



**Metropolitan Transportation Authority**

# **Audit Committee Meeting**

## **July 2011**

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### **Committee Members**

**J. Sedore Jr., Chair**

**M. Page, Vice Chair**

**A. Saul**

**J. Ballan**

**A. Cappelli**

**S. Metzger**

**C. Moerdler**



## MEETING AGENDA

### MTA AUDIT COMMITTEE

JULY 25, 2011 – 3:00 p.m.

347 Madison Avenue  
Fifth Floor Board Room  
New York, NY

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#### AGENDA ITEMS

#### PAGE

PUBLIC COMMENTS PERIOD	
1. APPROVAL OF MINUTES – JUNE 27, 2011	1
2. AUDIT COMMITTEE WORK PLAN	3
3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT – 1 <sup>ST</sup> QUARTER 2011 ( <i>materials previously distributed</i> )	
4. 2010 SINGLE AUDIT ( <i>materials previously distributed</i> )	
5. REPORT ON OPEN AUDIT RECOMMENDATIONS ( <i>materials previously distributed</i> )	
6. REPORT ON COMPLIANCE REQUIREMENTS OF INTERNAL CONTROL ACT ( <i>materials previously distributed</i> )	
7. 2011 AUDIT PLAN MID YEAR STATUS REPORT	11

Date of next meeting: Monday, September 26, 2011 at 3:00 p.m.

**MINUTES OF MEETING  
AUDIT COMMITTEE OF THE BOARD  
MONDAY, JUNE 27, 2011 – 3:00 P.M.  
5TH FLOOR BOARD ROOM  
347 MADISON AVENUE**

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The following were present:

**Honorable:**

**James Sedore  
Andrew Albert  
Susan Metzger**

**Jonathan Ballan**

**M. Fucilli - MTA  
R. Foran – MTA  
D. Jones – D&T**

**P. Kane - MTA  
B. Kluger – MTA/IG**

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**1. APPROVAL OF MINUTES**

The minutes of the April 21, 2011 Audit Committee meeting were approved. There was no meeting in May.

**2. AUDIT COMMITTEE WORKPLAN**

The Committee Chair reported the Independent Accountants' Review Report for the 1<sup>st</sup> Quarter 2011 Financial Statements originally scheduled to be presented at this month's meeting has been moved to July. In addition, the 2010 Single Audit Reports scheduled for this month have also been moved to July in order to allow time to address an issue with the FTA. The next Audit Committee meeting is scheduled for Monday, July 25, 2011 at 3:00 p.m.

**3. 2010 MANAGEMENT LETTERS**

David Jones (D&T) introduced the D&T audit team and then reviewed with the Committee the results of the 2010 Management Letters for all the MTA agencies. Deloitte reported that there was nothing that could be considered a material weakness or a reportable condition. However, there are a number of issues that deal with IT, specifically in the area of change management and password security. The report also noted that 15 bank accounts were opened by the MTA Real Estate Division without proper MTA authorization. In addition, there were a few comments relative to the Business Service Center and the 2011 year-end close that needed to be addressed.

The Committee asked for an update on the status of the 15 bank accounts noted in the report. Patrick Kane (MTA HQ) reported that the Comptroller's Office is following-up with Real Estate on this matter, and action was taken to prevent this from occurring in the future. A motion was made and seconded to approve the 2010 Management Letters.

The Chair inquired about follow-up on recommendations made in past management letter. Michael Fucilli (MTA HQ) indicated that there is a follow-up process in Audit Services. In addition, Lamond Kearse monitors any recommendations that have remained opened six months past the original due date and present those to the Committee. D&T also discusses any open recommendations when necessary with the agency.

4. **INVESTMENT COMPLIANCE REPORT**

David Jones advised the Committee that based on their audit of the consolidated financial statements of the MTA as of December 31, 2010, they noted no instances of noncompliance; therefore the Authority complied with the Authority's Investment Guidelines, the New York State Comptroller's Investment Guidelines and Section 2925 of the NYS Public Authorities Law. A motion was made and seconded to approve the Investment Compliance Report.

5. **AGREED UPON PROCEDURES REVIEW OF MTA IG'S OFFICE**

David Jones indicated that their review of the MTA IG's office operations revealed two minor exceptions relating to the bank reconciliation and the monthly expense report for December 2010. The MTA's records reported that the IG's bank accounts had more in cash than indicated on the IG's records; and the IG's monthly expense report was lower than the MTA's. Both these issues have continued to be reported over the past few years. Barry Kluger (MTA/IG) indicated that his office is taking action and hopes to resolve both these issues soon. A motion was made and seconded to approve the Agreed Upon Procedures Review.

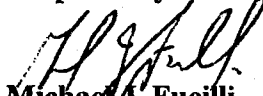
6. **MOTION TO ADJOURN**

A motion was made and seconded to adjourn the meeting.

**NEXT MEETING**

The next meeting of the Audit Committee is scheduled for July 25, 2011.

Respectfully submitted,

  
Michael J. Fucilli  
Auditor General

## 2011 – 2012 AUDIT COMMITTEE WORK PLAN

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### I. RECURRING AGENDA ITEMS

	<u>Responsibility</u>
Approval of Minutes	Committee Chair & Members
Audit Work Plan	Committee Chair & Members
Follow-up Items	As Appropriate
Status of Audit Activities	Auditor General/MTA IG/ Chief Compliance Officer/ External Auditor/As Appropriate
Executive Sessions	As Appropriate
Pre-Approval of Audit and Non-Auditing Services	As Appropriate

### II. SPECIFIC AGENDA ITEMS

#### July 2011

Quarterly Financial Statements – 1 <sup>st</sup> Quarter	External Auditor/CFOs
2010 Single Audit Report	External Auditor/CFOs
Report on Compliance with the Requirements of the Internal Control Act	Agency ICOs/Chief Compliance Officer
Agency Report on Open Audit Recommendations	Agency ICOs/Chief Compliance Officer
2011 Audit Plan Status Report	Auditor General

#### August 2011

*(No Meeting Scheduled)*

#### September 2011

Quarterly Financial Statements – 2 <sup>nd</sup> Quarter	External Auditor/CFOs
Appointment of External Auditors	CFOs/Controllers
Annual Audit Committee Report	Audit Committee

## II. SPECIFIC AGENDA ITEMS (CON'T.)

### Responsibility

#### October 2011

*(No Meeting Scheduled)*

#### November 2011

Review of Audit Committee Charter  
Audit Approach Plans/  
Coordination with External Auditors  
Information Technology Reports

Committee Chair  
External Auditor  
Chief Information Officers

#### December 2011

*(No Meeting Scheduled)*

#### January 2012

Quarterly Financial Statements – 3<sup>rd</sup>  
Quarter 2011  
2010 Pension Audits  
2011 Audit Plan Status Report  
2012 Audit Plan

External Auditor/CFOs  
External Auditors  
Auditor General  
Auditor General

#### February 2012

Financial Interest Reports  
MTA Ethics Program  
Agency Report on Open Audit  
Recommendations  
Discussion with MTA Inspector General\*  
Committee Self Assessment\*  
\*(Executive Session)

Chief Compliance Officer  
Chief Compliance Officer  
Agency ICOs/Chief Compliance Officer  
MTA/IG  
Chief Compliance Officer

#### March 2012

*(No Meeting Scheduled)*

**II. SPECIFIC AGENDA ITEMS (CON'T.)**

Responsibility

April 2012

2011 Financial Statements w/Audit  
Representation Letters  
Contingent Liabilities/Third Party  
Lawsuits (Executive Session)

External Auditor/CFOs/Controllers

General Counsels/External Auditor

May 2012

*(No Meeting Scheduled)*

June 2012

Investment Compliance Report  
Review of Inspector General's Office  
Management Letter Reports

External Auditor

External Auditor

External Auditor/CFOs/Controllers

# **2011-2012 AUDIT COMMITTEE WORK PLAN**

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## **Detailed Summary**

### **I. RECURRING AGENDA ITEMS**

#### **Approval of Minutes**

Approval of the official proceedings of the previous month's Committee meeting.

#### **Audit Work Plan**

A monthly update of any edits and/or changes in the work plan.

#### **Pre-approval of Audit and Non-Auditing Services**

As appropriate, all auditing services and non-audit services to be performed by external auditors will be presented to and pre-approved by the Committee.

#### **Follow-Up Items**

Communications to the Committee of the current status of selected open issues, concerns or matters previously brought to the Committee's attention or requested by the Committee.

#### **Status of Audit Activities**

As appropriate, representatives of MTA's public accounting firm or agency management will discuss with the Committee significant audit findings/issues, the status of on-going audits, and the actions taken by agency management to implement audit recommendations.

#### **Executive Sessions**

Executive Sessions will be scheduled to provide direct access to the Committee, as appropriate.

### **II. SPECIFIC AGENDA ITEMS**

## **Detailed Summary**

### **JULY 2011**

#### **Quarterly Financial Statements**

Representatives of MTA's public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the first quarter of 2011.

#### **2010 Single Audit Reports**

Representatives of MTA's public accounting firm will provide the results of their federally mandated single audit reviews at the MTA, NYC Transit and LI Bus.

## Report on Compliance with the Requirements of the Internal Control Act

The Committee will be briefed by the MTA Chief Compliance Officer and Agency Internal Control Officers on the results of the All-Agency Internal Control Reports issued to the NYS Division of the Budget as required by the Government Accountability, Audit and Internal Control Act.

## 2011 Audit Plan Status Report

A briefing by Audit Services that will include a status of the work completed as compared to the audits planned for the year, a summary of the more significant audit findings, results of audit follow-up, and a discussion of the other major activities performed by the department.

## Agency Report on Open Audit Recommendations

The MTA Chief Compliance Officer and Agency Internal Control Officers will report to the Committee on the status of audit recommendations previously accepted by their respective agency.

## **AUGUST 2011**

*No Meeting Scheduled*

## **SEPTEMBER 2011**

### Quarterly Financial Statements

Representatives of MTA's public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the second quarter of 2011.

### Appointment of External Auditors

The Audit Committee will review the reappointment of Deloitte & Touche as the independent auditor for MTA HQ and all the agencies. This is the third year of a seven year contract. As part of this process, the Auditor General has reviewed and provided to the Committee, and will retain on file, the latest report of the firm's most recent internal quality control review.

### Annual Audit Committee Report

As a non-agenda information item, the Audit Committee will be provided with a draft report which outlines the Audit Committee's activities for the 12 months ended July 2011. This report is prepared in compliance with the Audit Committee's Charter. After Committee review and approval, the Committee Chair will present the report to the full MTA Board.

## **OCTOBER 2011**

*No Meeting Scheduled*

## **NOVEMBER 2011**

### Review of Audit Committee Charter

The Committee Chair will report that the Committee has reviewed and assessed the adequacy of the Audit Committee Charter and, based on that review, will recommend any changes for 2012. The review will also show if the Committee's performance in 2011 adequately complied with the roles and responsibilities outlined in its Charter (i.e. monitoring and overseeing the conduct of MTA's financial reporting process; application of accounting principles; engagement of outside auditors; MTA's internal controls; and other matters relative to legal, regulatory and ethical compliance at the MTA).

### Audit Approach Plans/Coordination With External Auditor

Representatives of MTA's public accounting firm will review their audit approach for the 2011 year-end agency financial audits. This review will describe the process used to assess inherent and internal control risks, the extent of the auditor's coverage, the timing and nature of the procedures to be performed, and the types of statements to be issued. In addition, the impact of new or proposed changes in accounting principles, regulations, or financial reporting practices will be discussed.

### Information Technology Reports

The Chief Technology/Information Officers or appropriate management from the respective agencies will review, with the Committee, the actions taken to address issues raised in both internal and external audits concerning system security and control related issues. This will include the status of prior year recommendations that have yet to be implemented and compliance to MTA Agency-wide policies and procedures.

## **DECEMBER 2011**

*No Meeting Scheduled*

## **JANUARY 2012**

### Quarterly Financial Statements

Representatives of the MTA public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the third quarter of 2011.

## 2010 Pension Audits

Representatives of the MTA public accounting firms will provide the results of their reviews of the pension plans that are managed and controlled by MTA HQ, Long Island Rail Road, Metro-North and NYC Transit.

## 2011 Audit Plan Status Report

A briefing by Audit Services that will include a status of the work completed, a summary of the more significant audit findings, and a discussion of the other major activities performed by the department.

## 2012 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2012 as well as the guidelines and policies that were used to assess audit risk and their application in the development of the audit work plan.

## **FEBRUARY 2012**

### Financial Interest Reports

The MTA Chief Compliance Officer will brief the Committee as to the agencies' compliance with the State Law regarding the filing of Financial Interest Reports (FIRs), including any known conflicts of interest.

### MTA Ethics Program

The MTA Chief Compliance Officer will brief the Committee on selected aspects of the MTA Ethics Program.

### Agency Report on Open Audit Recommendations

The MTA Chief Compliance Officer and Agency Internal Control Officers will report to the Committee on the status of audit recommendations previously accepted by their respective agency.

### Audit Committee Self Assessment

The MTA Chief Compliance Officers will review with the Committee, in Executive Session, the results of the self-assessment report.

### MTA Inspector General

The MTA Inspector General will meet with the Committee, in Executive Session, to discuss issues currently under review by the OIG.

## **MARCH 2012**

*No Meeting Scheduled*

## **APRIL 2012**

### 2011 Financial Statements and Audit Representation Letters

The agency CFOs/Controllers will be available to the Committee to answer any questions regarding the submission of their audit representation letters to the external audit firm. The MTA public accounting firm will review the results and conclusions of their examination of the 2011 Financial Statements.

### Contingent Liabilities and Status of Third Party Lawsuits

The General Counsels from each agency, along with representatives from D&T, will review in Executive Session the status of major litigation that may have a material effect on the financial position of their agency, or for which a contingency has been or will be established and/or disclosed in a footnote to the financial statements. In addition, the Committee will be briefed on the status of third party lawsuits for which there has been minimal or sporadic case activity.

## **MAY 2012**

*No Meeting Scheduled*

## **JUNE 2012**

### Investment Compliance Report

Representatives of the MTA's public accounting firm will provide a review of MTA's compliance with the guidelines governing investment practices.

### Management Letter Reports

Reports will be made by the MTA's public accounting firm on the recommendations made in the auditors' Management Letter for improving the accounting and internal control systems of the MTA and its agencies. The report will also include management's response to each Management Letter comment. The response will describe the plan of action and timeframe to address each comment. In addition, the report will contain a follow-up of prior years' open recommendations conducted by the external audit firm.

### Review of Inspector General's Office

Representatives of MTA's public accounting firm will provide the results of their review of the MTA/IG's operation to ensure compliance with applicable regulations, rules, policies and procedures.

# **MTA Audit Services 2011 Audit Plan**

## **Mid-Year Status Report**

**July 25, 2011**

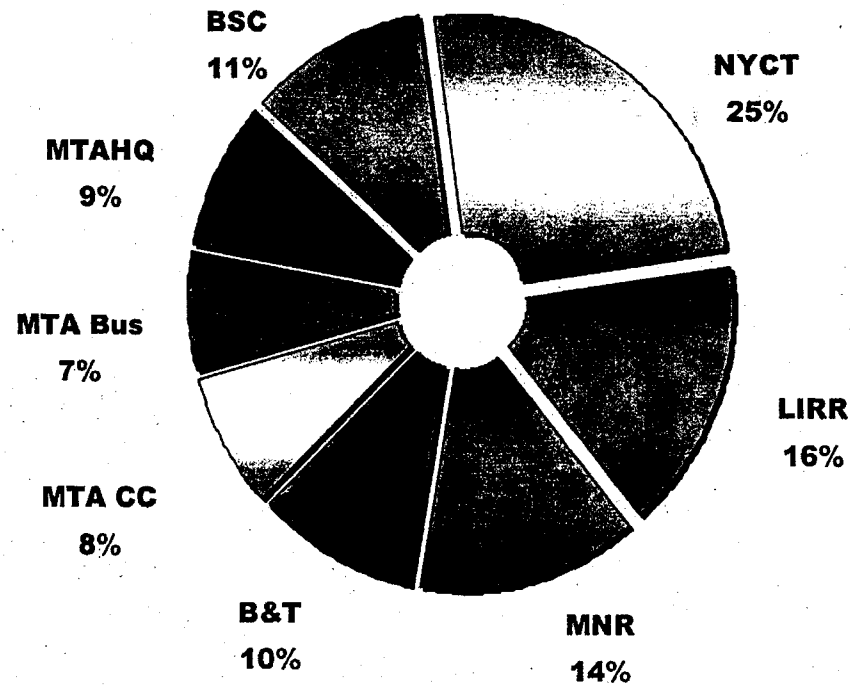
# Agenda

- **2011 Goals**
- **Audit Plan Status**
- **Management Surveys**
- **Second Half of 2011**

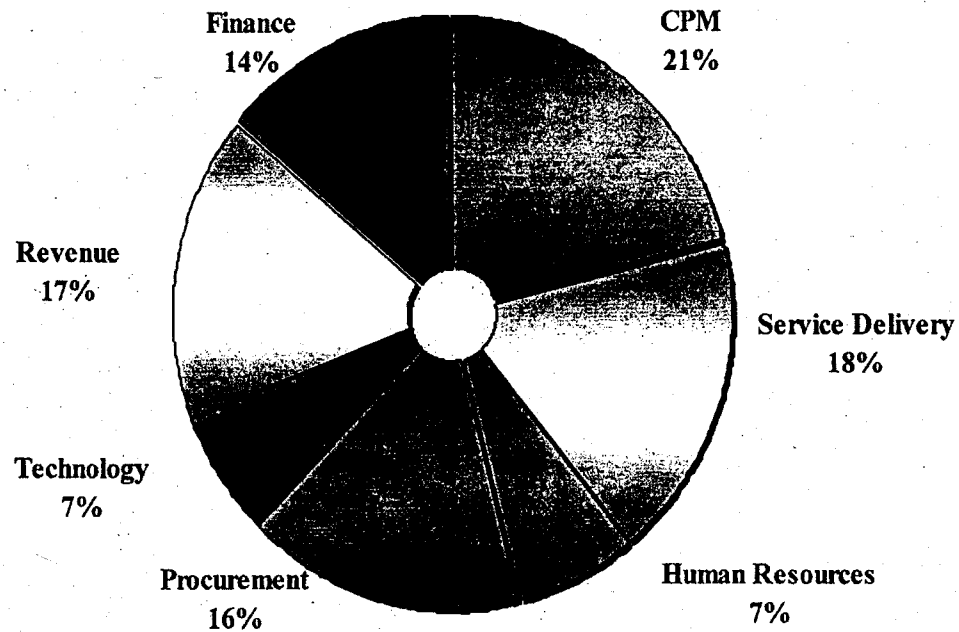
# **2011 Audit Strategy**

- Focus the Audit work on Internal Controls, Work Processes, and Cost Reductions.**
- Support Agency-wide Goals & Initiatives**
- Balance Risk & Business Implications**
- Promote Effective Corporate Governance**
- Secure implementation of Audit Recommendations**

# 2011 RESOURCE ALLOCATION



# 2011 RESOURCE ALLOCATION



# **2011 Mid-Year Highlights**

- ❑ Business Center Support**
- ❑ Capital Procurement Task Force**
- ❑ American Recovery & Reinvestment Act Funded Contracts**
- ❑ NYC Transit Bus Purchases**
- ❑ HIP Billings**

# **2011 *Mid-Year Plan Summary***

## **Financial/Operational/Technology**

- **Projects Completed** = **66**
- **Recommendations** = **309**
- **Savings/Cost Efficiencies** = **\$ 17.2M**

## **Contracts**

- **Projects Completed** = **65**
- **\$ Audited** = **\$ 526 M**
- **Questioned Costs** = **\$ 25.4M**

**Total = \$ 42.6M**

# **PERFORMANCE AGREEMENTS**

# Annual Surveys

## 2011 Presidents' Survey

<u>Category (1-5 range)</u>	<u>2011</u>	<u>2010</u>
AUDIT COVERAGE	4.6	4.3
RESPONSIVENESS & COMMUNICATIONS	4.6	4.2
PARTICIPATION IN AGENCY/MGT FORUMS	4.4	4.0
AUDIT PERFORMANCE	4.4	4.3

# **2011 – 2<sup>nd</sup> Half Key Audits**

- ❑ **Enterprise Capital Program Organizational Review**
- ❑ **NYC Transit Capital Procurement Workflow**
- ❑ **B&T Kronos Operational Workflow**
- ❑ **Business Center Accenture Deliverables**
- ❑ **Signal Maintenance Follow-up**
- ❑ **Medical Costs**
- ❑ **MNR Single Trailer Cars Purchase**

# **2<sup>nd</sup> Half of 2011**

- **Coordinate Activities with:**
  - **Agency Management**
  - **MTA Inspector General**
  - **Independent Public Accounts**
  - **City/State Comptrollers' Office**
- **Participate in Best Practice Audit Forums**

**QUESTIONS?**