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April 24, 2008

The Audit Committee
Metropolitan Transportation Authority
New York, New York

And

The Management of Metropolitan Transportation Authority
New York, New York

Dear Members of the Audit Committee and Management:

In planning and performing our audit of the financial statements of Metropolitan Transportation Authority ("MTA") as of and for the year ended December 31, 2007 (on which we have issued our report dated April 24, 2008), which contains an explanatory paragraph regarding the adoption of Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Post Employment benefits Other Than Pensions*, in accordance with auditing standards generally accepted in the United States of America, we considered the MTA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MTA's internal control over financial reporting.

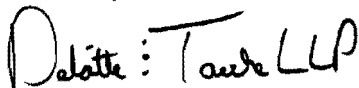
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix, control deficiencies related to the MTA's internal control over financial reporting and other matters as of December 31, 2007, that we wish to bring to your attention.

The definition of a control deficiency is also set forth in the attached Appendix.

Although we have included management's written response to our comments in the attached Appendix, such responses have not been subjected to the auditing procedures applied in our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

This report is intended solely for the information and use of management, the Audit Committee, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

A handwritten signature in black ink that reads "Deloitte : Touche LLP". The signature is written in a cursive, flowing style.

SECTION I –CONTROL DEFICIENCIES

We identified the following control deficiencies involving the MTA’s internal control over financial reporting as of December 31, 2007 that we wish to bring to your attention:

1. EXPENSE CUTOFF

Observation:

Vendor invoices received by the MTA were not recorded in a timely manner.

Background:

During the review of “Invoices Received but not Recorded” as of March 11, 2008, it was noted that a number of unrecorded invoices received were dated January 2008 and earlier. Accounts Payable explained that the inability to record these invoices timely could be the result of one of the following:

- The invoice was resent by the vendor using the original invoice date (repeat invoice).
- The invoice was misplaced upon receipt by the MTA.
- The invoice was sent late by the vendor.
- The invoice was awaiting proper approval prior to recording.

Recommendation:

Monthly cutoff procedures should be established so that expenses are recorded in a timely manner. This would ensure that payables are recognized in the proper period.

Management Response:

Management agrees with the recommendation. MTA is currently in the process of implementing a new electronic routing system for PeopleSoft. This new procedure will record all invoices received by the Authority. The system is currently in the design phase, and phase one of the project will go live in the fourth quarter of 2008. Roll outs to all MTA departments will begin in the first quarter of 2009.

SECTION I –CONTROL DEFICIENCIES (continued)

2. NO REVIEW OF SUBSEQUENTS DISBURSEMENTS PERFORMED DURING THE CLOSING PERIOD

Observation:

The MTA did not review disbursements made subsequent to year-end for appropriate cut-off.

Background:

The review of disbursements made during the closing period (January-April) revealed that disbursements were not subject to an MTA review to determine whether the disbursements pertained to expenses of the prior year and therefore should be accrued at year-end.

Recommendation:

The MTA should review all disbursements made during the year-end closing period to determine if additional accruals should be recorded in the financial statements.

Management Response:

Management agrees with the recommendation and has implemented a procedure to review disbursements on a quarterly basis. Accounts Payable now issues a report after the subsequent closing date in order to capture any invoices processed for the preceding period. The generated report is submitted to MTAHQ Accounting and distributed to MTA agencies who perform an analysis and records the outstanding liability.

SECTION I –CONTROL DEFICIENCIES (continued)

3. SECURITY DEPOSIT PAYABLE

Observation:

Files needed to substantiate a security-deposit liability in general ledger account #201431 could not be located.

Background:

The source of the security deposit balance in general ledger account #201431 was unknown, and the bank account in which these funds were deposited was also unknown. It was thought that these funds were related to security deposits received from tenants at 341 Madison Avenue (either Nine West or the Tennis Racquet Shop), but no evidence to support this level of specificity was provided. The general ledger was researched back to 2002 and it was discovered that no activity had been posted to this account.

Recommendation:

The absence of supporting documents for security deposits could result in understating liabilities for accrued interest, along with the possible loss of cash assets since the custodian of the funds is unknown.

The MTA should undertake exhaustive research measures through examination of its accounting records and systems (old and new) to determine where the assets are held, to whom the liability is potentially payable, and to determine whether interest on the balance has accrued.

Management Response:

Management agrees with this recommendation and the Real Estate department has performed an analysis of the outstanding liability and determined that no claims currently exist. The account has been closed.

SECTION I –CONTROL DEFICIENCIES (continued)

4. PEOPLESOFT AND IMPACT APPLICATION SECURITY

Observation:

An assessment of the PeopleSoft and IMPACT environments identified that there are some terminated users whose IDs were not deactivated or deleted from the system.

Background:

PeopleSoft HR

There are 2 user accounts that were active in the system even though the users were terminated.

IMPACT

There are 4 user accounts that were active in the system even though the users were terminated.

Recommendation:

Management should consider disabling or deleting the user IDs for terminated users in PeopleSoft HR and IMPACT.

Management should consider developing a process where designated individuals from the Human Resources (HR) department provides the PeopleSoft and IMPACT security teams with a list terminated users in a timely manner. This will assist the Security teams in disabling or deleting IDs timely for terminated users to prevent unauthorized access to the system.

Corrective Action Taken:

PeopleSoft HR

Per discussion with management, the IDs for the 2 users in PeopleSoft HR have been marked as terminated and deactivated as of January 14, 2008.

IMPACT

Per discussion with management, the IDs for the 4 users in IMPACT have been removed from the system as of January 14, 2008.

Management's Response:

PeopleSoft Security Administrators were already receiving termination notification for all employees on the MTA Civilian payroll. This notification was the basis for the revocation (locking) of PeopleSoft accounts for terminated employees. However, the issue identified during the audit concerned employees who were on the MTA Police payroll. Effective March 3, 2008, the notification process has been

SECTION I – CONTROL DEFICIENCIES (continued)

enhanced to also identify termination for employees on the MTA Police payroll. Accordingly, termination notification is now received for all employees paid from PeopleSoft.

As a further enhancement, a regularly published summary report of all terminations will be implemented by the third quarter of 2008. This will provide an effective cross-check to ensure that all terminations of the employees paid from PeopleSoft has been properly recorded.

There is no central repository of status for PeopleSoft ID holders who are not paid from the PeopleSoft system (this includes individuals on MTA agency payrolls, consultants, and other temporary workers). IDs issued to these individuals are disabled via two mechanisms. The first is a recently developed (February, 2008) semi-automated procedure to lock out any PeopleSoft ID that has not been used in the past 90 days. The second is the Annual Recertification process that will identify all IDs belonging to individuals who are no longer associated with the MTA.

For IMPACT, MTA will extend the termination notification process used with PeopleSoft ID's (described above) to the IMPACT userid Administrators. This will enable them to initiate the de-activation of any affected usersids within IMPACT. This process will not cover (non MTA) agency users of IMPACT. The de-activation of these usersids will be achieved via the annual re-certification process.

Long term solutions, currently under consideration, that will alleviate these issues include: the use of Federated Identity Management services in tandem with a userid provisioning standard across all agencies; and/or, the development of a single HR/Payroll system (reference MTA Shared Services initiative).

SECTION II – PRIOR YEAR COMMENTS (2006) – OTHER MATTERS

Our observations concerning other matters related to prior year's operations that we wish to bring to your attention are as follows:

1. AGED REQUEST FOR PROPOSAL ("RFP") DEPOSITS PAYABLE

Observation:

The MTA has aged RFP deposits payable recorded in the general ledger dating back prior to 2001.

Background:

When a prospective tenant wants to enter into a rental agreement with the MTA, the prospective tenant must fill out an RFP form and submit a deposit. The deposit is recorded in liability account 20/1411. This account includes all payables relating to RFP deposits prior to 2001 (years 1994 through 2001). All prospective tenants who are not awarded the rental agreement will have their deposits returned to them. If the tenant wins the proposal, then the monies are removed from account 20/1411 and deposited into a Carver Deposit Payable account and maintained for the duration of the rental agreement.

Recommendation:

The MTA should investigate these aged RFP deposits payables and take action to remit the balances to the appropriate parties, thus eliminating the liability in the general ledger.

Management Response (2006):

Management agrees. The Comptroller's Department will coordinate the review process with the Real Estate Department. A new process will be developed jointly with Real Estate to create open items and adjust the corresponding liability account on a timelier basis.

Status Update (2007):

This issue has not been resolved.

We reiterate our comment from prior year and this issue is still open.

Management's Response (2007):

Management agrees with the recommendation. Real Estate periodically reviews the amounts deposited for RFP's. The liability account is currently being analyzed by Real Estate. It is Real Estate's intent to provide disbursement instructions to the Comptroller's office in order to relieve any pending liability. This was a goal for 2007, but staffing constraints within Real Estate's Tenant Management Unit caused the work to be deferred into 2008.

SECTION II – PRIOR YEAR COMMENTS (2006) – OTHER MATTERS (continued)

2. RECONCILING ITEMS OLDER THAN ONE YEAR

Observation:

Consistent with prior year, the MTA's bank reconciliations contained accounts with outstanding checks and other miscellaneous reconciling items that were older than one year.

Background:

The MTA prepares monthly bank reconciliations in order to help detect and prevent errors caused by the misappropriation of cash and to bring to management's attention those items which require further research in order to be resolved. Upon testing of these bank reconciliations, it was noted that there were certain outstanding checks and other miscellaneous items that were included as outstanding that were older than twelve months.

Recommendation:

On a go-forward basis, the MTA needs to be more proactive in resolving the above mentioned reconciling items. This will help to minimize the amount of clerical work it takes to perform the monthly bank reconciliations and will also help to ensure that the internal control structure, as it relates to the safeguarding of cash, is functioning as the MTA's management intended.

Management Response (2006):

Management agrees. Currently Accounts Payable is informed monthly of the stale dated checks and an effort is being made to ascertain why these checks have not been cashed. This involves contacting user departments and vendors in completing this analysis. If necessary, the original check will be voided and a new check is reissued.

Status Update (2007):

This issue has not been resolved.

We reiterate our comment from prior year and this issue is still open.

Management's Response (2007):

Management agrees with the recommendation and in 2007 has begun the clean up of old reconciling items. The majority of the unreconciled items have been resolved. Stale dated checks are being reviewed by accounts payable and for checks which still remain uncashed, a stop payment is issued after verification with the vendor. This process will continue in 2008 to reduce outstanding checks.

SECTION III – DEFINITIONS

The definition of a control deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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