



**Metropolitan Transportation Authority**

# **Audit Committee Meeting**

## **June 2011**

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### **Committee Members**

J. Sedore Jr., Chair  
M. Page, Vice Chair  
A. Saul  
A. Cappelli  
S. Metzger  
C. Moerdler



Metropolitan Transportation Authority

## MEETING AGENDA

### MTA AUDIT COMMITTEE

JUNE 27, 2011 – 3:00 p.m.

347 Madison Avenue  
Fifth Floor Board Room  
New York, NY

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#### AGENDA ITEMS

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- PUBLIC COMMENTS PERIOD
1. APPROVAL OF MINUTES – APRIL 21, 2011 1
  2. AUDIT COMMITTEE WORK PLAN 3
  3. INVESTMENT COMPLIANCE REPORT \*
  4. AGREED-UPON PROCEDURES REVIEW – MTA IG'S OFFICE \*
  5. 2010 MANAGEMENT LETTERS\*
    - METROPOLITAN TRANSPORTATION AUTHORITY
    - THE LONG ISLAND RAIL ROAD COMPANY
    - METRO-NORTH COMMUTER RAILROAD COMPANY
    - TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
    - MTA BUS COMPANY
    - FIRST MUTUAL TRANSPORTATION ASSURANCE CO.
    - NEW YORK CITY TRANSIT AUTHORITY
    - STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
    - METROPOLITAN SUBURBAN BUS AUTHORITY

*\*(materials previously distributed)*

Date of next meeting: Monday, July 25, 2011 at 3:00 p.m.

**MINUTES OF MEETING  
AUDIT COMMITTEE OF THE BOARD  
MONDAY, APRIL 21, 2011 – 3:00 P.M.  
5TH FLOOR BOARD ROOM  
347 MADISON AVENUE**

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The following were present:

Honorable:

James Sedore	Susan Metzger
Mark Page	Andrew Albert
Donald Cecil	Doreen Frasca

M. Fucilli - MTA	K. McKenna - NYCT
R. Foran - MTA	P. Kane - MTA
D. Jones - D&T	

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1. APPROVAL OF MINUTES

The minutes of the February 17, 2011 Audit Committee meeting were approved.

2. AUDIT COMMITTEE WORKPLAN

The Committee Chair indicated that there is no meeting scheduled for May and the next meeting is June 27, 2011. The agenda for the June meeting will include the 2010 management letter for each agency; the MTA's investment compliance report; the agreed-upon procedures review for the MTA IG's office, and the 2010 single audit report. Robert Foran (MTA) indicated that the quarterly financial report for the first quarter of 2011 has been moved from the June to the July meeting due to the implementation of the new financial reporting system. Michael Fucilli requested that an item be added for the Committee to review and approve the funding for additional audit services for Metro North's CDOT agreement.

3. REQUEST FOR ADDITIONAL AUDIT SERVICES

Steve DiMichael (MNR) briefed the Committee on the need to engage Deloitte to perform an audit of the Amended and Restated Services Agreement (ARSA) which allocates costs and revenue on the New Haven Line between Metro-North Railroad (MNR) and the Connecticut Department of Transportation (CDOT). The audit fee of up to \$100,000 will be shared 65% by CDOT and 35% by MNR. Steven indicated that in the past there have been billing disputes that took time to resolve, and it was agreed that an audit would help mitigate this problem. The Committee inquired as to why an audit has not been done in the past. Steven responded that while it has not been audited by an outside agency in the past, the bill was always reviewed by CDOT; but both CDOT and MNR agreed that this review is not enough. The Committee also asked if this audit would be conducted every year in the future, and Steve indicated that it would. A motion was made and accepted to approve the request.

4. **2010 FINANCIAL STATEMENTS**

David Jones (D&T) advised the Committee that they completed the audits of the consolidated financial statements of the MTA and its agencies. The audit was performed in accordance with generally accepted auditing standards. Dave indicated that there are no material weaknesses to report, and a management letter will be provided to the Committee at a later date. David briefed the Committee on which accounting estimates and management judgments were reviewed as part of the audit and there were no uncorrected misstatements identified during the audit. The audit also included a review of significant accounting policies which were determined to be in accordance with generally accepted accounting principles and that their use was appropriate. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was adopted by the MTA with the 2010 financial statement, and David gave a brief discussion on GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. He also indicated there were no disagreements with management nor were any significant issues discussed prior to Deloitte's retention. Finally, David indicated that no difficulties were encountered in performing the audit.

The Committee inquired about the large number of claims and judgments pending against the MTA and its agencies. David explained that management reviews these pending cases and if they believe they may lose a significant case, they will estimate and book a reserve. Kevin McKenna (NYCT) advised that there are two reserve accounts currently, one for injuries to third parties with \$422 million and one for worker's compensation with \$720 million. The Committee also asked what the expected rate of return was on the pension fund. Robert Foran (MTA) responded that it is 8%, but the New York State Comptroller recently suggested that it should be set at 7.5%.

Motion was made and seconded to approve the 2010 financial statements.

5. **EXECUTIVE SESSION**

Motion was made and approved to go into Executive Session to allow the Committee to discuss current litigation with the agencies' General Counsels.

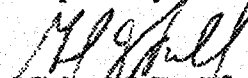
6. **MOTION TO RETURN TO PUBLIC SESSION**

A motion was made and seconded to return to public session.

7. **MOTION TO ADJOURN**

A motion was made and seconded to adjourn the meeting.

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

	<u>Responsibility</u>
<u>June 2011</u>	
Investment Compliance Report	External Auditor
Review of Inspector General's Office Management Letter Reports	External Auditor
2010 Single Audit Report	External Auditor/CFOs/Controllers External Auditor/CFOs
<u>July 2011</u>	
Quarterly Financial Statements – 1 <sup>st</sup> Quarter Report on Compliance with the Requirements of the Internal Control Act	External Auditor/CFOs
Agency Report on Open Audit Recommendations	Agency ICOs/Chief Compliance Officer
2011 Audit Plan Status Report	Agency ICOs/Chief Compliance Officer Auditor General

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

### August 2011

*(No Meeting Scheduled)*

### September 2011

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

### Responsibility

External Auditor/CFOs  
CFOs/Controllers  
Audit Committee

### 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

II. SPECIFIC AGENDA ITEMS (CON'T)

Responsibility

March 2012

*(No Meeting Scheduled)*

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)*

# **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**

##### **JUNE 2011**

#### **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.

### 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.

## **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.

### 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 2011 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*