions were required were noted and will be monitored.

MTAHQ has expanded its communication efforts in 2008 with "open Q&A sessions," expanded e-mail notices, and one-on-one meetings with ICCs to educate them on how to "market" the program. In 2009, we will begin a mandatory training program on internal controls to managers and employees.

Senior management published the key strategic objectives of the organization on the intranet and internet and in internal publications.

Copies of all the vulnerability assessments are made available to both MTAHQ's internal auditors and external auditors.

MTAHQ has an ongoing ethics training program that covers all employees and levels. This program is conducted with assistance of a representative from the MTA Inspector General's Office and a representative for the NYS Commission on Public Integrity. This program along with other forms of communication, such as posters, help to reinforce the importance of ethical values and integrity.

Senior management has conducted a series of meetings where employees have been encouraged to bring forth work suggestions and opinions.

The ICO continues to work with senior management to improve controls where necessary.

New York City Transit

NYCT is the largest mass transportation system in the US. It provides subway, rail, bus, and paratransit services to the five boroughs of New York City. NYCT, through its mission statement, endeavors to provide customers with safe, convenient, comfortable and reliable train and bus service by the efficient and effective utilization of human, physical and financial resources. In pursuit of these goals, management and staff in the various operating and administrative functions understand the importance of working together to ensure that the customer base receives the best service that can be provided by the available resources. The President, Executive Staff and management, supported by professional, technical and administrative personnel, unite to form a team that achieves these objectives.

Because of the complexity of its business operations, NYCT must comply with a vast number of federal, state and local laws. In addition, it is subject to rigorous scrutiny and oversight by regulatory agencies such as NTSB, FTA, OSHA and the New York State Department of Labor. NYCT is also guided by internal policies and procedures that outline and provide detailed instructions on how to perform the major tasks within the organization.

As noted above, the Internal Control process at NYCT is specified by Internal Control Policy/Instruction (P/I) 1.8.1. and sets forth the requirements for each Department to establish and maintain a system of internal controls. The NYCT program is based on vulnerability assessments and the ranking of activities based on the level of risk they each contain. Departments must identify all major activities, determine the level of risk and develop a system of controls to counteract the risk. The next step is to perform a self-assessment of existing internal controls for selected high-risk activities on an annual basis. Testing of controls is required to determine whether they are functioning as intended, and the adequacy of those controls. If weaknesses are detected, the department must submit an action plan and timetable for addressing and resolving the deficiencies. The implementation of each corrective action is reviewed and monitored by the Office of the Controller.

During 2008-2009, internal controls relative to high-risk activities were identified and reviewed, including the activities listed below:

DEPARTMENT OF SUBWAYS:

Maintenance of Way / Electronic Maintenance Division:

- Electronic Equipment Testing, Inspection, and Maintenance of Subway and Bus Radio Communications Systems
- Electronic Equipment Testing, Inspection, and Maintenance for Subway Emergency Alarms and Telephones
- Security Equipment Installations – CCTV, Alarms, Monitoring Devices
- Prevention of Unauthorized Access to Areas within the System Maintained by EMD
- Payroll and Timekeeping
- Electronic Equipment Testing, Inspection, and Maintenance for Fire and Hazard Alarms/Suppression Systems In Buses and Depot Facilities Including Depot Gas Detection Systems

Maintenance of Way / Administration

- Employee Compliance: Workplace Safety Inspections, Audits, OSS Directives
- Employee Training: Safety Training, Work-Related Training, Employee Development
- Central Payroll, Timekeeping and Check Distribution
- Central Material Control: Usage Forecasts, Inventory Management and Requisition Control
- Procurement Card Administration
- Drivers License Monitoring

Maintenance of Way / Engineering:

- Structural Iron and Automated Track Inspections
- Safety Training and Usage of Personal Protective Equipment
- Maintenance of Way / Track: Third Rail Maintenance
- Capital Construction Projects and CPM Support
- Fabrication: Track Panel and Continuous Welded Rail

Maintenance of Way / Infrastructure:

Structures Maintenance Work: Work Order Repairs and Trouble Calls
Flagging
Hearing Conservation

Maintenance of Way /Electrical:

Power On/Off Procedures
Equipment Testing and Inspections/Power
Equipment Testing and Inspections/Signals
Emergency Response and Trouble Calls/Signals
Flagging/Power
Access and Protection/Power
Prevention of Unauthorized Access to Areas Within the Subway
System/Signals
Prevention of Unauthorized Access to Areas within the Subway
System/Power

Division of Service Delivery Operation:

Protection of Social Security Numbers
Lost Property
Bulletins and Notices
Hearing Conservation Program
Procurement Card Administration
Track Flagging

Division of Rapid Transit Operation:

Injury on Duty (Injury on Duty Procedure)
Monitoring Fitness for Duty
Unsafe Acts by Customers
Side Door Drags
Door Opened Outside/Wrong Side
Asset Control - Radios
Rail Control Center Operations Communications - Proper Handling of
Emergencies
Rail Control Center Operations Communications - Inclement Weather
Hearing Conservation
Procurement Card Administration
Track Flagging

Division of Stations Operations:

Fare Media Sales - Service Booth Operations
Station Maintenance Operations
Station Cleaning Operations
Fire and Smoke Conditions (Fire Prevention)
Fire and Smoke Conditions - Emergency Response and Evacuation
Injuries on Duty Procedures
Hearing Conservation Program
Safety Training
Procurement Card Administration
Track Flagging

Division of Car Equipment:

- Safety Boot Distribution
- Computer Equipment Disposal
- Yard Safety Procedures
- Shop Safety Procedures
- Car Wash Operations
- Protection of Social Security Numbers
- Hearing Conservation Program

Staten Island Railway:

- Procurement and Materials - Inventory Management
- Signal Inspection
- Revenue Equipment Inspection
- Treasury: Check Signing
- Protection of Social Security Numbers (Employee Accident/Injury Reports)
- Protection of Social Security Numbers (Personal and Related Employee Records)
- Hearing Conservation Program

Division of Security

- Access to Loading Docks & Receiving Areas - Livingston Plaza
- Challenging for Pass ID Policy and Procedure
- Visitors Policy and Procedure - Jay St. and Livingston Plaza
- Field Incident Reporting Policy and Procedure
- Contractor Access Pass and Procedure
- Protection of Social Security Numbers
- Procurement Card Administration
- Verifying Employee Driver Licenses

Department of Buses

- Depot Scheduled Maintenance
- Vehicle Accountability
- Bus Cleanliness
- Diesel Fuel Meets Contract Specifications
- Diesel Fuel Inventory Reconciliation
- Worker's Compensation Claim Administration
- Awarding and Monitoring Contracts
- Central Maintenance Facilities Scheduled Maintenance
- Bus Driver 19A Certification
- Facilities Scheduled Maintenance
- Oversee and Manage Contractors Responsible for Compressed Natural Gas Stations
- Warrantee Claims
- Paratransit - Vehicle Accountability
- Paratransit - Scheduling Service

Department of Capital Program Management

- Consultant Payment Verification
- Contractor Payment Verification
- TA Labor Verification

Emergency Response Compliance
Civil/Structure Engineering Compliance
ISO-14001 Environmental Management System (EMS) Internal Audit
Compliance
Procurement Card Administration
Electrical Engineering Compliance
Program Coordination Compliance
Quality Compliance
Schedule Control Compliance

Department of the Executive Vice President
Office of the Controller

Treasury / Disbursements
Monitoring Capital Project Reimbursements
Processing Replacement of MABSTOA Pension Checks and Direct Deposits
Processing Utility Bills and Other Miscellaneous Disbursements
Processing Payments Against Manual Purchase Orders
Processing Family Court and Support Payments
Protecting Social Security Numbers

Engineering Audit
Certifying Vendor Payments

Operations Accounting
Maintaining an Efficient Labor Distribution System
Cash Clearing (24010) Reconciliation
Calculating the Reserves for Sick and Vacation, Worker's Compensation and
Public Liability
Bank Reconciliations
Producing the Monthly Ledger
Death Benefit Payments
Garnishment System
Protection of Social Security Numbers

Payroll
Review and Approve Access to Payroll Systems That Affect Employees'
Gross Pay
Production of Online Checks
Review of Advanced Vacation Recovery
Protection of Social Security Numbers

Timekeeping
Calculating Weekly Adjustments to Pay for Operating Supervisors
Lump-Sum Payment to Terminated or Separated Employees
Protecting Social Security Numbers

Capital Payments
Contractor Payments
Process Release of Retainage

Process Final Payments

Capital Accounting

Control Letters of Credit

Monitoring for Compliance with Prompt Payment Law

Preparation of the Capital Engineering Cost Allocation Plan

Control and Coordinate the Recording, Analysis and Disbursing of Third Party

Contract Payments and Documentation

The Receipt, Recording and Timely Billing of All Force Account Expenditures

Procedures and Internal Controls

Quality Forecast of Actual Budget Expenses

Data Input into Pillar

Oversee the Internal Control Program

Oversee the Controlling and Safeguarding of NYCT Furniture and Equipment

Protection of Social Security Numbers

Office of Management and Budget

Report Ridership Numbers

Quarterly Hiring Plan

Monthly Management Reports

Monthly Reports to the MTA Board

Year-End Review of Expenses

Protecting Social Security Numbers and Other Sensitive Information

Division of Operations Planning

Timely and Proper Payment of the Hourly Full-Time and Part-Time Workforce

Ensuring that the Automated Traffic Clerking (ATC) System Functions with

Valid Ridership/Performance Data

Division of Government and Community Relations

Monitoring Visitor's Request to Tour NYCT Facilities

Division of Supply Logistics

Vendor Receipts

Issuance Of Material to End Users

Receipt and Issuance of Tools

Control of High Pilferage Items

Inventory Adjustments

Procurement Card Administration

Division of Materiel

Review and Validate a Fair and Reasonable Determination for Procurements

Below the Cost / Price Analysis Unit Threshold

Monitor Vendor On-time Performance

Maintain an Accurate and Current Bidder's List

Perform Timely and Accurate Cost/ Price Analysis

Establish Inventory Receipts/Issue Budget and Monitor Inventory During the

Course of the Year

Fax Machine Maintenance Contract

Processing IBM and Unisys Invoices
Collection and Disposal of Refuse
Protecting Social Security Numbers
Procurement Card Administration

Division of Revenue Control
Transport and Secure MetroCard Vending Machine (MVM) Revenue
Process MetroCard Vending Machine (MVM) Revenue
Transport and Secure Subway Booth Revenue
Process Subway Booth Revenue
Conduct Revenue Vault Operations
Oversee Operation and Maintenance of Security Equipment/Systems at
Revenue Control Facilities
Provide Oversight of Contracted Armed Security Services of Protection of
Revenue, Fare Media, and Employees
Procurement Card Administration

Office of Equal Employment Opportunity
Pre-complaint and/or Intake Process
Prepare Letters from the President on EEO and Sexual Harassment
Protect and Safeguard Social Security Numbers
Generate Quarterly Progress Against Goals and Workforce Analyses Reports
Review Personal Action Reports
Conduct Analyses of Job Vacancies
Prepare Annual Report to the Governor's Office of Employee Relations on
Sexual Harassment Complaints

Division of Telecommunications & Information Services
Develop and Maintain Automated Fare Control Application
Develop and Maintain the Capital Accounting and Payments System
Develop and Maintain the Labor Distribution System
Support and Maintain the CPM CADD System. Prepare the CADD Drawing
Standard as well as Software and Hardware Standards
Develop and Maintain the Payroll Application
Develop and Maintain the Fixed Asset Control System
Develop and Maintain the ParaTransit Taxi Reimbursement System
Develop and Maintain a Working Pick System for the Department of Buses
and RTO
Develop and Maintain a Working Crew System for the Department of Buses
and RTO
Develop and Maintain a Timekeeping System for the Department of Buses
and RTO
Develop and Maintain NYCT Internet /Intranet Application – MTA NYCT
Internet Site
Monitor the Capital Program Software Design by Outside Vendors for the
Public/Customer Information System (PA/CIS) for the Canarsie Line
Manage the Implementation and Testing of the Public Address/Customer
Information System (PA/CIS) Phase II Project for 156 Stations on IND
Division
Maintain the Automatic Train Supervision, Subdivision A (ATS-A) System

System Maintenance of the 63rd St. Queensborough Connection
Control TIS/ITS Project Software Code and Documentation
Update and Maintain the Department of Buses Incident Reporting Application
Develop and Maintain the Commodity Management System (CMS)
Applications
Implement and Maintain Spear Technologies' Computer Maintenance
Management System (CMMS)
Develop and Maintain the Synopsis Application
Production of Payroll, Pension and Accounts Payable Checks
Maintain Subway Service Performance Application
Manage Unisys Contract # 03A8602-2 for SLA 4.3.1- Timely Resolution of
Level 1 Problems
Manage Unisys Contract # 03A8602-2 for SLA 4.3.2- Timely Resolution of
Level 2 Problems
Manage Unisys Contract # 03A8602-2 for SLA 4.3.3- Timely Resolution of
Level 3 Problems
Verification and Approval of Unisys Invoices for Payment on Contract #
03A8602-02
Develop and Maintain Critical Subway Work Train Manifest Applications
Manage the Change Management Process
Maintain the Division of TIS Procurement Function
Security Monitoring for Remote Access
Security Monitoring for Firewall Access
Provide Support for Blackberry Enterprise Server and Blackberry Personal
Digital Assistant (PDA)
Network Intrusion Detection and Prevention
Facilitate the Establishment and Maintenance of Data Recovery Plans for
Critical Systems
Administration of the Procurement Card Program in the Subdivision of
Information Security and Controls
Maintain, Code and Migrate Application Projects via the Software
Configuration Library Management (SCLM) System

AFC Program Management & Sales Operations:
MVM Debit/Credit sales reconciliation
Safeguard and Control Debit/Credit Card Information
Detect and Investigate Potential Fraud Activities
Process MetroCard Negative List Requests
Procurement Card Administration

DEPARTMENT OF LAW:

Authorizations of Payments to Claimants for Worker's Compensation and
Differential
Authorization of Payments to Medical Providers for Claimants' Medical Bills
Corporate Record Administration – Retain Agency Records
Special Investigations Unit - Investigation of Possible Worker's Compensation
Fraud
Procurement Card Administration

DEPARTMENT OF ADMINISTRATION:

Office of Labor Relations

Mail Processing

Division of Human Resources:

Administer Procurement Card Charges

Maintain Protection of Social Security Numbers

Administer MaBSTOA Pension Payments

Administer Employee Tests

Occupational Health Services:

Random Alcohol and Drug Testing

Maintain Medical Records

Special Investigations and Reviews:

Sick Investigations

Use of Transit Issued Gas Card

Procurement Card Administration

DEPARTMENT OF CORPORATE COMMUNICATIONS:

Ensure Compliance with the Hearing Conservation Program (HCP)

Perform TBT/MetroCard Sales Operations for Mobile Sales

Monitor Contracts to Ensure Timely and Accurate Payments

Protection of Social Security Numbers

Coordination of Special Event Productions Involving Outside Parties

Dissemination of NYCT Policy and Customer Information

OFFICE OF SYSTEM SAFETY:

Hazardous Waste Management:

Site Evaluations

P/I Compliance Oversight/Technical Asst.

Contract Management/Administration

Compliance With the Clean Air Act (CAA)

Employee Exposure Assessments - Job Task Evaluation

Employee Exposure Assessments - Chemical Product Evaluations

Protection of Social Security Numbers

Hearing Conservation Program:

Data Analysis

HCP Audits

HCP Reporting

HCP P/I Maintenance

Mercury Bulb Recycling Contract

NYS Dept of Labor (DOL) SH-9000 Summary Report

NYS Dept of Labor (DOL) SH-9000 Log Report

Protection of Social Security Numbers

Procurement Card Administration

Oversee the Performance of Asbestos Abatement by Asbestos Abatement

Contractors and Asbestos Consultants Management at Various Locations

Throughout the System.

- System Safety Program Plan Audit – DOB & DOS
- Joint OSS/TWU Track Safety Inspections
- Investigate Collisions and Derailments
- Investigate Fatal Employee Accidents
- Investigate Near Miss Incidents
- Investigate Multiple Injury Collisions
- Investigate Fatal Accidents
- Investigate Mechanical Failures and Bus Fires
- Witnessed Acceptance Testing of Fire Detection and Suppression Systems
- Witnessed Quality Control Emergency Brake Testing

The performance of internal control reviews and related testing revealed a number of significant deficiencies and other less significant weakness. Corresponding corrective actions were established for the significant deficiencies, which are listed below.

During the previous fiscal year, NYCT continued to enhance the internal control function by increasing the level of training and expanding the performance statistics that were distributed to each department/division. The improved process based on vulnerability assessments and ranking of activities was further developed in 2008-2009 through a new training program for testers, activity managers and division heads. This program was implemented to ensure that all participants in the internal control program receive increased training in three specific categories as stipulated by the State Division of the Budget. The Office of the Controller conducted its annual training seminar in July, 2008, while continuing to meet regularly with ICMs and other internal control personnel for individual training throughout the reporting period. Additional training and sharing of information has led to improvements in the timeliness and quality of completed internal control reviews. In addition, the Office of the Controller utilized organizational charts to ensure that all departments/divisions were represented in the internal control program and were reporting all their activities. This methodology resulted in an increase in the number of activities reported and tested in 2008. Another improvement was the expanded use of MTA Audit Services audit reports to validate the assessment of activities that were tested during the current reporting period. This has led to additional weaknesses being identified and reported. NYCT Senior Management also instructed all departments/divisions to continue the implementation and testing of controls that pertain to the protection of social security numbers and other sensitive information. In addition, the overall concepts of strengthening controls, heightened awareness, and fiscal responsibility have been stressed throughout the year, which resulted in improved assessment and reporting. Significant deficiencies are noted as follows:

DEPARTMENT OF SUBWAYS:

- Maintenance of Way / Electronic Maintenance Division:
 - Activity: Electronic Equipment Testing, Inspection and Maintenance for Fire Alarms and Hazard Alarms/Suppression Systems in Bus Depots and Facilities Including Depot Gas Detection Systems

Weakness: From January to May 2008, inspection headcount was 40% understaffed as 8 out of 20 positions were vacant. As a result, inspections were not performed at the beginning of the year and it was not possible to recover production once the positions were filled.

Corrective Action:

Complete the annual inspections at East NY, West Farms, Gun Hill, Queens Village, Casey Stengel and Zerega Depots by 03/31/09.

Maintenance of Way / Infrastructure:

Activity: Hearing Conservation Program

Weakness: All personnel in the Hearing Conservation Program (HCP) were not tested or trained during the calendar year as is required.

Corrective Action:

All personnel in the HCP will be tested and trained.

Division of Service Delivery Operations:

Activity: Hearing Conservation Program (HCP)

Weakness: 1,060 employees (18%) included in the Hearing Conservation Program (HCP) did not receive training within six months of inclusion and annually thereafter.

2,725 employees (45%) included in the Hearing Conservation Program did not receive audiometric testing annually (including baseline audiograms) within six months of the exposure at or above 85db.

Corrective Action:

In order to improve compliance with the HCP requirements for training and testing, a Plan of Action (POA) has been implemented to ensure that employees receive training and testing within six months of inclusion and annually thereafter.

All employees who are in the HCP will be scheduled for audiometric testing and training during their birth month. Employees who do not report for testing and training on their scheduled date will be rescheduled. Employees who miss a second date without a valid reason (e.g.: vacation, emergency AVA, sick) will be disciplined and may be removed from service until the required testing and training is completed.

Division of Car Equipment (DCE):

Activity: Protecting Social Security Numbers

Weakness: There was no evidence of a consistent practice or removing Social Security Numbers from seven employee forms that contain this information prior to distribution. These forms were not hand delivered to recipients in other departments on a regular basis.

Corrective Action: DCE will consult with other divisions and the Controller's Office to identify methods used to safeguard seven types of documents that contain complete social security numbers when they are transmitted or delivered to other departments. The alternatives will be presented to DCE Senior Staff in order to form a consensus and to implement appropriate uniform corrective measures throughout the Division. Corrective action may include methods such as using only the last four digits of the social security number or hand delivering the documents and obtaining receipts for those deliveries or other practical methods discovered during the course of the consultations.

Activity: Hearing Conservation Program (HCP)

Weakness: No record of Hearing Conversation Training or Audiometric Testing for some employees in HCP. No record substantiating the fact that, prior to baseline audiograms, RC managers notified employees and supervisors, in writing, of the requirement for 14 hours of "quiet time" before testing.

Corrective Action: The Hearing Conservation Representative will assist the Chief Mechanical Officer (CMO) in issuing a reinstruction to RC Managers stressing the requirement of sending all employees in the HCP for annual training and audiometric testing. The reinstruction will also reinforce the mandate to notify employees and supervisors, in writing, of the requirement for 14 hours of "quiet time" before testing. The notification form developed by the HCR will be included with the reinstruction. The reinstruction will include instructing RC Managers to send "14 hour" notifications to the HCR.

DEPARTMENT OF SECURITY:

Activity: Procurement Card Administration

Weakness: During 2008-2009, charges were incurred that were not consistent with NYCT's Procurement Card Policy and Procedures.

Corrective Action: The Procurement card privileges of the employee in question have been suspended indefinitely. There will be increased management oversight of purchased made using the procurement card.

Department of Buses:

Activity: Depot Scheduled Maintenance

Weakness: The computer system used to track defects does not create work orders in a timely manner. As a result, work orders must be created manually.

Corrective Action: The vendor has been notified and will correct the problem so that work orders will be generated by the system

Activity: Warranty Claims

Weakness: The process used to identify and track warranty parts and service does not include an automated system and trained personnel. As a result, DOB does not maximize its opportunities for recovering the costs of maintenance and repair covered under warranty.

Corrective Action;

Warranty Department management will work with TIS to roll out the SPEAR maintenance system to track work orders and identify charges that qualify for reimbursement as warranty claims. Warranty claim responses will be analyzed, and rejected claims challenged when necessary to ensure that all reimbursable costs are recovered.

Department of Executive Vice President:
Office of the Controller:

Activity: Processing of Replacement of MABSTOA Pension Payroll Checks and Direct Deposit.

Weakness: Delay in updating deceased retirees' records, and cancelling their direct deposit payments.

Corrective Action; Need to update the Pensioners' information on a regular basis in order to prevent the continuation of payment to deceased retirees.

OFFICE OF SYSTEM SAFETY

Activity: Hazardous Waste Management Contract
Management/Administration

Weakness: Inaccuracies resulted in the type and quantity of waste being misclassified by the generating department. Waste was manifested and transported as non-hazardous; however, the results from the contractor indicate that the waste was actually hazardous. Three invoices overcharged for the services or disposal provided. Three invoices undercharge for the disposal provided. Other duties, related and not related to management of this contract, resulted in invoices not being processed in a timely fashion.

Corrective Action: This incident, in which the hazardous waste was misclassified as non-hazardous, was resolved at the time that it was discovered by the contractor. The invoices that contained overcharges were red-lined prior to payment. No corrective actions were taken for the invoices that undercharged. The database is being re-designed to require the contractor to correct erroneous data input regarding billable amounts and associated line items in order to be reimbursed for services provided. The employee responsible for this activity received three months of cross training and is now proficient. Therefore, no further action is currently required. The duties directly related to the management of this contract impact the ability of the contract manager to pay invoices within five days of the receipt. These

will be assessed to determine if the process can be streamlined. The database is currently being redesigned, and will mitigate this type of error when the update is completed. Until then, the employee who prepares the DCRs will be mindful of this requirement.

Activity: Employee Exposure Assessments/Job Task Evaluations

Weakness: The Revenue Equipment Maintainers continue to be exposed to hazardous noise levels when maintaining equipment located in proximity of train tracks. Welding room ventilation at Grand Avenue Depot CMF is inadequate for large scale projects. The Court Street Superintendent's Office required a cleaning and disinfecting from a sewage flood. The 207th Street Overhaul shop: Noise during drawbar rebuilding by Car Maintainer A. Grand Avenue Depot: Noise generated by emergency exhaust fan use. The Amsterdam Depot: Noise during fueling by Chassis Maintainers (CM) and Maintainer Helpers (MH). Mother Clara Hale Depot: Hazardous noise levels during a tank evacuation and concrete chipping project. 180 Livingston St. 4th Floor: Uneven air circulation identified during an Indoor Air Quality Study. Storeroom # 55: Standing water and mold growth.

Corrective Action Revenue Maintainers must remain in the Hearing Conservation Program. Grand Avenue Depot Central Maintenance Facility's (CMF) welding room must be brought into compliance with ventilation criteria for large scale welding projects by CPM. The Court Street Superintendent's Office has been cleaned and disinfected.

207th Street Overhaul Shop: CMAs must remain in the HCP (drawbar activity added to Appendix A of HCP P/I). Grand Avenue Depot: Reduce noise exposure from exhaust fans through engineering or administrative controls. Per CPM the corrective actions can only be performed in the warmer seasons. Amsterdam Depot: CMs and MHs must remain in the HCP (fueling activity added to Appendix A of HCP P/I). Mother Clara Hale Depot: institute engineering and administrative controls for noise during a tank evacuation, and enroll employees overseeing the activities into the HCP. 180 Livingston Street: Building Management balanced the air distribution system for the 4th floor. Storeroom #55: Mold Growth has been cleaned up. CPM is exploring possible corrective actions to stop the source of water intrusion.

Activity: Employee Exposure Assessments Chemical Product Evaluations

Weakness: Two toxicological reviews were not date stamped as a result of improper processing on the part of the clerical IH staff. User Department/ Division utilized products without prior approval from OSS. Storeroom personnel do not have information readily available regarding approvals for product use in order to control dispensing of chemical commodities.

Corrective Action: The written procedure for toxicological reviews was revised to include verification of a stamped date. The Dept./Div. Chemical Safety

Representatives were notified immediately after the discovery of the problem and instructed to take appropriate action to ensure that all products were submitted to OSS for evaluation. Materiel is currently working on a database that will identify divisions approved to use specific products. The matter will be referred to Supply Logistics once the database is complete. OSS will inquire quarterly on the completion status.

Activity: Hearing Conservation Program (HCP) Data Analysis

Weakness: Incomplete and untimely notification to OSS by OHS. Noise assessments of 8 job titles are pending.

Corrective Action: OSS met with OHS (Asst. VP and two Senior Directors) to remind them that they must indicate the type of hearing loss in quarterly reports and submit to OSS written notification for all STS cases within 21 days. OHS informed OSS that they will re-instruct physicians in an upcoming meeting. OHS has completed some training of the physicians and the effort is ongoing. OSS will re-evaluate OHS' compliance. OSS will assess at least 4 Job Titles for which no noise monitoring data exist.

Activity: Hearing Conservation Program – HCP Reporting

Weakness: Thirty-three out of thirty six submittals indicated noncompliance with the HCP training and audiometric testing requirements.

Corrective Action: OSS met with the Hearing Conservation Representatives (HCRs) and reinstructed them to comply with the OSHA and HCP P/I requirements. In addition, the HCRs were instructed to develop an action plan to attain 100% compliance with training and testing. OSS sent memoranda to Department/Division Heads indicating the need for improvement of compliance rates and development of an action plan. The action plan must describe how compliance will be achieved and monitored. OSS will evaluate the action plans upon receipt.

Activity: Hearing Conservation Program – HCP Audits

Weakness: Noncompliance with the Mandatory HCP Training and Audiometric Testing. Noncompliance with the Mandatory HCP Training and Audiometric Testing. Noncompliance with mandatory use of PPE

Corrective Action: OSS issued memoranda to the DOB Department Head detailing the results of all audits and requesting that appropriate actions be taken. OSS instructed Dept. Heads to ensure compliance with PPE use. Divisions where noncompliance with PPE was identified in 2008 will be re-audited.

Activity: Hearing Conservation Program – HCP P/I Maintenance

Weakness: The first quarter update was not submitted to Technology & Information Services by SARD (Safety Analysis Review & Development) for

posting on TENS in a timely manner. Due to the Director's unanticipated and unexpected leave of absence, the 2nd quarter updates were approved for posting on TENS along with the 3rd quarter updates.

Corrective Action: The designated staff member who has been assigned to follow-up on the quarterly updates must be copied on correspondence to ensure updates are posted on TENS in a timely manner. The manager delegated with the Director's duties can approve quarterly prior to posting on TENS.

Follow-up on corrective actions taken to eliminate weaknesses is performed by departmental personnel. The results of the Departments' review are monitored by the Office of the Controller. A schedule of control weaknesses, corrective actions, and dates of completion has been prepared. The ICO corresponds with each ICM to ensure that all action items are completed satisfactorily and timely, if cost beneficial. The status of weaknesses and related resolutions is tracked via electronic systems.

Except as stated below, all divisions/departments that identified weaknesses during the 2007-2008 internal control review process have provided documentation to the Office of the Controller to demonstrate that the appropriate corrective actions, necessary to correct those deficiencies, were properly implemented.

For one activity (Hearing Conservation Program) the Division of Occupational Health Services did not implement one component of the corrective actions that were necessary to address a weakness that was noted during testing in 2007. The outstanding corrective measure for this activity will be carried forward and implemented in 2009.

NYCT has always incorporated compliance testing in conducting internal control reviews. NYCT developed "Departmental Guidelines for Evaluating and Reporting on Internal Control Systems" to provide instructions on how to conduct both vulnerability assessments and internal control reviews. Testing procedures conform to the NYS Division of the Budget Manager's Guide. Training on testing has been provided to personnel directly involved in the review process. Internal Control Managers have been trained on test methods, identification of testing techniques, and retention of documentation to support such transaction testing. Testers, activity managers and division heads were trained in the various aspects of the internal control program. In addition, organizational charts were used to help identify unreported activities while completed reviews were compared to independent audits conducted by MTA Audit Services to validate the opinions that were rendered on controls. These techniques have been communicated to those performing the actual testing of controls.

NYCT is continually exploring opportunities to enhance its implementation of the requirements of the Act. In addition to an Internal Control Policy and in-house developed Departmental Guidelines which have been distributed to all departments, NYCT has been an active participant with the MTAHQ in

developing and enhancing agency-wide guidelines on internal controls. The internal control program has been upgraded to include vulnerability based testing, listing of all high, medium and low risk activities, and a consolidation of several forms into one testing record. Training continues to be provided by the Office of the Controller through an annual training seminar, expanded training for all internal control personnel involved in the program during the current year and individual sessions with Internal Control Managers and other individuals as requested.

During 2008-2009, NYCT instituted a number of initiatives to sustain the effectiveness of the internal control program. A number of departments and divisions were reorganized or streamlined in order to more effectively deploy resources. Organizational charts were utilized to ensure that all departments and activities were reported. MTA Audit Services reviews were referenced in order to validate the opinion on controls for activities that were audited during the past year.

NYCT has been proactive in coordinating and integrating the requirements of the State Comptroller's Standards for Internal Controls in New York State Government that support a good internal control system. This is reflected by the fact that the recently updated Policy/Instruction (P/I) on Internal Control Policy cites the Office of the State Comptroller as a major source of the information contained therein. The P/I refers to, and in some cases incorporates excerpts from, the standards that are enumerated in the State Controller's guidance. These references include, but are not limited to, the definition and purpose of internal control, the specific techniques that provide the greatest assurance of a strong system of control and the five components of an internal control program.

The P/I also contains instruction regarding the ongoing evaluation of activities, risks and controls and the periodic testing of controls to ensure that they are functioning as intended; strategic planning to focus on the long range goals of the organization in an effort to achieve its mission; and the role of the Internal Audit function to perform independent reviews of the internal control function to assess the effectiveness of the program and recommend changes if necessary. This information has been widely distributed throughout the organization and has become a part of the annual training effort. By recognizing and incorporating these important concepts from the Standards for Internal Controls in New York State, NYCT has enhanced the quality and effectiveness of its internal control program.

NYCT has developed a multi-faceted approach to effectively communicate information within the organization. Formal memoranda from top management are distributed through a number of media channels to apprise staff of important issues and changes that will be taking place. The specific means of communication includes distribution with paychecks, mass e-mail, posting on the intranet and via interoffice mail. These methods are also used to distribute policies, procedures, directives and brochures that deal with a variety of topics. Formal meetings and training seminars are convened to provide guidance, instruction and feedback on specific topics of interest.

There are also financial and management reports that provide insight into the results of operations and audit reports that indicate the compliance of the organization with the applicable laws, rules, regulation, policies and procedures that govern the numerous activities that are undertaken by NYCT. When taken together, the numerous forms of delivery provide NYCT with an effective communications network that ensures that information is conveyed in a timely manner to those who need it.

Long Island Rail Road

The Agency is divided into two principal groups: Operations and Non-Operations. Operations is primarily responsible for train movement and terminal operations (Transportation), maintenance of electric and diesel fleets (MofE), maintenance of right of way, including track, signals, communications, power and buildings & bridges (Engineering) and passenger services, including ticket offices, TVMs and station operation (Passenger Services). Non-Operations is comprised of all administrative departments which supports Operations (i.e. Legal, Finance, Public Affairs, and Information Technology). Both groups work together to support the LIRR's basic fundamental concept of providing safe and reliable transportation. This structure supports a control environment whereby ethical values, integrity, worker competency, managerial directive and employee development make up the philosophical control consciousness of the organization. The control consciousness of the LIRR results in a risk level being assigned to all major business activities. The higher the assigned risk level, the more closely the activity is monitored with its controls being evaluated on a more frequent basis. The established risk ranking for control evaluation and testing is as follows: every year (Very High), every other year (High), every three years (Moderate) and every four years (Low). Statistically, eighty seven percent of the business activities risk ranking ranges in the Very High to Moderate category. The primary control techniques which support the control evaluation process are documentation and recordkeeping, authorization of transactions, segregation of duties, supervision and security of information and data. Policies and procedures, logs and records, supervision and a structure based on corporate organization charts and the various levels of data security are all examples of the control techniques which support the internal control program and enable each department to effectively monitor their internal control system.

During 2008-2009, internal controls relative to high-risk activities were identified and reviewed, including the activities listed below:

Very High Risk Activities Reviewed during 2008-2009

- Employee Accident Reporting & Counseling (All Departments)
- Train Accident Reporting (Transportation, Equipment and OSA for Engineering)
- Vendor Maintenance (Controller)
- Manually Match TOM Tour Deposit Amount as Reported in CSS to Bank's BAI File (Controller)
- Comparison of Estimates & Budgets vs. Actual Expenditures (Engineering)
- Monitor Health & Welfare Plans (Human Resources)

Compensatory Time (Budgets)
Inventory and Control of Ticket Stock (Passenger Services)
TOM Reporting of Cash Receipts by Ticket Clerks (Passenger Services)
TVM Reporting of Cash Receipts (Passenger Services)
Vendor Quality Audits (Strategic Investment / Corporate Quality Assurance)
Internal Quality Audits (Strategic Investment / Corporate Quality Assurance)
QA Surveillances (Strategic Investment / Corporate Quality Assurance)
Quality Trend Analysis (Strategic Investment / Corporate Quality Assurance)
Administer Random Drug Test (Transportation)
Claims Resolution & Payroll Processing (Transportation)
Control Inventory (Transportation)
Dispatch Trains (Transportation)
Fare Collection (Transportation)
OTP Reporting (Transportation)
Tower Inspections (Transportation)
Petroleum Bulk Storage Management Program (Safety)

High Risk Activities Reviewed during 2008-2009

Diesel Haul Coach EIC Cleaning - EIC/Lay-Up Cleaning (Equipment)
MU EIC Cleaning - EIC/Lay-Up Cleaning (Equipment)
MU Brake Test – Rear End Only – Class II Brake Test (Equipment)
MU Brake Test – Full Train – Class I Brake Test (Equipment)
MU Periodic Inspection – M3 & M7 (Equipment)
MU 2B Inspection (Equipment)
QC – HVAC Inspection (Equipment)
Toilet Inspection (Equipment)
FRA Signal Appliance Testing (Engineer)
Maintain Personal Corporate Records (Human Resources)
Manage System Security (Information Technology)
Plan Disaster Recovery (Information Technology)
Advise and Assist on Bid Protest (Legal)
Assist Attorney (Legal)
Create File (Legal)
Subpoena Check (Legal)
Develop Corporate Policies (Legal)
FRA Violations (Legal)
Manage and Monitor Outside Counsel Billed Activities For Payment (Legal)
Issue Settlement Checks Within \$10,000 (Legal)
Negotiate Disputes & Settlements With Vendors (Legal)
Liaison with Other Agencies (Legal)
Manage Penn Station Cleaning Contract (Passenger Services)
Penn Station Ticket Remittance Operation (Passenger Services)
TOM & TVM reporting of Ticket Sales (Passenger Services)
TOM & TVM Reporting of Cash Receipts (Passenger Services)
Inventory & Control of Ticket Stock (Passenger Services)
Management of Penn Station Cleaning Contract (Passenger Services)
Choice Contract (P&L)
Commodity Profile (P&L)
Disposition of Scrap Materials (P&L)

Emergency Procurements (P&L)
Property Management (P&L)
Receipting of Materials (P&L)
Warehouse Replenishment (P&L)
Review of Construction Plans for NYS Code Compliance (Safety)
Incoming Inspection of New Commodities (Strategic Investment / Corporate Quality Assurance)
Life Cycle Maintenance & Shop Strategy (Strategic Investment / Corporate Quality Assurance)
Monitor Revisions to EIS New Yard Strategy (Strategic Investment / Corporate Quality Assurance)
Monitor Revisions to Environmental Strategy (Strategic Investment / Corporate Quality Assurance)
Monitor Revisions to Yard Strategy (Strategic Investment / Corporate Quality Assurance)
Assign Employees – T&E, Block Operators, Trains Dispatchers (Transportation)
Control Flag Conduct and Agency Reimbursement (Transportation)
Department Absence Control Records (Transportation)
Engineer Certification (Transportation)
Monitor TIMACS (Transportation)
Perform SAFER Test and Supervise Crew Performance (Transportation)
Perform Safety Inspection Talks (Transportation)
Process Invoices (Transportation)
Responsiveness to Customer Correspondence (Transportation)
Train Consist Compliance (Transportation)

The results from controls evaluated revealed a combination of significant deficiencies and process improvements warranting the implementation of the following corrective actions:

Occupational Environment Safety:

Weakness: Two policies needed to be updated with changed information reflecting title/personnel changes and minor procedural changes.

Corrective Action: Two programs were updated to reflect System Safety Office with new personnel and a change of position title.

System Safety- Develop & Update Emergency Action Plans for all LIRR Facilities:

Weakness: Although no weakness was identified, department is taking action to improve the process.

Corrective Action (Process Improvement): A committee is formed for reviewing of current EAP. Upon completion and review, the plan will be distributed to all Department Heads.

Petroleum Bulk Storage Tank Management Program:

Weakness: Missing placards posted at the tank, worn/weathered fill port markings and missing spill materials.

Corrective Action: Replacement of missing placards and port markings as appropriate.

Blanket Purchase Order/Releases:

Weakness: BPO checklists were not filed. In some instances, users were delinquent in generating a requisition and TSO, and must be reminded many times to generate a requisition. As a result Blanket Orders may have been extended in order to allow for competitive bidding to take place.

Corrective Action: Staff will be reminded to use the Blanket Purchase Order Checklists.

Emergency Procurements:

Weakness: Found instances where the Emergency Procurement checklist was not included in files. In addition, some required documentation was not found in the files reviewed.

Corrective Action: P&L Staff will be reminded to use Emergency Procurement Checklist for every emergency procurement and that all required documentation must be in the file.

Labor Relations /Disability Sick vs. Disability Accident (DS vs. DA):

Weakness: Research Division may not know the status (stale, active or withdrawn, etc.) of all DS and DA files in order to determine disposition of each.

Corrective Action: General review and cataloging of Disability Sick and Disability Accident files.

Labor Relations –Contracting Out of Work:

Weakness: Research Division needs to know the status (stale, active or withdrawn, etc.) of all contracting out of work files.

Corrective Action: General review and cataloging of contracting out of work files to determine disposition of each.

Law- Liaison with other Agencies:

Weakness: P&L has not adequately kept current the log of matters requiring liaison with other agencies.

Corrective Action: P&L has now assigned the Procurement Compliance Officer to monitor maintenance of the log. The Law Department will now advise the officer, in addition to the contract manager, when items should be closed.

Engineering – Substation Inspections:

Weakness: Although the selected forms were in compliance with the respective procedures, the forms were not timely filed.

Corrective Action: Periodic inspection to ensure completed forms/documents are on file and all forms are maintained for a minimum of three years. Also ensure that forms are filed timely.

Force Account Management – Comparison of Estimates & Budgets vs. Actual Expenditures:

Weakness: Project changes are not always updated in the system. The issues of available resources hindered the constant updates that the system requires.

Corrective Action: Force Account Management and OSA need to work closely together to ensure the integrity of the system. Force Account Management Group should ensure that the CMIS + System is updated on a timely basis.

Vendor Maintenance - Open Expired Purchase Orders and Duplicate Vendors:

Weakness: An internal audit revealed that purchase orders reviewed were still open with outstanding amounts even though they have expired. Also there were duplicate active vendors on the vendor master file.

Corrective Action: Accounts Payable management to coordinate with Procurement management to ensure that expired contracts and Purchase Orders are timely closed and duplicate vendor numbers are inactivated.

Prepare Weekly Management Payroll:

Weakness: An internal audit revealed that electronic and rubber stamp signatures have been submitted on payroll documents.

Corrective Action: A directive was issued by the General Superintendent – Transportation Administration stating that employees must sign all payroll documents. Rubber stamps and electronic signatures are not permitted. All other controls that are in place are functioning as intended.

Perform Safety Inspections and Talks:

Weakness: No control weakness was identified but the Transportation department is seeking ways to improve the business process.

Corrective Action (Process Improvement): Controls are functioning as intended. However, the Transportation Department is revising its safety inspections and safety talks to “Group Safety Sessions.” In addition, the department will expand its oversight with regard to safety facility audits.

Fare Collection:

Weakness: No control weakness was identified by the Transportation Test Team and MTA Audits. However, MTA Audits in conjunction with the Test Team identified potential process enhancements.

Corrective Action (Process Improvement): Process enhancements are ongoing and include the conducting of ticket servicing review classes, reviewing ticket servicing policies and procedures, conducting of department initiatives (Poster Campaigns and Focus Group Feedback sessions), Test Team evaluation of crew size to ensure proper levels for fare collection and discussion with train service employees to address concerns and issues they may experience when collecting on board fares.

Petty Cash:

Weakness: A discrepancy was discovered in August 2008 by the Controller’s Office while performing an audit of Transportation’s petty cash fund. The discrepancy was the result of petty cash transactions not being properly documented.

Corrective Action: Retraining in the handling of petty cash was conducted with both Petty Cash Custodians. As of 2009, Petty Cash Custodians will provide a monthly update to the Manager – Administration detailing any transactions

that transpired during the previous month. If no transactions occurred, an e-mail stating such will be sent to the Manager – Administration.

Bus Operations(Long Island Bus, MTA Bus Company, NYCT Bus)

LI Bus performed vulnerability assessments in Storeroom Operations, Paratransit, Fixed Route Operations, Farebox Operations, Customer Service Call Centers, Employment Services, Accounts Payable, Payroll, Accounts Receivable, Cash Management, Safety, Procurement, Facilities, Scheduling, Systems, Legal, and Maintenance. Vulnerability assessments were the basis for performing internal control testing. Internal control testing in 2008 was performed on Paratransit, Systems, Storeroom Operations, Maintenance, Farebox Operations, Facilities, Safety, and Procurement.

Manufacturers' MSDS files were missing and required updates. The Safety and Procurement departments will meet to discuss and enforce MSDS procedures. The Safety department must conduct accurate annual inventories and address discrepancies.

The Internal Studies & Operations Improvement Division will use an automated system to track internal control corrective actions for LI Bus, NYC Transit Bus, and MTA Bus.

The MTA Bus Company was created in September 2004 to commence bus operations in areas formerly served by seven bus companies that operated under franchises granted by the New York City Department of Transportation. The transition to MTA Bus Company service began in January 2005 and was completed in February 2006. In 2008, the MTA Bus Internal control program was accomplished through limited internal control testing of depot operations, as well as numerous external audits of MTA Bus operations; the areas reviewed included Procurement Cards, Random Drug Testing, Worker's Compensation, Bank Reconciliations, Contract Administration, Maintenance Warranties, Fixed Asset Accountability, Money Room Activities, and Depot Operations.

On the basis of the Internal Control testing and external audits, the following steps were taken:

Security for money room operations was improved and now has been incorporated into NYC Transit's Revenue Control Operations. Contract administration has been revised to improve the awarding of contracts, achieve separation of duties, and improve accounts payable functions. Maintenance warranty functions will be coordinated through the Chief Maintenance Officer to improve efficiencies and achieve increased financial recovery from manufacturers under warranty provisions.

Further, audits identified opportunities for efficiencies and economies in depot operations. As part of the ongoing consolidation of the MTA's bus operations, a

working team is evaluating depot operations at all three companies to identify best practices and is assisting with implementation of improvements.

The Internal Studies & Operations Improvement Division will use an automated system to track internal control corrective actions for LI Bus, NYCT Bus, and MTA Bus.

The 2009 internal control program will be coordinated by the Internal Studies & Operations Improvement Division to ensure consistency and the use of best practices throughout the MTA's bus operations. This division also is responsible for coordinating external audits of the bus operations. Accordingly, findings and recommendations made during these audits can be integrated into the internal control program and effectively shared throughout the bus operations. As of 2009, the LI Bus and MTA Bus Internal control programs will be modeled after the NYC Transit program.

The internal control program has been communicated to senior management of the MTA's bus operations as a priority. Policies and procedures are disseminated throughout the organization. Additionally, NYC Transit, LI Bus, and MTA Bus Internal Control liaisons and depot managers received Internal Control training.

Metro-North Railroad

An updated summary of business activities, including vulnerability assessments, is submitted annually to the ICO along with all internal control reviews conducted during the year. Department heads and vice presidents certify departmental and divisional compliance with the provisions of the Act annually. This certification mirrors the Act's requirements for Metro-North. Certification in 2008-09 combined submitted paper certifications with on-line electronic certifications. Internal control reviews for all activities conducted are maintained on file at the departmental level along with backup documentation, which supports testing activities.

A total of 365 internal control reviews were conducted in 2008-09 of which 174 activities reviewed were assessed as very high or high-risk activities. Vulnerability assessments are updated annually by all departments to effectively identify the risk level for their primary business activities. Very High/High-Risk activities that were reviewed in 2008-09 include:

- General Counsel

 - Torts Division

 - Prepare and obtain wastewater discharge permits

 - Claim Settlement Check & AP1 Issurance (< \$20,000)

 - Claim Settlement Check & AP1 Issurance (> \$20,000)

 - Monitoring and handling captive station liability and force account claims

- Executive Division – Safety

 - Review existing facilities and new construction for code compliance

Oversee contract administration of safety and security department contracts
as well as shared environ
Security Planning

Executive Division – Customer Service
Respond to customer correspondence
Timekeeping Customer Service
Monitor ticket office security
Support ticket office operations
Monitor and review employee safety
Accept and monitor conductor's remittances
Maintain ticket vending machine operations
Control of material, business supplies and equipment
Control purchasing and inventory of commissary goods
Monitor and review
Monitor commuter bar/car sales
Licensing of liquor sales and certification of service attendants

Human Resources and Diversity
Deliver Training programs
Benefits – Verification HMO billing
Health Insurance
Military Leave process
HRIS data entry – general deductions
HRIS data entry – non-ESCF
Conduct inquiries of EEO complaints

Finance & Information Technology
Overtime
Timekeeping – all locations
Prompt Payment
Vendor Maintenance
Payment of weekly wages to train & engine crews (CMS) employees (T&E)
Processing of Title 13C wage guarantee claims
Weekly payroll balancing
Payment of weekly payroll taxes
General retroactive wage payments
Payment of weekly wages to other than train & engine crews (OT&E)
Prepare and file payroll tax returns
Payment of wage claims
Production of Mail & Ride tickets
Mail & Ride customer maintenance – financial
Bank payment/lockbox payment processing
Annual CDOT deficit bill
Monitor TSM debit card activity
Audit ticket agency accounts
Reconcile TSM debit and credit fees
Reconcile TVM cash deposits
Track conductor remittances
Procurement/payment processing

Control of computer software

Procurement & Materials Management

MM3 Warehouse security
MM7 issues of standard stock material
Vendor management
Sole source procurements
Solicitation of fax quotes < \$15,000
Resolving invoice work
RFT/Solicitation and award
Contract/cost/price analysis
Contract post award administration
Asset disposition through solicitation

Operations

Quality assurance
Timekeeping
Oversee the recording of custodial work cards
Control of material, business supplies and equipment
Monitor and review employee safety
Field-radar observations
Efficiency testing
Administration of MNCRR
OCC bulletin orders/daily train operations
OCC document train performance information for corporate use
OCC monitor attendance, PR, administration requirements for RTC, yard & tower personnel
CMC monitor acre 1&9 job assignments
CMC regulation of ACRE 1&9 extra lists
CMC advertise & award T&E service assignments
Car E cleaning of rolling stock
Review of AP1
Vehicles
Review of test procedures

Capital Programs

Review of employee expense accounts
Timekeeping – PeopleSoft
MN passes & ID badges for consultants and contractors

Planning Proc & Dev.

Development of 5, 10, 20 year service plans annually to reflect 5-yr implementation
Conduct revenue collection studies to determine effectiveness of onboard collection procedures
Analyses of railroad operations for proposed capital projects
Direct special events committee to provide service and operating changes to regular timetables
Administer the contract for the Haverstraw/Ossining ferry

Monitor Accty/Rev, connection and remittance procedures for community and MNR private operators
Coordinate /Manage east side access project

For the 2008-09 calendar year internal control program, 365 internal control reviews were conducted corporate wide and approximately 4% of the tests revealed minor control weaknesses. Corrective actions were developed for reviewed activities with deficiencies and implemented immediately, or scheduled for implementation. Weaknesses which were identified included a need for new procedures, incomplete or insufficient documentation, and reinforcement of procedures in areas of non-compliance. Going forward, all information will be captured by the on-line Internal Control System for reporting and monitoring by the ICO. A summary of the corrective actions to improve controls in 2008-09 are highlighted as follows:

Operations Planning

For the Spring/Fall GCT counts and seasonal/holiday counts, it was determined that an insufficient number of peak period co-counts were obtained. Since these counts are critical to ascertain the accuracy of the AM/PM peak GCT counts, Ops Planning is implementing a comprehensive program to obtain a representative sample of GCT co-counts during all time periods.

Maintenance of Equipment

A review of Personnel Safety has determined that the cycle of Job Safety Briefings and Analysis needs additional buy-in and support of all employees. The shops will continue with Safety Briefings as well as increase management presence at meetings to reinforce the safety program. Shops will also continue to write instructions to support JSA/JSB training. Additionally, there is a greater focus on more aggressive enforcement by shop management at all locations. This greater focus has achieved positive results across the department. Other areas of correction in Maintenance of Equipment were centered on coding information in AMS. Corrections were effected by vigilant supervision and re-instruction of persons involved.

Finance & Administration

During their review, the Controller's office found that the APIs 1003, 1025 & 1026 were updated in draft format and had not been finalized. API 1026 was finalized 6/08. The finalized version of API 1025 will be completed in 6/09 and API 1003 will be finalized 9/09.

Human Resources & Diversity

HR found that Exit Interviews were not conducted for all non-agreement employees voluntarily resigning. It was determined that inconsistent notification limited the number of interviews conducted. Comp and Benefits and Department Administrators are working closely with HRIS to ensure that notification of a resignation is completed in a timely manner. In addition, a database is being developed to summarize Exit interviews and report trends.

Corrective action plans in response to weaknesses identified are forwarded to the ICO along with internal control reviews submitted annually. The ICO reviews and monitors corrective action plans with the ICCs. Weaknesses revealed during testing and corrective actions and target dates are kept on file by the ICO for follow-up with departments. This information is included in the new on-line Internal Control System. Going forward, monitoring and follow-up by the ICO with departmental administrators and coordinators will be handled using the on-line ICS to track corrective actions and their status. Department heads must approve any corrective action plans developed in the review process on-line, and the ICO will be advised of corrective actions via the new on-line system. Reports have been developed to monitor and track corrective action plans in the ICS reporting system by the ICO and authorized system users.

Departmental internal control administrators, coordinators, and managers conducting internal control reviews have the New York State Managers Guide for testing activities. The internal control program stresses the importance of the testing aspect in the ICR process. Hard copies and electronic copies have been distributed to those conducting testing. A link to the NYS Testing Guide is included on the home page of the on-line Internal Control System. Reviewers are encouraged to focus on compliance testing to verify process activities. Testing is a portion of every internal control review conducted. The review form summarizes the sampling process and the methods utilized. Testing is conducted on an electronic form included in the new on-line Internal Control System where all testing is summarized. Reporting tools allow the ICO to view testing forms on-line. Back-up materials are on file at the department and are subject to audit.

The electronic Internal Control System was developed by Metro-North's IT Department and was rolled out mid-2007. The ICS resides on Metro-North's Intranet. All Internal control program activities, vulnerability assessments, and Annual Departmental Summaries, will be conducted on-line, including electronic authorization for departmental certification. The internal control system process is screen driven directed by automatically generated e-mails for reviews, authorizations, and approvals. Vulnerability assessments must be approved by the departmental director via on-line authorization and will prompt coordinators and reviewers to proceed with their internal control reviews due during the calendar reporting year. All screen driven forms are on-line for authorization by departmental directors for any corrective actions in response to weaknesses identified in conducting a review. The ICO will be advised of any corrective action as it is approved. At year end, directors will certify for their department via on-line electronic authorization.

The ICO has full access to all material in the ICS to track the status of submissions and reviews. The ICO will assign administrators who in turn will assign ICC's, initiators, and reviewers in their respective departments to carry out all internal control program activities. The coordinator will review and approve vulnerability assessments and internal control systems. Vulnerability assessments and Corrective Actions are forwarded electronically to the Director for approval. Directors will also certify compliance on-line with an electronic signature on a certification which mirrors that of the Metro-North's President.

The internal control system will include reporting, a database, results, and status. This material will be utilized for development of the annual report on internal control.

As discussed above, a training manual is on-line along with an updated internal control handbook. Additional training will take place in 2008 to bring other departments into the internal control system. Efforts are underway to transfer from paper forms to electronic filing. Additionally, reporting tools will be refined and updated in response to experience to date. The ICO will be provided additional control to correct errors in input, and respond to changes in authorizations, and departmental responsibilities. In summary, the internal control system will act as the ICO's assistant to manage, monitor, and guide the internal control program.

An annual message from the President to all current employees stresses Metro-North's commitment to internal control and the Act. Paychecks include the internal control message from Metro-North's President. Also, all new employees receive information about internal controls and a message stressing the importance of internal controls at Metro-North along with informational material. The ICO conducts one-on-one training activities, and acts as a resource to managers on internal control program issues. The ICO works with department heads, internal control administrators, ICC, and managers, to improve departmental compliance. Metro-North's Weekly News is utilized for internal control messages and alerts regarding deadlines for managers for internal control submissions. E-mail is also utilized to contact department heads, departmental internal control administrators, and coordinators regarding program deadlines, schedules, and the program. Metro-North's Corporate Policy 10-008, Internal Controls, is also posted on the Intranet along with all corporate policies and procedures. Periodically, the ICO contacts and meets with departmental internal control administrators and coordinators to review program status and provide additional program information and deadlines for departmental reporting.

Bridges and Tunnels

The B&T ICO administers and assures implementation of the B&T internal control program. Implementation of the program is coordinated and facilitated by trained Departmental Internal Control Coordinators ("DICC's") within each department. These individuals ensure that the Authority's internal control systems are regularly reviewed and assessed for adequacy and effectiveness. With the guidance of these DICC's, managers are required to self-assess the vulnerabilities and risks within the business activities they control. From this assessment, managers then identify an appropriate schedule for testing all internal controls within those activities, with particular emphasis on the more critical controls. From this schedule, each department establishes yearly testing goals, which they provide to the ICO.

Testing results are forwarded during the year by each department's DICC to the ICO who, in turn, provides a monthly summary report to the President indicating each department's progress against its goals. In addition, MTA Audit Services conducts selected independent audits and reviews of controls of critical

functions. The results of those reviews are taken into account in improving management's control self-testing process.

A risk-based plan for continuous internal control testing, based on annually updated vulnerability assessments ensures that all departments continue to effectively identify the vulnerabilities and controls in place for all business activities and to ensure that they efficiently allocate resources for testing.

In 2008, the following high-risk activities were reviewed:

Engineering & Construction - Develop plans and goals to support the Presidential Policy "Engineering & Construction Department Mission and Functions"; Design and review architectural engineering projects; Plan, budget and schedule capital and operating projects; Maintain quality assurance over project development, design and management activities for all construction work

Finance - Financial statement preparation; Purchasing payment processing

Health & Safety - Oversight of all hazardous material abatements; Perform facility NYS code inspections annually

Internal Security - Manage and administer facility security systems; Coordinate the securing of sensitive documents; Conduct reviews and investigations; Perform security inspections in ISD areas; Perform safety audits at toll collection facilities; Maintain and manage in-lane toll equipment; Install, maintain, upgrade and repair CCTV system

Information Technology - Conduct annual disaster recovery tests of critical applications; Review and approve purchase/lease of computer-based products

Labor Relations - Represent agency at Public Employment Relations Board; Review grievance proceedings

Legal - Administer Workers' Compensation Program; Administer Property Damage Program

Operations - Ensure toll collection functions are performed in coordination with directives; Ensure customer and employee safety; Ensure workforce compliance with directives; Implement and coordinate security related initiatives with other agencies; Provide firearms training; Ensure that E-ZPass equipment is operating properly

Planning and Budget - Manage the Budget Encumbrance Tracking System reporting and maintenance activities; Conduct annual inspection of Planning and Budget back-up data in compliance with agency data back-up initiative

Procurement - Develop and prepare RFP's and RFQ's; Evaluate bids, proposals and quotes for responsiveness; Perform safety audits

Revenue Management - Perform manual audits to identify and document cash shortages in a timely manner; Compile traffic and revenue information for monthly management reporting; Monitor E-ZPass tag inventory; Count cash held at facilities; Review daily operations at the revenue processing center; Monitor manual toll processing

Staff Services - Review personnel records; Conduct employee background and medical investigations

More than 175 internal control reviews were conducted in 2008. There were no significant deficiencies revealed during the 2008-09 review. About 12% of these tests revealed minor control weaknesses and corrective action has been taken.

All information on vulnerability self-assessments, internal control testing, and corrective action plans is captured and documented centrally and entered into one PC-based tracking system. A component of this system documents the corrective actions planned or taken. The documentation of corrective action plans are periodically reviewed by the ICO for appropriateness as well as for open items. Based on this review, the ICO requires DICC's to follow up with departmental management to ensure that corrective action was taken as reported, and if not resolved, continue to report changes in the status of these actions until they are resolved.

All departments establish a detailed risk-based testing plan that closely links control testing frequency to the relative risk defined in each department's vulnerability assessment. This allows managers to better plan for and allocate resources for testing. Using this plan, each department establishes goals for testing with the ICO at the beginning of the year. Subsequent progress against those goals is reported monthly by the ICO to the President.

Once activity managers perform control testing, the results of such testing are reported to the ICO, after the respective DICC and department head have reviewed the tests and signed off on the document. These enhancements have continued to increase both the number and quality of internal control testing performed and reported on each year.

MTA B&T recently implemented, on its Intranet site, a section dedicated to the B&T Internal control program. This section includes an Intranet based training program for employees to obtain, on-line, basic awareness of internal control concepts. It also contains B&T and MTA All Agency Policies, internal control related forms, and other information on the Internal Control Act, and internal control standards and techniques.

In 2008, a more detailed classroom-based course on implementing the B&T Internal control program and compliance with the Internal Control Act was provided to selected managers. In 2009, this course will be offered to a wider range of employees who have specific control responsibilities.

In 2009 the effectiveness of departmental compliance with the B&T Internal control program will be further reviewed, including evaluations of the adequacy of vulnerability assessments and quality of internal control testing performed.

The MTA Chief Compliance Officer disseminates information related to activities of the Office of the State Comptroller with respect to internal controls at the quarterly ICO meetings. Information regarding any significant changes is then provided to applicable staff at all levels.

An annual letter from the President is sent to all employees to reaffirm B&T's internal control policy and to reemphasize the importance of effective internal controls to the agency.

On a quarterly basis, the ICO also meets with all DICC's to alert them of any new developments in internal controls.

Capital Construction

MTACC's Director – Internal Controls, administers and monitors the internal control program as Capital Construction's ICO. Oversight for the Program is provided by the Chief Financial Officer and MTA's Chief Compliance Officer. These Standards require public authorities to promote and practice good internal control and to provide accountability for their activities.

During this certification period, the ICO continues to train individuals within program areas and among all departments, and provides instruction and guidance on internal controls. A key component of this training requires individual ICCs to identify and self-assess the risks that may exist within their areas of responsibility that could prevent their department from achieving its objectives. Based on the results of their self-assessment, activities that are considered high-risk are evaluated frequently.

Quality and Safety Unit ("QSU") personnel within MTACC perform quarterly oversight reviews of contractor performance for all on-going construction projects, conduct joint audits with representatives of the Federal Transit Administration ("FTA") to evaluate compliance with contract requirements, and perform oversight and follow-up reviews of contractor safety programs. Any deficiencies or exceptions noted are required to be corrected by the contractor the following quarter, or sooner, if necessary.

MTACC's Sustainability and Environmental Services ("SES") monitors compliance with environmental laws, regulations and community commitments. This group performs regular field inspections, reviews monitoring data and environmental permit applications, and works with the appropriate field personnel to resolve potential environmental issues.

MTACC projects are funded by Federal, State and Local governments and by the issuance of debt. Accordingly, the agency is subject to oversight, reviews, and audits by these funding sources. The FTA, which funds the majority MTACC's projects, receives monthly reports from an outside independent engineering firm

commenting on MTACC's technical capability and ability to execute projects efficiently and effectively. The information contained in these reports is shared with MTACC, further enhancing the agency's ability to identify controls that may need strengthening.

MTA's Audit Services, and to a lesser extent, MTACC's external auditors, review internal controls as they relate to the agency's financial and operational systems. In addition, an Independent Compliance Monitor, hired in February 2006, continues to ensure compliance with specific contract provisions for contractors participating on Lower Manhattan Projects.

The Office of the State Comptroller monitors the status of the Capital Security Program, and performs periodic audits of other areas at their discretion.

Information on internal controls received from MTACC's ICC, QSU, SES, internal auditors, external auditors, independent compliance monitor, independent consultants and the State Comptroller comprise the framework for the oversight of MTACC's internal control system.

During 2008-2009 internal controls relative to high-risk activities were identified and reviewed and include the items listed below:

- Review of Consultant and Contractor Invoices/Payments for All Programs
- Audit of All Contract Closeout Payments
- Executive and Department Heads Business and Travel Expenses
- Environmental Performance Commitments
- Procurement Practices
- Project Management Security Contracts
- Quarterly Oversight Reviews of Contractors Quality Program (Fulton Street Transit Terminal, South Ferry Station, and Second Avenue Subway)
- Security Program Progress Report

DEFICIENCY: An Environmental Field Survey was conducted on July 17, 2008, for the Construction of Running Tunnels & Station Structures Contract, (C26503) at Site A, 26th Street & 11th Avenue. The Survey noted several hydraulic oils spills and excessive dirt build-up.

The Contractor is responsible for complying with all environmental regulations and related contract provisions including New York State Environmental Conservation Law § 17-1743, Article 12 of the Navigation Law and 17 NYCRR 32.3 and 32.4, requiring the prompt reporting of spills likely to pollute the lands or waters of the State.

Contract specifications also require the Contractor to prevent sediment from flowing or being tracked onto public right-of-way. The implementation of sediment and erosion controls also ensures silting of any affected collection basins, inlets, manholes, channels, combined sewers or storm sewer systems. Noncompliance with these requirements may result in unsafe working conditions, increase dust related health hazards for the community and cause localized flooding during periods of inclement weather.

CORRECTIVE ACTION: At the conclusion of the Field Survey a “Supervisor’s Incident Investigation Report” was prepared. The Report noted that “...although absorbent materials had been placed on the ground, about one or two gallons of hydraulic fluid spilled on the dirt. Laborers shoveled the contaminated dirt into bags which were stored in a 55 gallon drum – for disposal.

The dust was covered with Calcium Chloride pellets, to contain the dust, and was removed on July 18th.

DEFICIENCY: An Environmental and Sustainability Review was conducted on January 6, 2008 for the Second Avenue Subway Project, in the vicinity of Second Avenue and 72nd Street, and on Second Avenue between 91st and 97th Street. The review noted excessive dirt, mud and dust at various locations throughout the site. A serious trip/fall hazard was observed along the 97th Street sidewalk, and petroleum drums were left unprotected in the work zone on Second Avenue.

The Contract’s General Specifications Section requires the contractor to maintain a clean and safe site so that dust emissions are minimized, and the fugitive migration of soil, sediment, grout and muck is adequately controlled, and to ensure a safe working environment to minimize adverse environmental impacts on the surrounding neighborhood. Housekeeping requirements in the contract are meant to minimize the accumulation of trash and debris and establish methods to suppress excessive dust.

Erosion and sediment contract related provisions require the contractor to inspect local streets and private property adjacent to the construction zone, thereby keeping these areas free of hazardous, nuisance and unsightly conditions. The implementation of sediment and erosion controls also ensures that catch basins remain unclogged and protected. Noncompliance with these requirements may result in unsafe conditions and cause localized flooding during periods of inclement weather.

CORRECTIVE ACTION: A follow-up site walk-through was conducted two days after the initial inspection. Housekeeping activities throughout the site had improved. Excessive dirt and mud had been removed and dust and dirt had been swept away. The sidewalk trip/fall hazard had been repaved with asphalt. Drum spill pallets were on order and petroleum drums were moved to a secure location.

DEFICIENCY: An Environmental and Sustainability Quarterly Review was conducted on April 9, 2008 for the East Side Access Queens Open Cut Excavation (Contract CQ028). There were numerous environmental concerns such as: minor petroleum releases, improper material storage and failure to provide adequate dust suppression and erosion control measures for stockpiled soil.

To protect human health and the environment, New York State Environmental Conservation Law § 17-1743, Article 12 of the Navigation Law and 17 NYCRR 32.3 and 32.4 require the prompt reporting of spills likely to pollute the lands or waters of the state. Additionally, under article 12 of the Navigation Law and Article 71 of Environmental Conservation Law, parties responsible for petroleum releases are liable for all remediation costs and may be subject to a fine of up to \$25,000 a day per violation. Contract specifications (Section 01570) require the preparation of an Environmental Compliance Plan that outlines proper handling and storage of hazardous materials, spill prevention and control measures that will be implemented and the management and disposal of all project generated wastes. Non-compliance with New York State law and the environmental requirements outlined in the contract specifications poses a serious threat to the natural environment and the neighboring community and exposes the MTA to severe financial liability.

CORRECTIVE ACTION: A follow-up site walk-through was conducted on April 18, 2008. The Contractor's environmental consultant, Environmental Impact Corp., had remediated three spill locations and had appropriately stockpiled and covered excavated contaminated material. Subsequent remediation of the two remaining spill sites occurred shortly after the relocation of abandoned heavy equipment. Significant progress had been made in correcting many of the "housekeeping" issues previously identified – waste batteries had been disposed, open containers of waste lubricants had been properly sealed and/or removed from the property and trash heaps were loaded for off site disposal. All remaining environmental issues observed during the initial inspection were eventually taken care of when the prime contractor, Pile Foundation Inc., defaulted and the MTA hired Environmental Impact to complete the site cleanup already underway

DEFICIENCY: A Quality Oversight Review of the Structural Box Contract (A-36205) for the Fulton Street Transit Center – Dey Street Concourse performed during the second quarter of 2008 noted the contractor's on site engineer had not received concurrence from an independent Professional Engineer (P.E.) verifying that the Liebherr LTM 1090-4.1 110 ton hydraulic crane selected for use was capable of safely lifting the projects structural steel elements. Contract specifications for shop drawings, including decking for the excavation and design loads, are required to be signed by and bear the seal of a New York State licensed Professional Engineer.

A P.E. (in addition to the contractor's engineer) is required to calculate and certify that the crane selected is capable of lifting the specified load(s), and that the temporary decking system will be able to safely support the total load, consistent with the positioning of the crane and elevation of the telescopic boom. If all safety precautions are not followed, the possibility exists that the crane could overturn, the boom could buckle or the rigging could fail, and cause injury to personnel on the job site.

The contractor was notified on June 17, 2008 not to proceed with the lift until a P.E. had signed-off that the crane is capable of safely lifting the required load.

DEFICIENCY: On April 29, 2008 a Quality Assurance Surveillance Report was performed at the Second Avenue Subway (site location 94th to 95th Street). The review noted that there was no documentation to verify that incoming material (steel castings and capping plates) had been manufactured/processed in accordance with specified quality standards and had passed all required inspection tests.

Contract and Contractor Quality Control procedures require that all materials received from subcontractors come with a Certificate of Conformance to evidence that the material received conforms to the contract drawings.

If materials are used that do not meet required specifications, elements of the project could fail, requiring costly rework.

CORRECTIVE ACTION: The Construction Manager's Office informed us that his quality control personnel had been reinstructed not to accept any materials without the required certification; and if material was delivered without proper documentation he should be informed immediately.

The contract manager's office requested and obtained copies of the material certifications from the sub-contractor which indicated that the steel castings and capping plates complied with drawing specifications.

Project management is required to respond in writing to all audit recommendations with a corrective action plan detailing the steps that have been or will be taken to implement corrective action, as well as committing to a time frame for completing the action plan. This information is stored in a PC based tracking system and all open audit recommendations are periodically followed up with management. Any recommendation that has not been implemented within the agreed upon timeframe are reported to the Audit Committee for further review and evaluation. In addition, MTA Audit Services follows-up with MTACC on the status of their prior audit recommendations.

Program areas and departments are required to establish a detailed risk-based testing plan that closely links control testing frequency to the relative risk defined in each area's vulnerability assessment. This plan allows managers to allocate resources for testing. Using this plan, each area establishes goals for testing with the ICC/ICO. The results of testing are reported to the ICO. In some cases, the ICO performs the testing to further assure independence. Based on the results of the tests a corrective action implementation plan is proposed for the following certification period.

Projects currently managed by MTACC, with an estimated value of over \$15 billion, are funded in part through the FTA and are therefore subject to additional scrutiny. Supplemental testing of project management controls for these projects

is performed by an independent engineering firm(s) hired by the FTA. Their recommendations are incorporated into the MTACC testing program.

MTACC capital project and program management activities are performed in accordance with uniform methods, standards, procedures and guidelines (established by NYCT Capital Program Management and MTA Headquarters), to assure that project management activities are performed efficiently and in a manner that best serves the interests of the agency. MTACC is in the process of formally preparing its own Manual of Operations, updating and revising forms and procedures where necessary.

The Standards for Internal Controls in New York State Government is the source for MTACC's training program on internal controls. The training program also refers to applicable provisions of the Public Authorities and Officers Law, including rules on ethics and conflicts of interest. Included in the training materials is the Managers Guide for testing compliance with internal control requirements. Where applicable, MTACC incorporates recommendations made by the New York State Internal Control Task Force Report.

Information is communicated (for all projects) between and among all levels at MTACC to help the organization achieve its objectives in areas such as project management, quality assurance, financial reporting and compliance. Operations are monitored in two ways: through ongoing or continuous monitoring of activities and through regular periodic evaluations. The information received as a result of this monitoring process is communicated to appropriate management.

The ongoing or continuous evaluations are performed by the respective program managers, project managers, construction coordinators, field engineers and field personnel at site locations. These individuals are responsible for verifying and documenting that the contractor is completing the project according to contract specifications. For example, production meetings are scheduled on a regular basis to discuss items such as drawings, materials, fabrication, acceptance testing and other issues relating to the production schedules.

More specifically, weekly staff meetings are held with all direct reports and bi-weekly meetings are held with all Program/Project Management Teams. On a monthly basis MTACC reports to the MTA Board of Director's at their Capital Program Oversight Committee and the Finance Committee meeting. On a bi-monthly basis a project status meeting is held with the MTA/MTACC Security Team. There is also a quarterly oversight meeting with the FTA. Other meetings are scheduled as necessary.

Periodic (and random) evaluations refer to evaluations performed by MTACC's Quality and Safety Unit and Sustainability and Environmental Services Unit. (See Question B, answer # 1)

C. Make available to each officer and employee of the authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such authority shall be expected to comply along with detailed policies and procedures the employees are expected to adhere to in completing their work. The statement should set the tone at the top. It should be issued periodically and emphasize the importance of effective internal controls to the authority and the responsibility of each officer and employee for effective internal controls.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your authority has taken, or are needed, to comply with this requirement.

Metropolitan Transportation Authority Headquarters

The MTAHQ ICO maintains a copy of the MTA Policy and Procedure Manual.

All MTAHQ ICCs were supplied with up to date copies of the MTA Policy and Procedure Manual. All employees within the ICC department were emailed information regarding the availability of the manual, including the name of the individuals in their departments who had the copy.

MTAHQ policies and procedures are posted on the MTA Intranet. MTAHQ policy and procedure management is incorporated into the internal control program as part of the governance, risk and compliance process.

Coordinators were encouraged to remind their department management that the manual should be referenced in an ongoing manner to be sure that adherence is occurring. Most departments have developed departmental standard operating procedures on department specific practices.

MTAHQ continues to disseminate all agency policy directives to MTA affiliated and subsidiary agencies.

All new employees receive as part of their orientation package the Internal Controls and You pamphlet and booklet on the role of individuals in internal controls. MTAHQ ICO also distributed the booklet on the role of individuals in internal controls to all MTAHQ employees.

New York City Transit

The officers, managers and employees of NYCT are frequently reminded of the policies and standards with which they are expected to comply. The President and senior management issue bulletins and other correspondence that provide clear instructions and guidance on a variety of topics. These high level publications are provided to employees as reminders of existing policies or as instruction on new activities and initiatives. They contain general information in the areas of operations, administration, finance and internal controls. NYCT stresses the theme that internal control is everyone's business. This principle is the focal point of the NYCT brochure and Presidential memoranda on internal controls, which are distributed to all employees on a regular basis. By incorporating internal control into every task that is performed, NYCT is creating an environment that provides reasonable assurance that its resources are protected against fraud, waste and mismanagement and that its activities are performed in an effective and efficient manner. In addition, to the general guidance provided by management, NYCT maintains policies, procedures, handbooks and management directives for all major activities. These manuals are available in hard copy or online. They are reviewed updated and distributed to the appropriate areas of responsibility on a regular basis.

Long Island Rail Road

To comply with the Act, the LIRR has developed and made available to all employees, via the Intranet, Corporate Policy & Procedures including Policy and Procedure No.1102 R3. This policy and procedure emphasizes the importance of Internal Controls and the responsibility of all employees to ensure that effective controls are maintained in the performance of their daily activities. Furthermore, a letter under the President's signature and pamphlet titled "Management Controls at the LIRR" is published and distributed to both management and union employees. Within the letter and pamphlet the President strongly emphasizes the key role of the ICO and the importance of employee compliance with the Act. In addition, the MCR handbook is available to all employees that have access to the Intranet. For employees that do not have access to the Intranet, a physical copy of the handbook is available within their department or can be obtained by contacting the Re-engineering and Internal Controls Department.

At the department level, Standards Operating Procedures and corporate policies are developed and made available to staff, as applicable. A process is also in place to ensure that policies and procedures are reviewed to ensure that they are updated. In 2008, twenty-four corporate policies were reviewed for adequacy, and reformatted as appropriate. In addition, three new corporate policies were developed. Most of the departments at LIRR, particularly HR have not only developed policies for new processes, but also have updated internal policies based on new business processes or the implementation of a new system. HR maintained supplemental documentation which further supports internal control efforts are organization charts and job descriptions. Job descriptions of management personnel who are directly involved in administration of the MCR Program are noted accordingly.

Bus Operations (Long Island Bus, MTA Bus Company, NYCT Bus)

The internal control program has been expressed as a priority to senior management of MTA's bus operations. In 2008, a training session was attended by ICC and depot managers from the operations. Additionally, policies and procedures that include essential internal controls are disseminated throughout the organization. In 2009, the coordination among the three bus operations will be increased as their internal control programs are further integrated to ensure consistency and use of best practices.

The internal control program has been expressed as a priority to senior management of the MTA's bus operations. In 2008, a training session was attended by Internal Control coordinators and depot managers from the operations. Additionally, policies and procedures are being developed for MTA Bus and will be disseminated as they are approved.

Metro-North Railroad

Metro-North's Corporate Policy 10-008, Internal Controls, is posted on the Intranet along with all corporate policies and procedures. The Policy clarifies responsibilities and describes the process. In addition, Metro-North continues to utilize an Intranet-based Internal Control Awareness Training Program. Metro-North's IT Department has installed the awareness program on Metro-North's Intranet, which is accessible to managers at Metro-North's New York headquarters and most field facilities. The program is available to all employees with Intranet access at all Metro-North facilities, and many employees have taken the on-line course. A database of "attendees" is maintained by IT and includes a tracking system which is accessible by the ICO. New employees receive information about Internal Controls and a message stressing the importance of internal controls at Metro-North along with informational material.

Bridges and Tunnels

An annual letter from the President is sent to all employees to reaffirm B&T's policy in compliance with the Act. It reemphasizes the importance of effective internal controls to the agency and the responsibility of each employee for the maintenance of effective internal controls.

Attached to the President's letter is an internally generated brochure "Internal Controls and You," which defines what internal controls are, what is required by the Internal Control Act, how the Internal Control Act is carried out at B&T, what are the employee's responsibilities for internal controls and also gives an updated listing, by department, of the Departmental Internal Control Coordinators as well as their telephone numbers.

Capital Construction

MTACC conducts its business primarily by reference to written policies, such as its plan of organization, the formal delegation of responsibilities, and program

area procedures. Copies of MTACC's policies and procedures are maintained within each program area or department.

Employee conduct is governed by the MTA All-Agency policies including the Code of Ethics. A copy of the MTA All-Agency Code of Ethics and the Public Officers Law is provided to all employees at the time of their employment. All new hires also receive a copy the President's letter stressing the importance of internal controls and a pamphlet emphasizing everyone's responsibility for internal controls.

D. Designate an Internal Control Officer (ICO), who shall report to the head of the authority or to their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item. The designation of the ICO should be communicated to all employees.

The ICO works with appropriate personnel within the authority to coordinate the internal control activities and to help ensure that the internal control program meets the requirements established by BPRM Item B-350. Although the ICO evaluates the adequacy of the internal control reviews performed by authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the authority head in implementing and reviewing the authority's internal control program. This individual should have a broad knowledge of agency operations, personnel and policy objectives.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The MTA's Chief Compliance Officer is a direct report to MTA General Counsel. He also is responsible for reporting on internal controls to the Executive Director and the MTA Board. He provides on-going reports to the MTA Board on internal control programs. The Chief Compliance Officer has several years of experience in the area of finance and financial institution regulation. Before coming to the MTA he spent 10 years at the United States Securities and Exchange Commission and 6 years with the New York City Department of Finance.

Metropolitan Transportation Authority Headquarters

The MTAHQ ICO has over 35 years of experience in Human Resources, of which 18 were with the MTA in Compensation. He has a broad based knowledge of HQ operations and the history of various departments. MTAHQ ICO is a direct report to the MTA's Chief Compliance Officer. Additionally the ICO holds two advance degrees, a MBA in Organizational Development and a Post Masters Certificate in Marketing.

New York City Transit

The President has designated an ICO to implement, oversee and review the internal control program and its responsibilities within NYCT. The ICO reports to the Executive Vice President while interfacing with the President, Senior Management, MTA Headquarters, and New York State on the status and progress of the program. NYCT's ICO is the Controller, a Certified Public Accountant, who presides over all accounting and financial matters within the

organization. As such, he is well versed in all aspects of operations and administration due to the high level of interaction with senior management in NYCT, the MTA, and State and local government. The ICO is assisted by an ICC and other members of staff within the Office of the Controller, who manage the day to day implementation of the IC program. The appointment of the ICO was communicated to all employees via the Internal Control Brochure and to internal control personnel during training sessions.

These functions include providing training to internal control personnel on an annual basis, reviewing and commenting on the quality of items that are submitted, providing feedback to the department/division heads in cases of significant non-compliance with the Act and receiving, reviewing, interpreting and distributing all correspondence from MTAHQ and the State.

Long Island Rail Road

Under the delegating powers of the President, the ICO is the person ultimately responsible for the administration of the internal control program. At the LIRR, the ICO is the Vice President & Chief Financial Officer and reports directly to the President. Under his direct leadership the DCAs administer the program in conjunction with the MOCAs.

Bus Operations (Long Island Bus, MTA Bus Company, NYCT Bus)

Robert Picarelli, Chief Officer, Internal Studies & Operations Improvement, has been designated as the ICO for LI Bus and MTA Bus. He has been the ICO for NYCT Bus since the inception of the internal control program at NYCT Bus and also coordinates external audits of the MTA's bus operations. Accordingly, audit findings and recommendations will be integrated into the internal control program as required across the operations.

Metro-North Railroad

The ICO works with appropriate personnel within the agency or authority to coordinate the internal control activities and to help ensure that the internal control program meets the requirements established by BPRM Item B-350. Although the ICO evaluates the adequacy of the internal control reviews performed by agency or authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the agency head in implementing and reviewing the agency's internal control program. This individual should have a broad knowledge of agency operations, personnel and policy objectives. The ICO position is currently vacant.

Bridges and Tunnels

The B&T ICO was appointed by the President to administer and assure implementation of the B&T internal control program. The ICO works with the MTA Chief Compliance Office and MTA Audit Services and directs and

continually evaluates and assesses B&T's system of internal controls. Together, they help B&T management maintain B&T's system of controls in a complete and current condition, and ensure that all employees are adequately trained in the requirements of their jobs and the principles of internal control. The ICO is also supported by ICC within various B&T departments who provide additional administration of the B&T Internal control program.

Capital Construction

The ICO reports to MTACC's Chief Financial Officer. The ICO, with the assistance of MTACC's ICCs, directs and continually evaluates and accesses MTACC's system of internal control. Oversight for the program is provided by MTA's Chief Compliance Officer.

MTACC's ICO is a CPA and has a masters degree in accounting. He has more than 15 years of experience with the MTA in financial, operational, performance and information systems auditing. Previously, he was the ICO for MTA Headquarters; for the last three years he has been the ICO at MTACC.

E. Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Authorities should identify staff requiring internal control training and the depth and content of that training. Such education and training should be on-going with specific courses directed at line staff, middle managers and executive management. For organizations that have established internal audit functions, training and education should be offered on the appropriate role of the internal auditor within the organization's internal control system.

For this requirement, the authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

Metropolitan Transportation Authority Headquarters

Training sessions are held for all individuals involved in the internal control program, including senior management and the MTA Board.

All coordinators have yearly training on internal controls and their role in the program. All directors were contacted via e-mail, offering individual information meetings on internal controls. Several "open door" sessions on internal controls were offered to employees. All new employees of MTAHQ receive information on internal controls. MTAHQ maintains an on-line tutorial on the MTAHQ Intranet site.

A mandatory three tier "target market" training program on internal controls has been developed and submitted for managerial review.

The format utilized by the Corporate Compliance is based on the COSO model and the five basic components of internal control that it stresses: control environment, vulnerability assessment, control activities, information and communication, and monitoring.

The MTAHQ ICO has developed customized training materials based information received from the New York State Comptroller and the New York State Internal Controls Association. This material is distributed at every training session.

New York City Transit

Education and training regarding internal control is provided to all departmental personnel that are involved in the internal control process. The Office of the Controller conducts an annual training seminar for ICMs and their support staff that provides a general overview of the internal control process and detailed instructions on the various components of which it is comprised. Information is

provided on the identification and listing of major activities, the assessment of risk for each activity via the vulnerability assessment, the development of controls to counteract the risks, the testing of controls on a regular basis, reporting weaknesses found, and implementation of corrective actions to eliminate the weaknesses. In addition, all internal control testers, activity managers and division/subdivision heads receive comprehensive training each year. The additional training is in response to the recommendation from the Internal Control Task Force which requires employees to be grouped and trained by tier. It also ensures that NYCT is in compliance with this important aspect of the Act. Throughout the year, individual department personnel are trained in close group sessions.

The format utilized by the NYCT is based on the COSO model and the five basic components of internal control that it stresses: control environment, vulnerability assessment, control activities, information and communication, and monitoring. In support of the training effort. A guide was developed to interpret and clarify the COSO principles and present a detailed step-by-step description of the IC process. To further assist in the process, there is a continuous dialog as the process is undertaken to ensure a high level of understanding of the internal control program.

Internal control education is achieved through letters and other correspondence from the President and senior management that are distributed to NYCT employees to emphasize the requirements of the Act. An Internal Control Brochure, detailing NYCT's commitment to the internal control program, was also forwarded to each employee. The following correspondence was either posted on the NYCT Intranet or distributed to employees directly in an effort to heighten awareness on the following internal control related subjects:

- Ethics / Integrity
- Equal Employment Opportunity Policy
- Respect for Fellow Employees
- Workplace Violence
- Sexual and Other Discriminatory Harassment
- Alcohol Free and Drug Free Workplace
- Respectful Workplace Policy
- ADA Filling Stations Eliminating Bottles In the Workplace
- Track Safety Procedures
- Timekeeping and Payroll Accuracy

Long Island Rail Road

The Re-Engineering & Internal Controls department, under the supervision of the ICO, provided the following to promote Internal Control Education and foster Management Control Awareness at the LIRR:

In 2008 the LIRR conducted five "Business Administration & Processes" classes that are part of the Management Education Core Curriculum Program. The classes include a two-hour session on "Management Control Review Program & Managing Internal Controls."

In addition, as part of orientation, all new employees are provided with information on internal controls and its importance at the LIRR and are required to take a Management Control Review class. Employees are also encouraged to reach out to their MOCAs with any question or concerns.

Throughout the year, the importance of effective and efficient controls is stressed. On as needed basis, the DCAs meet with the MOCAs to review, clarify and help with the completion of control evaluations or with updating of the Vulnerability Assessment form when there are any changes in the procedures or processes.

A letter and pamphlet from the President stressing adherence to the Act, the role of the ICO and employee internal control responsibilities will be updated and distributed to all employees in the 3rd Quarter 2009.

A Management Control Review handbook is made available to management and published on the Intranet. This handbook provides to managers with the guidance and tools needed to perform their internal control responsibilities under the Management Control Review (MCR) Program.

The LIRR does not have its own internal audit function. There is a centralized audit services at the MTA which provided services to all the MTA agencies.

Bus Operations (Long Island Bus, MTA Bus Company, NYCT Bus)

Management has expressed the internal control program as a priority to senior management and staff. In 2008, a training session was attended by ICC and depot managers from the bus operations. Additionally, policies and procedures that include essential internal controls are disseminated throughout the organization. In 2009, the coordination among the three bus operations will be increased as their internal control programs are further integrated to ensure consistency and use of best practices.

Metro-North Railroad

Metro-North utilizes an Intranet-based Internal Control Awareness Training Program. Metro-North's IT Department has installed the awareness program on Metro-North's Intranet and created an Internal Control Site, which is accessible to managers at Metro-North's New York office and most field facilities. The program is available to all employees with Intranet access at all Metro-North facilities, and many employees have taken the on-line course. A database of "attendees" is maintained by IT and includes a tracking system which is accessible by the ICO.

Additional Internal Control informational material is contained on the electronic Internal Control System home page. All departmental administrators and coordinators, as well as authorized reviewers and initiators, have access to the system. The home page includes links to the Internal Control System Training Manual, the Internal Control Handbook, the NYS Manager's Guide for Testing,

and back-up forms. The Internal Control Handbook was updated by the ICO to expand upon the vulnerability assessment process. Staff trained on the Internal Control System, in turn assisted other departmental staff on the use of the Internal Control System.

In addition, the ICO continually works with the departmental administrators and ICCs to assist in use of the system, review program status, and provide additional program information and deadlines for departmental reporting.

Bridges and Tunnels

All employees receive exposure to B&T's and MTA's all-agency policies on the Intranet. Copies of the Authority's internal control awareness brochure Internal Controls and Your Responsibilities is distributed to employees periodically at ethics training sessions and other Agency forums.

An Intranet-based, interactive internal control awareness course was implemented in 2001 and is updated annually when necessary. This tool serves as an additional vehicle for a broad range of employees to receive basic training in internal control concepts. A more detailed updated classroom-based training program, with specific instructions on implementation of the internal control program and compliance with the Act, was provided to selected managers in November 2008.

The ICO also meets with all DICC's on a quarterly basis to review progress towards implementing various internal control program initiatives and provides them with additional control information, and reviews ways to improve the internal control program.

Capital Construction

To make certain that MTACC's agency officers and employees continue to maintain a satisfactory awareness and understanding of internal control standards, an Internal Control Training & Educational Program has been established.

A memorandum from the Agency President stressing the importance of having an effective and efficient internal control program, including management's responsibility for ensuring effective management control reviews and the agency's obligation to comply with the requirements of the Act, was sent to all employees on January 20, 2009.

Attached to this memorandum is a pamphlet entitled Internal Controls and You. The objective of the pamphlet is to provide employees with a basic understanding of internal controls and demonstrate how controls help MTACC meet its operational goals.

Numerous one-on-one training and information sessions were provided by the ICO to MTACC's ICC's during the certification period.

During the current certification period 33 employees, consisting predominately of new hires, completed MTACC's required two and a half hour course on Internal Controls. The source of this course is Standards for Internal Control in New York State Government.

In addition, an executive briefing on internal controls was given to MTACC's new senior management team and a short presentation on internal controls was given to the East Side Access Management Team at their March 2009 staff meeting.

- F. Periodically evaluate the need for an internal audit (IA) function. If an IA function exists, it should be maintained in compliance with generally accepted professional auditing standards. Authorities on the Division of the Budget's list of authorities required to establish IA functions – and those choosing to have an IA function – are required to comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (see BPRM Item B-350 Section III "IA Responsibilities").**

As outlined in BPRM Item B-350, authorities are required to periodically evaluate the need to establish, maintain or modify an IA function utilizing the *Internal Audit Evaluation Criteria* (Attachment C).

Authorities concluding that an IA function is warranted should submit their evaluation to DOB as outlined in BPRM Item B-350. Periodically thereafter, authorities with IA functions should review current operations to determine whether the function should be altered or maintained.

Authorities concluding an IA function is not warranted should periodically reevaluate the need for such a function using Attachment C, especially when organizational, operating, fiscal, program, legal, or personnel changes occur which affect the authority's exposure to risk or which could otherwise change the results of the initial assessment.

Pursuant to BPRM Item B-350, authorities required to have – and those entities choosing to have – an internal audit unit should comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Therefore, IA units should comply with the guidance outlined below regarding organizational placement, independence and reporting.

1. Directors of Internal Audit (DIA) should report functionally to the authority head or audit committee and may report administratively to the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the authority head.
2. A current organizational chart should be available that identifies the placement of the IA unit, the individual that has responsibility for overseeing the internal audit activity, and other organizations/activities under its purview.
3. The IA function should be independent of the ICO, but should work closely with the ICO. Limitations should be established on IC activities where those duties overlap. Authorities should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Furthermore, IA units should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).
4. Internal audit staff should complete an annual independence statement identifying actual/potential impairments to independence and notifying the DIA whenever a new actual/potential impairment arises.

5. At a minimum, DIAs should hold quarterly meetings with authority executive management and the audit committee, where applicable, to report on audit results. Final reports should be distributed to the authority head, executive deputy, auditee, ICO, and the audit committee.
6. The DIA should assure that agency audit staff have the skills, knowledge and ability to perform the audit work required, and that the size of the audit staff is appropriate given the size and complexity of the organization.
7. IA units should take steps to ensure sufficient audit resources are available given the size and complexity of the organization. This can be accomplished by exploring in-sourcing, outsourcing and sharing audit services.

For this requirement, the agency/authority is:

Not Applicable – This agency/authority does not have an IA function.

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement by providing the following information:

1. A current organizational chart identifying the placement of the IA unit, the name and title of the IA director, other organizations/activities under the IA function's purview and the name and title of the person to whom the IA director reports.

Attached

2. A description of how the internal audit director's credentials, education and experience meets the minimum qualifications established in BPRM Item B-350.

The MTA Auditor General is Michael J. Fucilli. He has a BS in Accounting and is a Certified Internal Auditor and Certified Fraud Examiner. He has over 30 years of experience in financial, operational, performance, and information systems auditing, of which more than 15 years have been at the executive level. This combination of experience and education, supported by the diverse education, experience and credentials (CPA, CIA, CFE, CISA) of the professional staff members within MTA Audit Services, meets or exceeds generally accepted internal auditing standards.

3. A description of how continuing professional education requirements are met by the director and each staff member.

As part of the External Auditors Engagement, a 2-day training session will be provided to the Audit staff yearly, starting in May 2008.

In addition, the department maintains a budget line for education and a policy. Subscriptions are purchased for the local seminars and workshops provided by IIA and ISACA. A subscription for online training is also maintained. Other training involves in-house classes for Audit Command Language training, ethics, professional development, and computer software skills. Also, as appropriate, members of the staff participate in the Citywide Training and State Seminars [on what?].

4. A description of how quality assurance review requirements are being met.

MTA Audit Services adheres to the Standards for Professional Practice in Internal Auditing promulgated by the Institute of Internal Auditors (IIA). In February 2008, at the request of the Audit Committee, PricewaterhouseCoopers conducted an independent quality assurance review and strategic business assessment of the organization, administration, and activities of MTA Audit Services. The results of this review confirmed full adherence to the standards of the profession.

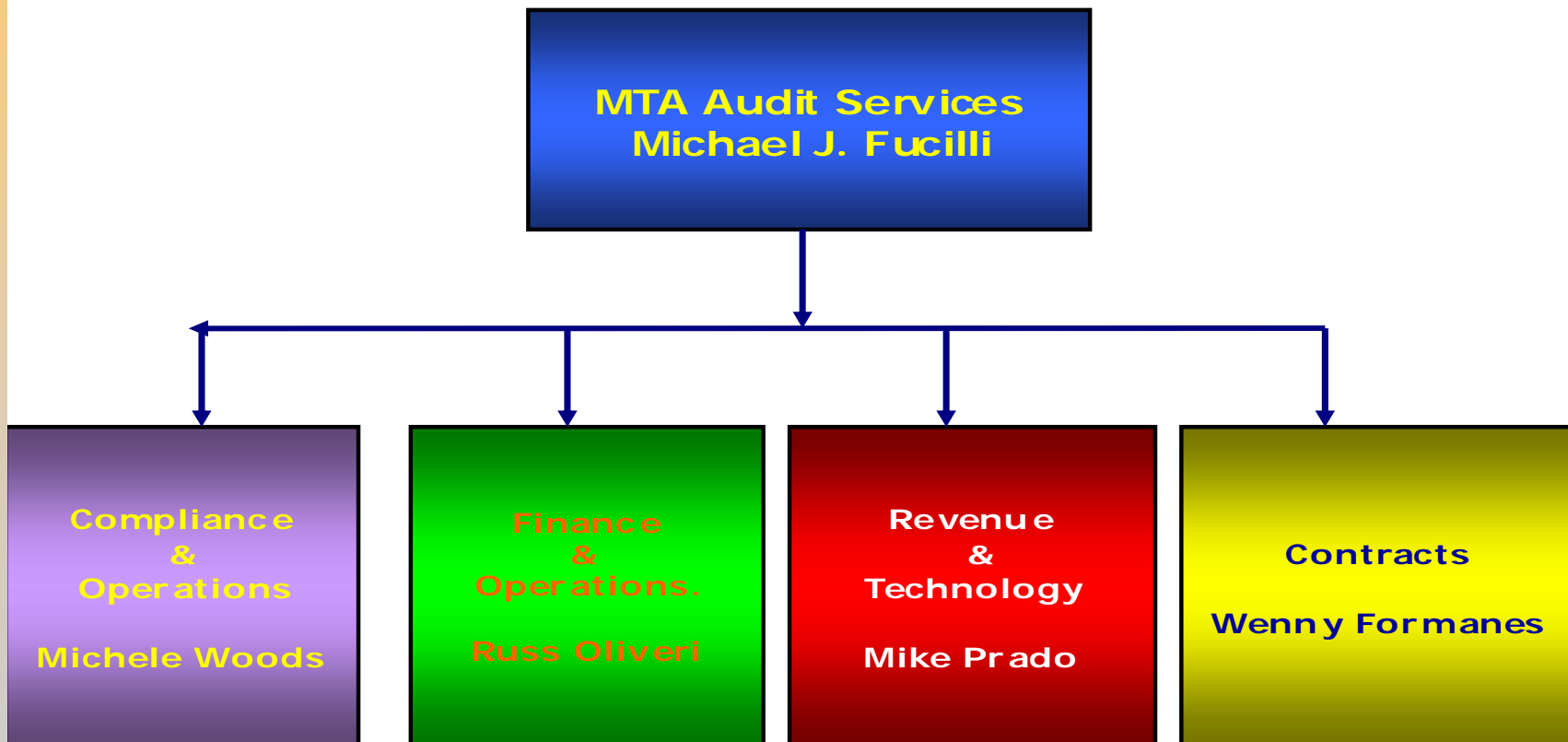
In addition, the department performs internal quality reviews of the workpapers for each audit conducted before the issuance of the report.

5. A description of how the IA function ensures that it does not compromise its independence if it is also responsible for other functions (i.e., internal control, information security or other duties).

The Auditor General has a reporting relationship with the Audit Committee of the MTA Board, the Chairman of the MTA, and the MTA Executive Director & Chief Executive Officer.

Audit Services performs audits, examinations, and provides consultation on specific management-requested issues and is not responsible for other business functions. The purpose, authority and responsibility of Audit Services are defined in its Charter, which also states that auditors are to have no authority or responsibility for the activities they audit.

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