



Metropolitan Transportation Authority

Audit Committee Meeting

January 2012

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

JANUARY 23, 2012 – 3:15 p.m.

347 Madison Avenue
Fifth Floor Board Room
New York, NY

AGENDA ITEMS

PAGE

PUBLIC COMMENTS PERIOD

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| 1. APPROVAL OF MINUTES – NOVEMBER 14, 2011 | 1 |
| 2. AUDIT COMMITTEE WORK PLAN | 3 |
| 3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT –
3RD QUARTER 2011* | |
| 4. 2010 PENSION AUDITS | |
| ➤ MNR CASH BALANCE PLAN* | |
| ➤ MNR DEFINED CONTRIBUTION PLAN* | |
| ➤ MaBSTOA PENSION PLAN* | |
| ➤ MTA DEFINED BENEFIT PENSION PLAN* | |
| ➤ LIRR COMPANY PLAN FOR ADDITIONAL PENSIONS* | |
| 5. 2011 AUDIT PLAN YEAR-END REPORT | 10 |
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* (materials previously distributed)

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
MONDAY, NOVEMBER 14, 2011 – 4:00 P.M.
5TH FLOOR BOARD ROOM
347 MADISON AVENUE
NEW YORK, NEW YORK 10017**

The following were present:

Honorable:

**James L. Sedore
Jonathan Ballan**

**Susan Metzger
Charles Moerdler**

**M. Fucilli – MTA
W. Hibri - MTA
R. Foran – MTA**

**D. Jones – D&T
L. Kearse - MTA
P. Kane - MTA**

1. APPROVAL OF MINUTES

The Minutes of the September 26, 2011 Audit Committee Meeting were approved.

2. AUDIT COMMITTEE WORK PLAN

The Committee Chair indicated that there is no meeting scheduled for December. The next meeting is scheduled for January 2012 at which time the results of the 2011 third quarter financial statement review will be discussed. The Committee was also advised that there will be five meetings scheduled in 2012.

3. REVIEW OF AUDIT COMMITTEE CHARTER

The Committee Chair informed the Committee that the Charter has been changed to reflect the requirement that all members of the Audit Committee be familiar with corporate financial and accounting practices and the required minimum number of annual Audit Committee meetings as stated in the Charter has been reduced from six to four. The actual number of meetings in 2012 will be five. This change had already been approved at a previous Governance Committee meeting which was held just before today's Audit Committee meeting.

4. REVISIONS TO MTA INTERNAL CONTROL PROGRAM

Lamond Kearse (MTA) briefed the Committee on proposed revisions to the MTA's Enterprise Risk Management and Internal Control Guidelines. He pointed out that these guidelines, which establish an effective system of internal controls, were last reviewed by the MTA Board in 1990. The proposed revisions include providing a common nomenclature and the same risk assessment modules for all of the Agencies to follow as part of their Internal Control Program. A motion was made and seconded to approve the proposed program revisions.

5. 2011 AUDIT APPROACH PLAN

David Jones (D&T) briefed the Committee on Deloitte's approach for the 2011 annual audit of financial statements. He introduced the supervisory staff for the audit and indicated which agencies and/or functions they will manage. He also referred the Committee's attention to a copy of the proposed 2011 MTA Client Service Plan and advised that it is not for distribution. He briefed the Committee on the preliminary planning process and the rather lengthy process of reviewing the financial statements to identify areas of potential misstatements and the corresponding review of controls which would prevent those errors from occurring. A plan of testing is then developed to determine whether those controls can be relied on. He also directed the Committee's attention to page 16 of the plan which listed the areas of audit focus for 2011. He indicated that Deloitte has reviewed a number of areas at the BSC including Accounts Payable, Fixed Assets, Payroll, General Accounting, and Treasury, and testing of the internal controls at the BSC will continue. Finally, he briefed the Committee on the Risk Assessment process and directed the Committee's attention to a copy of Deloitte's latest peer review which was included in the information provided to the Committee.

6. INFORMATION TECHNOLOGY REPORT

Wael Hibri (MTA) directed the Committee's attention to the MTA Enterprise section of the *"Information Systems Security & Controls Report"* that was provided in their agenda package. He pointed out that the report consists of three main sections, Enterprise IT Initiatives, Security Oversight, and Key Control Areas. He indicated that reviews of the various applications in use at the MTA has resulted in a savings of \$25.8 million; the consolidation of computer rooms has netted a savings of \$13.3 million; and the consolidation of two redundant wide area networks is forecasted to save the MTA a total of \$13.7 million. In addition, security monitoring has been turned over to NYC Transit, which should save the MTA a total of \$4.1 million. In total, these and other actions should save the MTA \$77.2 million over the next five years.

7. MOTION TO ADJOURN

A motion was made and seconded to adjourn the meeting

The next meeting of the Audit Committee is scheduled for January 23, 2012.

Respectfully submitted,


Michael J. Fucilli
Auditor General

2012 – 2013 AUDIT COMMITTEE WORK PLAN

I. RECURRING AGENDA ITEMS

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

II. SPECIFIC AGENDA ITEMS

January 2012

Quarterly Financial Statements – 3 rd Quarter 2011	External Auditor/CFOs
Pension Audits	External Auditor
2011 Audit Plan Status Report	Auditor General
2012 Audit Plan	Auditor General

February 2012

(No Meeting Scheduled)

March 2012

(No Meeting Scheduled)

April 2012

Financial Statements w/Audit Representation Letters	External Auditor/CFOs/Controllers
Contingent Liabilities/Third Party Lawsuits (Executive Session)	General Counsels/External Auditor
Financial Interest Reports	Chief Compliance Officer

II. SPECIFIC AGENDA ITEMS (CON'T.)

Responsibility

May 2012

(No Meeting Scheduled)

June 2012

(No Meeting Scheduled)

July 2012

Quarterly Financial Statements – 1st Quarter
Single Audit Report
Review of MTA/IG's Office
MTAAS Audit Plan Status Report
Investment Compliance Report
Management Letter Reports

External Auditor/CFOs
External Auditor/CFOs
External Auditor/IG
Auditor General
External Auditor
External Auditor/CFOs/Controllers

August 2012

(No Meeting Scheduled)

September 2012

Quarterly Financial Statements – 2nd Quarter
Appointment of External Auditors
Annual Audit Committee Report
Ethics and Compliance Program

External Auditor/CFOs
CFOs/Controllers
Audit Committee
Chief Compliance Officer

October 2012

(No Meeting Scheduled)

November 2012

Compliance with the Requirements
of the Internal Control Act
Review of Audit Committee Charter
Open Audit Recommendations
Audit Approach Plans/
Coordination with External Auditors
Information Technology Reports

Agency ICOs/Chief Compliance Officer
Committee Chair
Agency ICOs/Chief Compliance Officer

External Auditor
Chief Information Officers

December 2012

(No Meeting Scheduled)

2012-2013 AUDIT COMMITTEE WORK PLAN

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

JANUARY 2012

Quarterly Financial Statements – 3rd Quarter

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.

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

No Meeting Scheduled

MARCH 2012

No Meeting Scheduled

APRIL 2012

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.

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.

MAY 2012

No Meeting Scheduled

JUNE 2012

No Meeting Scheduled

JULY 2012

Quarterly Financial Statements – 1st Quarter

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 2012.

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.

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.

MTAAS 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.

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.

AUGUST 2012

No Meeting Scheduled

SEPTEMBER 2012

Quarterly Financial Statements - 2nd Quarter

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 2012.

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 fourth 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 2012. 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.

Ethics and Compliance Program

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

OCTOBER 2012

No Meeting Scheduled

NOVEMBER 2012

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.

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 2013. The review will also show if the Committee's performance in 2012 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 2012 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.

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.

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 2012

No Meeting Scheduled

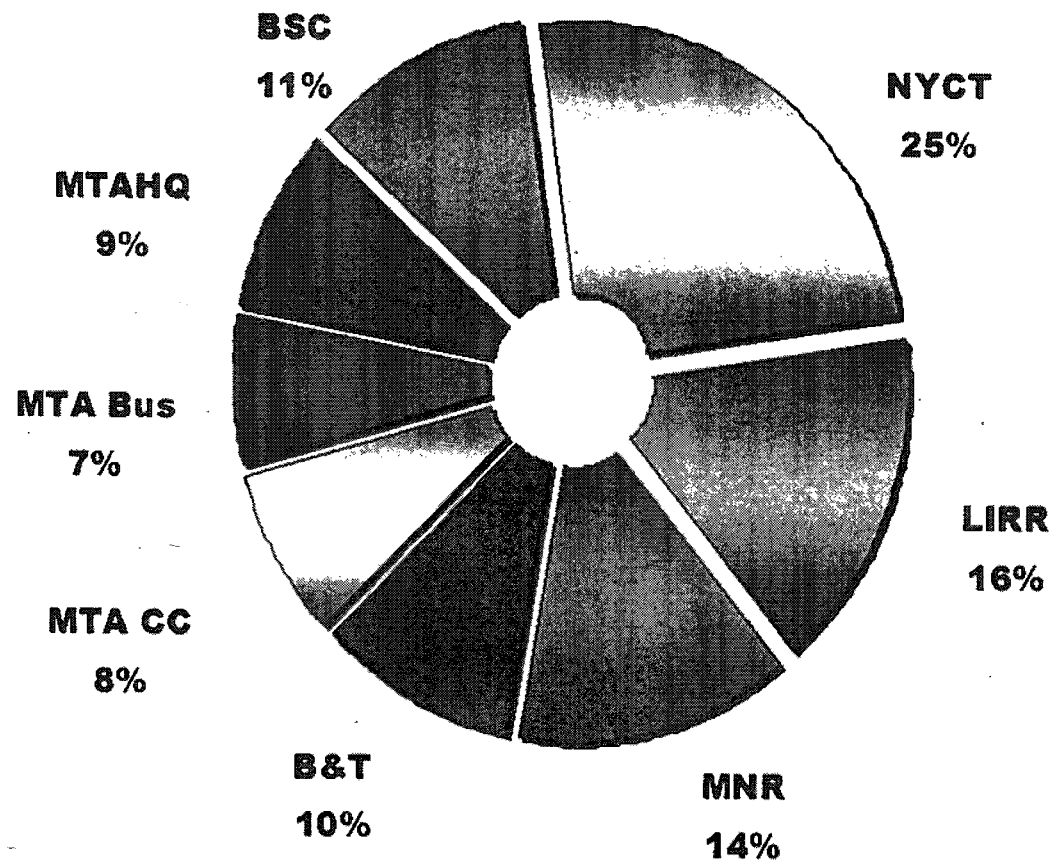
MTA AUDIT SERVICES

2011 Year End Status and the Proposed 2012 Audit Plan

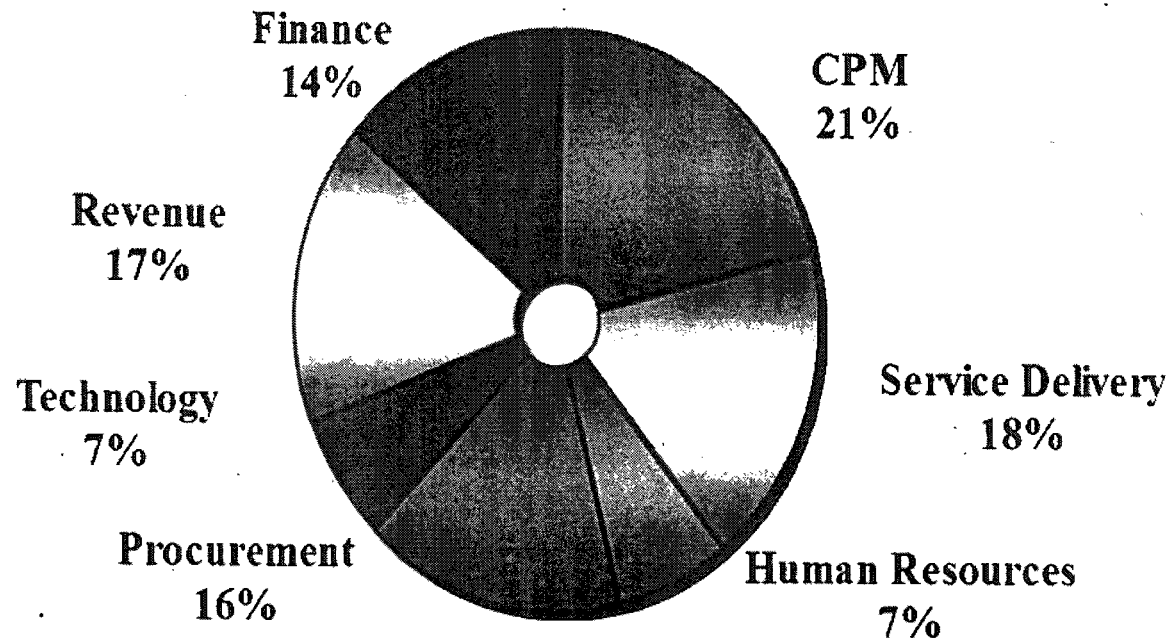
**Michael J. Fucilli
Auditor General**

JANUARY 23, 2012

2011 RESOURCE ALLOCATION



2011 RESOURCE ALLOCATION



2011 Audit Plan Summary

Financial/Operational/Technology

- Projects Completed = 162**
- Recommendations = 677**
- Savings/Cost Efficiencies = \$ 46.7M**

Capital Contracts

- Projects Completed = 116**
- \$ Audited = \$ 714 M**
- Questioned Costs = \$ 35.1M**

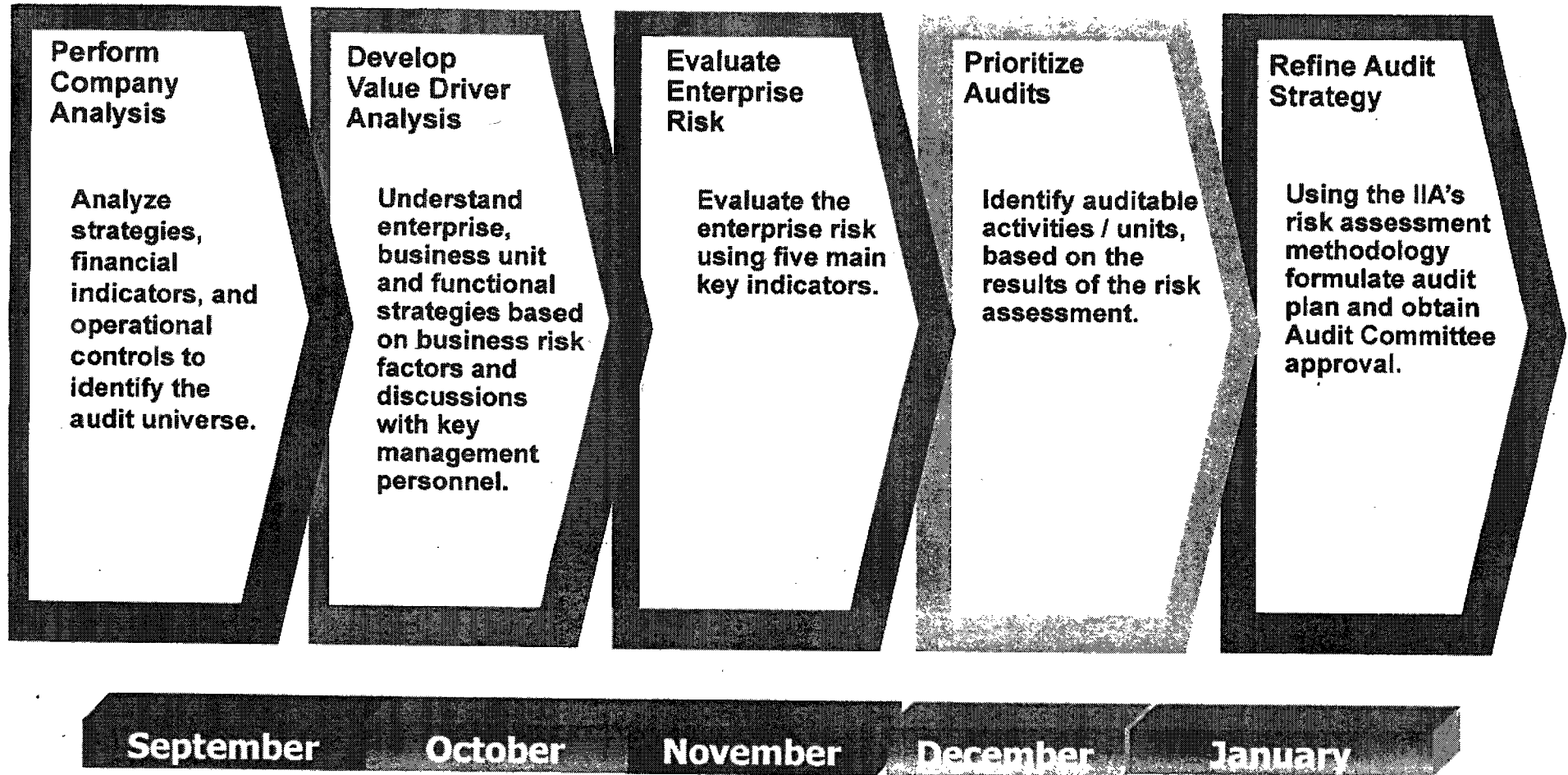
Total = \$ 81.8M

MTA AUDIT SERVICES

2012 AUDIT PLAN



Audit Plan Formulation



Risk Factor Considerations

Financial Exposure

Condition of Internal Controls

Change in Operation Conditions

Impact of Technology

Previous Audit Results

Management Interest



**More than
95 Interviews
Conducted**

Risk Assessment Results



Audit Universe

352 Activities
(823 Sub-Activities)

189 High

114 Moderate

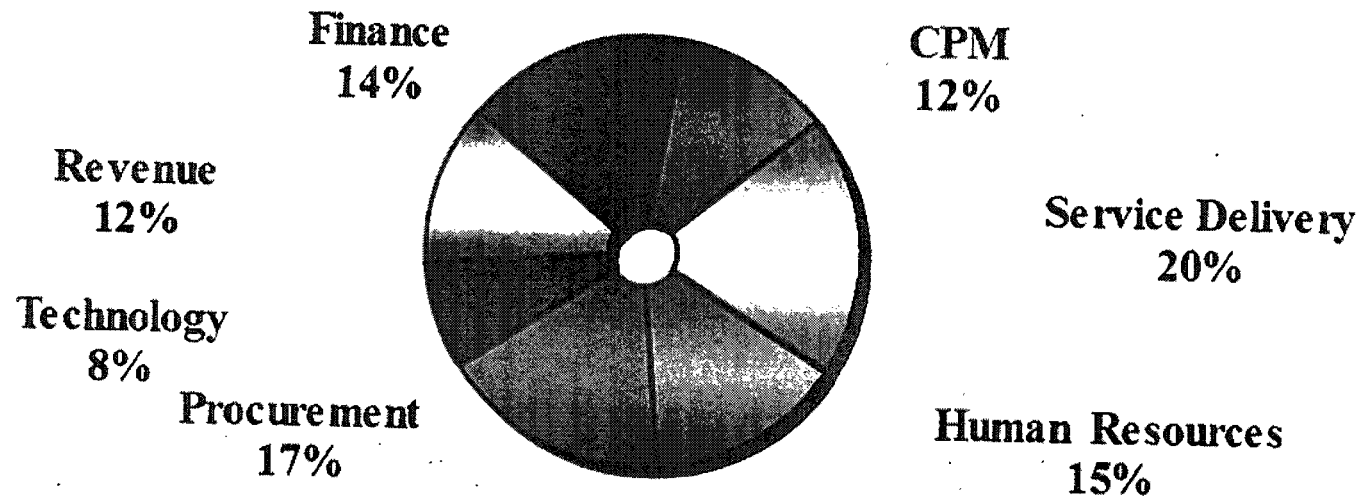
2012 Audit Plan
163 Audits

49 Low

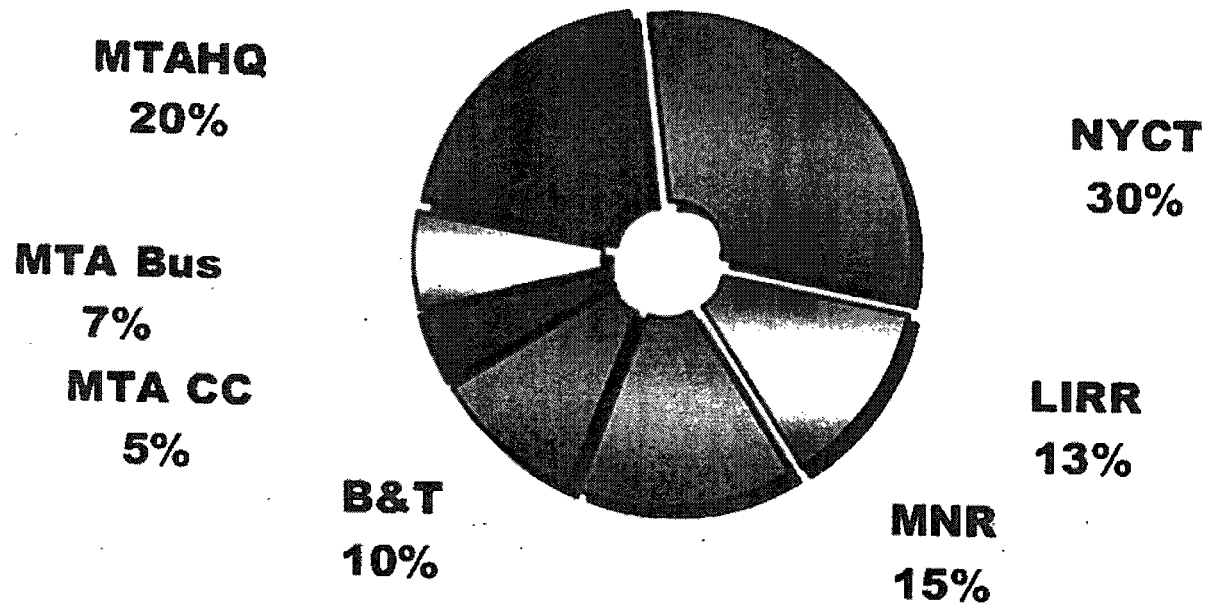
2012 Audit Strategy

- ☐ **Focus the Audit work on Risk, Internal Control environment, and Cost of Operations**
- ☐ **Support Agency-wide Goals & Initiatives**
- ☐ **Promote Effective Corporate Governance**
- ☐ **Secure implementation of Audit Recommendations**

2012 RESOURCE ALLOCATION



2012 RESOURCE ALLOCATION



2012 Audit Areas

Finance

Business Service Center
BSC Quality Assurance
Accounts Payable
Accounts Receivable
Payroll
Timekeeping
Overtime
Treasury /Investments
Prior Audit Recommendations
Wire Transfers

Revenue

Real Estate
Advertising
Smart Card Program
MetroCard
Electronic Tolling
E-ZPass
Fare Evasion
On-Board Fare Collection
Ticket Vending Machines
Select Bus Services

Procurement / Materiel

Capital Contracts
Procurement
Inventory Management
Strategic Initiatives
Vendor Performance
Cycle Counts
Operating Contracts
Environmental Contracts
Contract Modifications

Service Delivery

Signal Inspections
Track Maintenance
Station Maintenance
Car Maintenance
Elevators & Escalators
Bus Depots
Bridges & Tunnels Facilities
SIR Maintenance
Safety Compliance
Amtrak Agreement

Capital Program

Capital Budget
Capital Overhead Rates
Capital Support Staffing
Construction Management
ARRA
In-House Construction
Third Party Contracts

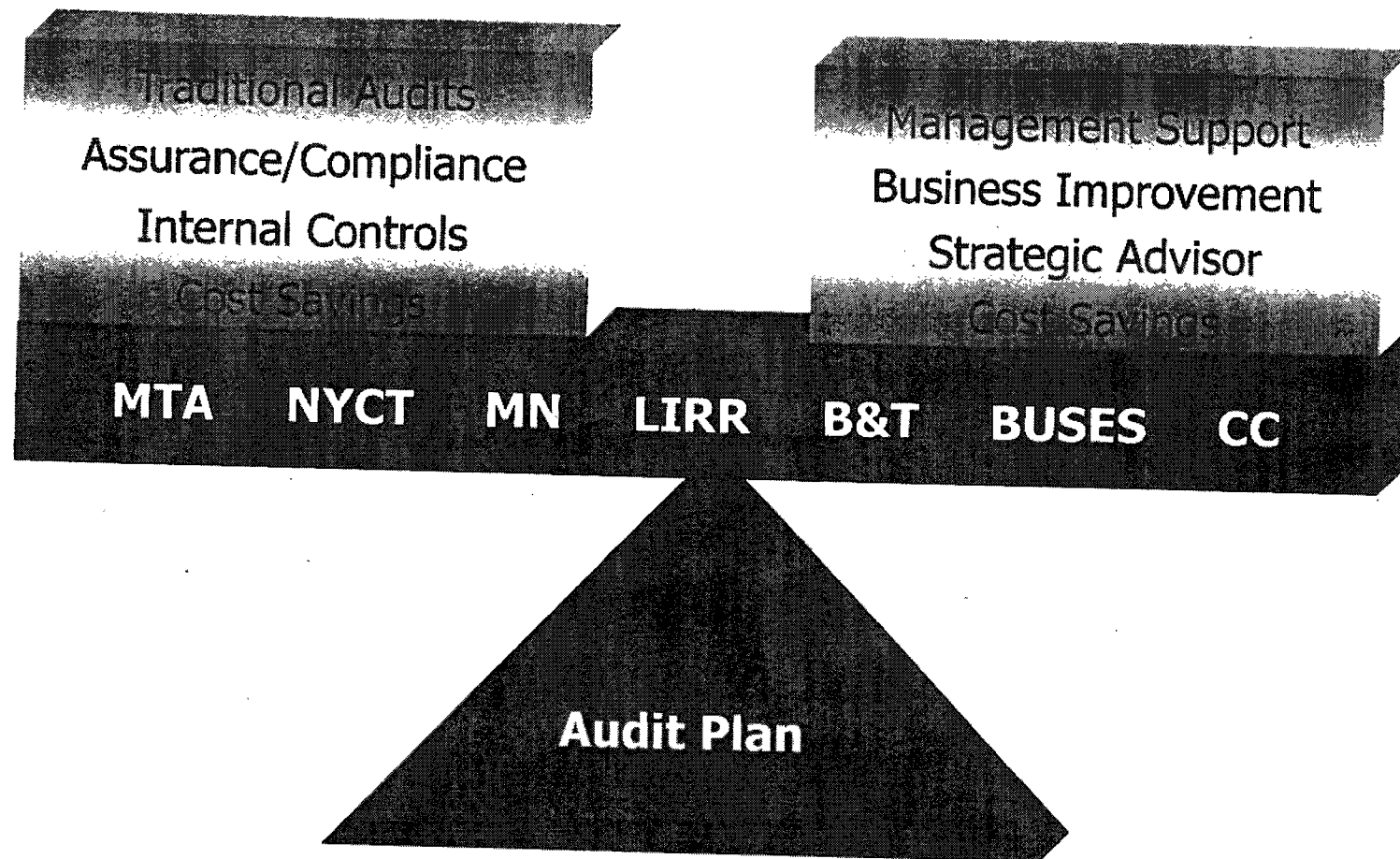
Human Resources

Health Benefit Costs
Pension Administration
Personnel Actions
Employee Availability
Workers' Compensation

Technology

IT Rationalization
Outsourced Services
Services Levels
Security Administration
New Initiatives
Technology Purchases

Keeping the Balance



Other Activities

- ☐ **Continue to coordinate audit activities with External Auditors, City/State Comptrollers' Offices, and MTA Chief Compliance Officer**
- ☐ **Initiate a Quality Assurance Review of the Department in the 4th Quarter of 2012**

QUESTIONS?