



**Metropolitan Transportation Authority**

# **Audit Committee Meeting**

## **July 2012**

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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 23, 2012 – 3:15 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 – MAY 2, 2012	1
2. AUDIT COMMITTEE WORK PLAN	3
3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT – 1 <sup>ST</sup> QUARTER 2012 <i>(materials previously distributed)</i>	
4. 2011 SINGLE AUDIT <i>(materials previously distributed)</i>	
5. SIRTOA 2011 FINANCIAL STATEMENT <i>(materials previously distributed)</i>	
6. 2011 MANAGEMENT LETTER <i>(materials previously distributed)</i>	
7. INVESTMENT COMPLIANCE REPORT <i>(materials previously distributed)</i>	
8. REVIEW OF MTA/IG'S OFFICE <i>(materials previously distributed)</i>	
9. 2012 AUDIT PLAN MID YEAR STATUS REPORT	13

Date of next meeting: Monday, September 24, 2012 at 3:15 p.m.

**MINUTES OF MEETING  
AUDIT COMMITTEE OF THE BOARD  
WEDNESDAY, MAY 2, 2012 – 10:00 A.M.  
5TH FLOOR BOARD ROOM  
347 MADISON AVENUE**

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The following were present:

**Honorable:**

James Sedore  
Mark Page  
Jonathan Ballan

Robert Bickford  
Charles Moerdler

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

L. Kearse - MTA  
P. Kane - MTA

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**1. APPROVAL OF MINUTES**

A motion was made and seconded to approve the minutes of the January 23, 2012 Audit Committee meeting.

**2. AUDIT COMMITTEE WORKPLAN**

The Committee Chair indicated that there is no meeting scheduled for June and the next meeting is scheduled for July 23, 2012. The agenda for the July meeting will include SIRTOA's 2011 financial statement; the 2011 management letter for each agency; MTA's investment compliance report; the agreed-upon procedures review for the MTA IG's office; the 2011 single audit report, and the quarterly financial report for the first quarter of 2012. In addition, the Committee will be briefed on the status of MTA Audit Services' 2012 Audit Plan.

**3. FINANCIAL INTEREST REPORTS**

Lamond Kearse (MTA Compliance) provided the Committee with a report on the 2011 Financial Interest Report filings. He briefly outlined the financial interest reporting requirements of Public Officers Law Section 73-a, and advised that out of the 5,875 individuals required to file, there were 54 delinquent filers for 2011. This is an improvement over 2010 when there were 141 delinquent filers. Lamond further indicated that as of today, only 4 of the 54 are still in a delinquent status. The Committee asked about how to request an extension and how penalties are levied. Lamond indicated that filers have to ask for extensions individually and employees who fail to file are counseled. The Commission levies the fine if the employee continues to fail to file.

**4. 2011 FINANCIAL STATEMENTS**

Patrick Kane (MTA) presented a management review of the 2011 MTA consolidated financial statements. He briefed the Committee about the statements preparation and presentation, including the various required communications. He reviewed changes in capital, net and other assets; the reported increase in liabilities as a result of the \$1.7 billion increase in post-employment benefits

other than pensions; the increase in operating revenues due to fare increases; and the increase in operating expenses, again largely due to the increase in post-employment benefits. He also pointed out that the required supplementary information details the funding of the pension plans which showed that the total unfunded liability decreased from the prior year. Robert Foran (MTA) advised the Committee about current plans to help reduce the amount of the unfunded liability. There was further discussion about the assumptions used in determining how the MTA reports current and ongoing financial obligations.

David Jones (D&T) advised the Committee that they have completed the audits of the consolidated financial statements of the MTA and its agencies. He indicated that internal controls were reviewed to determine appropriate audit procedures. They also searched for instances of material weaknesses and commented that SIRTOA was unable to produce financial statements timely so they could not review them as part of the audit. David believes these financial statements can be completed in two weeks and this delay is not considered serious as SIRTOA's operating budget is \$41 million. SIRTOA's financial functions will be assumed by the office of NYC Transit's Comptroller, as corrective action. The Committee also discussed the weaknesses in succession planning throughout the agencies, and it was indicated that this issue will be discussed in an upcoming management letter. SIRTOA's financial statements will be presented to the Committee in July.

David also informed the Committee that accounting estimates, market value assessments, the allowance for doubtful accounts, depreciation, accrual processes, derivative financial instruments and hedging activity were all reviewed as part of the audit. No uncorrected misstatements were noted, and accounting policies were in accordance with GAAP and have been consistently applied. There were no disagreements with management and no significant issues were discussed prior to the audit.

Motion was made and seconded to approve the 2011 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





## 2012 – 2013 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
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

#### July 2012

Quarterly Financial Statements – 1 <sup>st</sup> Quarter	External Auditor/CFOs
Single Audit Report	External Auditor/CFOs
Review of MTA/IG's Office	External Auditor/IG
MTAAS Audit Plan Status Report	Auditor General
Investment Compliance Report	External Auditor
Management Letter Reports	External Auditor/CFOs/Controllers

#### August 2012

*(No Meeting Scheduled)*

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

### Responsibility

#### September 2012

Quarterly Financial Statements – 2<sup>nd</sup> 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)*

#### January 2013

Quarterly Financial Statements – 3<sup>rd</sup>  
Quarter 2012  
Pension Audits  
2012 Audit Plan Status Report  
2013 Audit Plan

External Auditor/CFOs  
External Auditor  
Auditor General  
Auditor General

#### February 2013

*(No Meeting Scheduled)*

#### March 2013

*(No Meeting Scheduled)*

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

### Responsibility

#### April 2013

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

External Auditor/CFOs/Controllers  
  
General Counsels/External Auditor  
Chief Compliance Officer

#### May 2013

*(No Meeting Scheduled)*

#### June 2013

Quarterly Financial Statements – 1<sup>st</sup> Quarter  
Single Audit Report  
MTAAS Audit Plan Status Report  
Investment Compliance Report  
Management Letter Reports

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

#### July 2013

*(No Meeting Scheduled)*

#### August 2013

*(No Meeting Scheduled)*

#### September 2013

Quarterly Financial Statements – 2<sup>nd</sup> Quarter  
Review of MTA/IG's Office  
Appointment of External Auditors  
Annual Audit Committee Report  
Ethics and Compliance Program

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

# **2012-2013 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 2012**

#### **Quarterly Financial Statements – 1<sup>st</sup> 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 - 2<sup>nd</sup> 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*

### **JANUARY 2013**

#### Quarterly Financial Statements – 3<sup>rd</sup> 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 2012.

#### 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.

#### 2012 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.

#### 2013 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2013 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 2013**

*No Meeting Scheduled*

### **MARCH 2013**

*No Meeting Scheduled*

## **APRIL 2013**

### **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 2012 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 2013**

*No Meeting Scheduled*

## **JUNE 2013**

### **Quarterly Financial Statements – 1<sup>st</sup> 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 2013.

### **Single Audit Reports**

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

### **MTAAS Audit Plan Status Report**

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## **JULY 2013**

*No Meeting Scheduled*

## **AUGUST 2013**

*No Meeting Scheduled*

## **SEPTEMBER 2013**

### Quarterly Financial Statements - 2<sup>nd</sup> 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 2013.

### 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.

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### Ethics and Compliance Program

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# **MTA Audit Services 2012 Audit Plan**

## **Mid-Year Status Report**

**July 23, 2012**

# **Agenda**

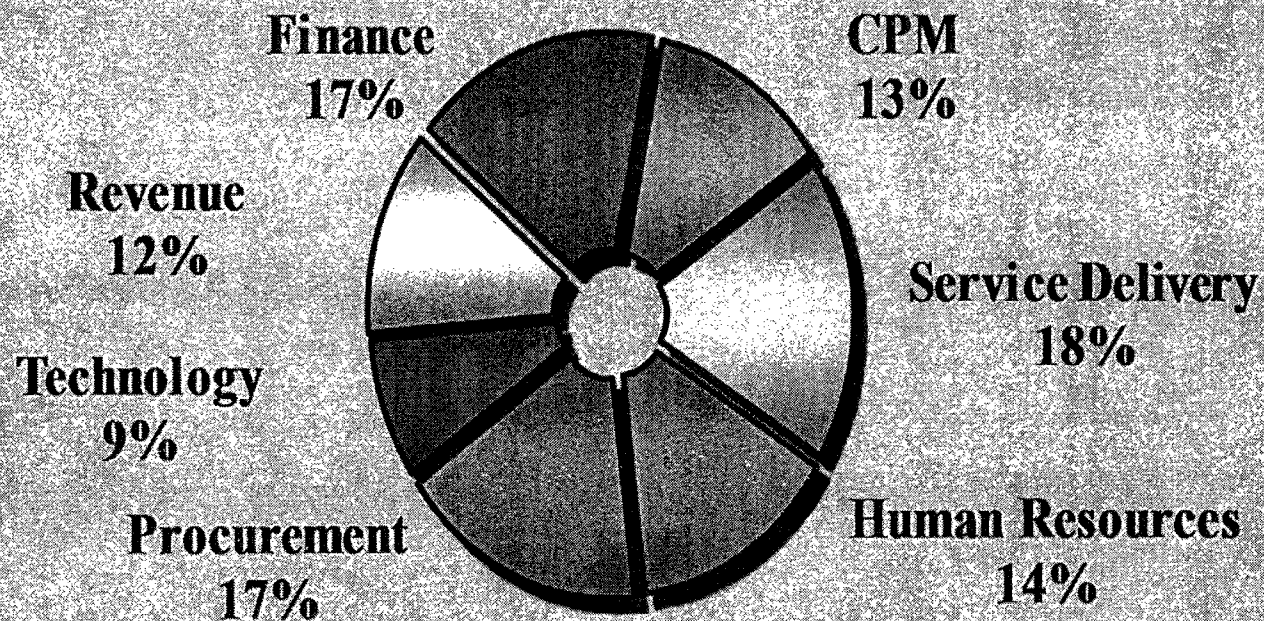
- **2012 Goals**
- **Audit Plan Status**
- **Management Surveys**
- **Second Half of 2012**



# **2012 Audit Strategy**

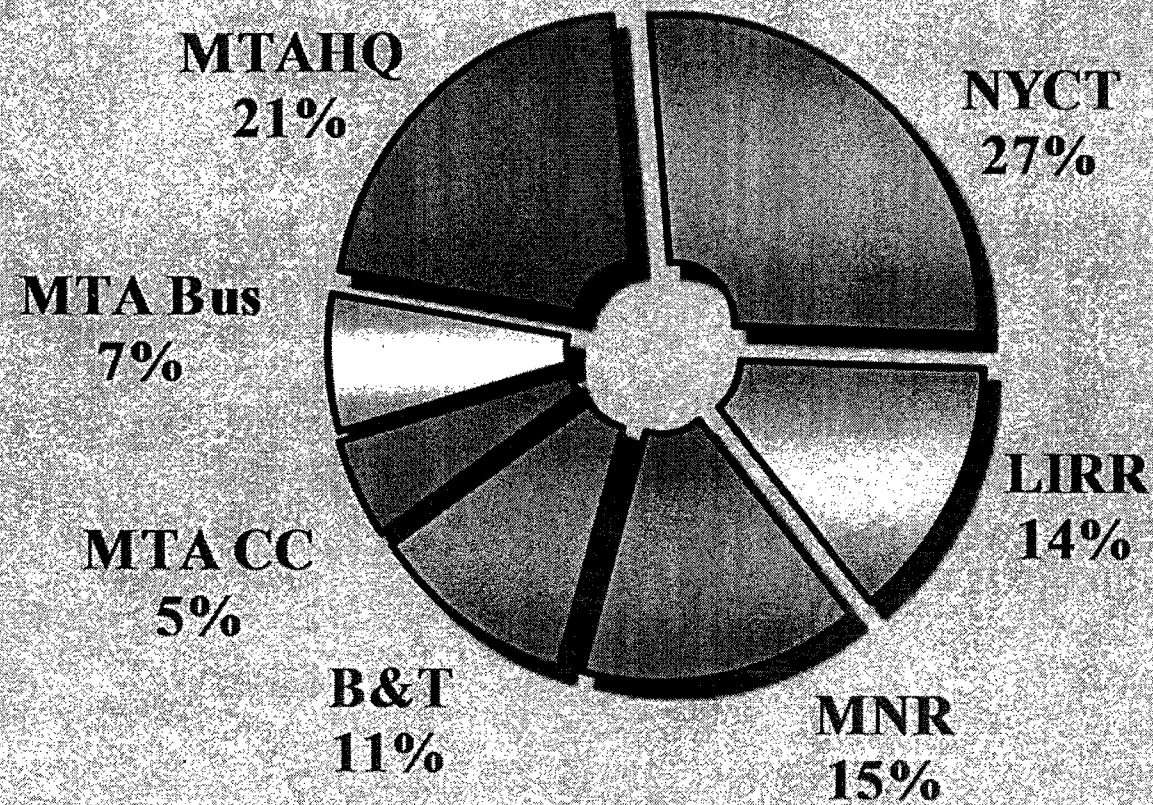
- ☐ **Focus the Audit work on Risk, Internal Control Environment, and Cost of Operations**
- ☐ **Support Agency-wide Goals & Initiatives**
- ☐ **Promote Effective Corporate Governance**
- ☐ **Secure implementation of Audit Recommendations**

# 2012 RESOURCE ALLOCATION





# 2012 RESOURCE ALLOCATION



# **2012 *Mid-Year Plan Summary***

## **Financial/Operational/Technology**

- Projects Completed	=	76
- Recommendations	=	226
- Savings/Cost Efficiencies	=	\$ 7.1 M

## **Contracts**

- Projects Completed	=	96
- \$ Audited	=	\$ 565 M
- Questioned Costs	=	\$ 25.6 M

**Total = \$ 32.7 Million**



# **PERFORMANCE AGREEMENTS**

# **Annual Surveys**

## **2011 Management Survey**

<b><u>Category (1-5 range)</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>AUDIT COVERAGE</b>	<b>4.4</b>	<b>4.6</b>
<b>RESPONSIVENESS &amp; COMMUNICATIONS</b>	<b>4.4</b>	<b>4.6</b>
<b>PARTICIPATION IN AGENCY/MGT FORUMS</b>	<b>4.4</b>	<b>4.4</b>
<b>AUDIT PERFORMANCE</b>	<b>4.6</b>	<b>4.4</b>



## **2<sup>nd</sup> Half of 2012**

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



**QUESTIONS?**