



Metropolitan Transportation Authority

Audit Committee Meeting

September 2012

Committee Members

J. Sedore Jr., Chair

M. Page, Vice Chair

A. Saul

J. Ballan

S. Metzger

C. Moerdler



MEETING AGENDA

MTA AUDIT COMMITTEE

SEPTEMBER 19, 2012 – 10:00 a.m.

347 Madison Avenue
Fifth Floor Board Room
New York, NY

AGENDA ITEMS

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PUBLIC COMMENTS PERIOD

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| 1. APPROVAL OF MINUTES – JULY 23, 2012 | 1 |
| 2. AUDIT COMMITTEE WORK PLAN | 4 |
| 3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT –
2ND QUARTER 2012 <i>(materials previously distributed)</i> | |
| 4. REAPPOINTMENT OF EXTERNAL AUDITORS | 13 |
| 5. MTA ETHICS PROGRAM <i>(no materials)</i> | |
| 6. ANNUAL AUDIT COMMITTEE ACTIVITY REPORT
<i>(materials previously distributed)</i> | |

Date of next meeting: Monday, November 19, 2012 at 3:15 p.m.

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
MONDAY, JULY 23, 2012 – 3:15 P.M.
5TH FLOOR BOARD ROOM
347 MADISON AVENUE
NEW YORK, NEW YORK 10017**

The following were present:

Honorable:

**James L. Sedore
Charles Moerdler
Jonathan Ballan**

Andrew Albert

**M. Fucilli – MTA
P. Kane - MTA
D. Jones – D&T**

**L. Kearse – MTA
M. Malloy – D&T**

1. APPROVAL OF MINUTES

The minutes of the May 2, 2012 Audit Committee meeting were approved.

2. AUDIT COMMITTEE WORK PLAN

The Committee Chair stated that there are no changes in the Audit Committee Work Plan at this time.

3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT FIRST QUARTER 2012

David Jones (D&T) reviewed the results of the Independent Accountants' Review Report for the period ending March 31, 2012. He indicated that the report is a quarterly review of MTA's financial statements and is significantly less in scope than an audit. Based on the results of this review, D&T did not note any significant issues that would have a material effect on the financial statements. David also indicated that the MTA has completed the process of evaluating the impact of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and has adopted and disclosed the impact of this statement on its financial position, results of operations, and cash flows starting March 31, 2012. He also pointed out that statements formerly titled Changes in Net Assets are now called Changes in Net Position. The Chair noted that Other Business Expenses showed a drop of \$27.5 million from the estimate in the financial plan and asked what this could be reflecting. Pat Kane (MTA) believes it may be related to accruals that have not been recognized yet, and David Jones agreed. A motion was made and seconded to approve the first quarter review.

4. **2011 SINGLE AUDIT**

David Jones (D&T) advised the Committee that D&T has completed the Single Audit for 2011 which tests compliance with the requirements of laws and regulations applicable to MTA major grant funded federal programs. He directed the Committee's attention to page 116 of the report which lists the Schedule of Expenditures of Federal Awards and indicated that any award over \$4.7 million was subject to audit. It was D&T's opinion that the MTA complied, in all material respects, with the compliance requirements that have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the audit did note one instance of noncompliance with the program requirements in that the MTA did not review the A-133 report of a subrecipient. Since the time of the audit, the A-133 report has been received and reviewed by the MTA, and no major problematic areas were noted in the report. A motion was made and seconded to approve the 2011 Single Audit.

5. **SIRTOA 2011 FINANCIAL REPORT**

Michael Malloy (D&T) indicated there was a delay in finalizing the audit of SIRTOA's 2011 financials. The main challenge was retirements and transition to new management at SIRTOA which hindered their ability to close the books. The Committee asked about the issue of fare evasion and whether there should be police activity to monitor fare evasion. David Jones replied that the optimum solution would be if SIRTOA was a close secured system which has significant financial costs. A motion was made and seconded to approve SIRTOA's 2011 Financial Report.

6. **2011 MANAGEMENT LETTERS**

David Jones (D&T) reviewed with the Committee the results of the 2011 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 at the BSC relating to the bank reconciliations that resulted in D&T making the recommendation that the reconciliations be done at the individual agencies. The Committee indicated that they would like to leave it at the BSC for now and have Audit Services review the BSC's revised controls and processes. Mike Fucilli (MTA) said that the new reconciliation process will be reviewed in the next three months, after which a decision will be made as to the appropriate action to take. David also addressed the comment regarding succession planning. The MTA needs to look at this issue as there appears to be a lack of backup to key positions becoming vacant. A motion was made and seconded to approve the 2011 Management Letters.

7. **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, 2011, 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.

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

David Jones indicated that D&T performed a review of agreed upon procedures of the Inspector General's expenses. The review for 2011 did not note any material weaknesses. A motion was made and seconded to approve the Review of the MTA IG's Office.

9. **2012 AUDIT PLAN MID YEAR STATUS REPORT**

Michael Fucilli (MTA) briefed the Committee on Audit Services' mid-year Audit Plan status report as of June 30, 2012. He outlined the 2012 audit strategy, which included focusing the audit work on internal controls, risk and the cost of operations; supporting agency-wide goals and initiatives; promoting effective corporate governance; and securing the implementation of audit recommendations. He also discussed audit resource allocation among the agencies and provided a breakdown of audit coverage by seven business functions. He summarized the number of audits, recommendations, and cost recoveries reported in the first half of the year. Also, the results of the 2011 Annual Management Survey, as well as planned audit activities for the second half of 2012 were reviewed.


10. **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 September 19, 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

September 2012

Quarterly Financial Statements – 2 nd Quarter	External Auditor/CFOs
Appointment of External Auditors	CFOs/Controllers
Annual Audit Committee Report	Audit Committee
Ethics and Compliance Program	Chief Compliance Officer

October 2012

(No Meeting Scheduled)

November 2012

Compliance with the Requirements of the Internal Control Act	Agency ICOs/Chief Compliance Officer
Review of Audit Committee Charter	Committee Chair
Open Audit Recommendations	Agency ICOs/Chief Compliance Officer
Audit Approach Plans/ Coordination with External Auditors	External Auditor
Information Technology Reports	Chief Information Officers

II. SPECIFIC AGENDA ITEMS (CON'T.)

	<u>Responsibility</u>
<u>December 2012</u>	
(No Meeting Scheduled)	
<u>January 2013</u>	
Quarterly Financial Statements – 3 rd Quarter 2012	External Auditor/CFOs
Pension Audits	External Auditor
2012 Audit Plan Status Report	Auditor General
2013 Audit Plan	Auditor General
<u>February 2013</u>	
(No Meeting Scheduled)	
<u>March 2013</u>	
(No Meeting Scheduled)	
<u>April 2013</u>	
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
<u>May 2013</u>	
(No Meeting Scheduled)	
<u>June 2013</u>	
Quarterly Financial Statements – 1 st Quarter	External Auditor/CFOs
Single Audit Report	External Auditor/CFOs
MTAAS Audit Plan Status Report	Auditor General
Investment Compliance Report	External Auditor
Management Letter Reports	External Auditor/CFOs/Controllers

II. SPECIFIC AGENDA ITEMS (CON'T.)

July 2013

(No Meeting Scheduled)

August 2013

(No Meeting Scheduled)

September 2013

Quarterly Financial Statements – 2nd 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

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

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

JANUARY 2013

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 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 – 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 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

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.

JULY 2013

No Meeting Scheduled

AUGUST 2013

No Meeting Scheduled

SEPTEMBER 2013

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 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.

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 fifth 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 2013. 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.

System Peer Review Report

To the Partners of Deloitte & Touche LLP
and the National Peer Review Committee of the AICPA Peer
Review Board

We have reviewed the system of quality control for the accounting and auditing practice of Deloitte & Touche LLP (the firm) applicable to non-SEC issuers in effect for the year ended March 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (the standards). The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans; audits performed under FDICIA; and audits of carrying broker-dealers.

We noted the following deficiency during our review:

Deficiency – Effective for the year covered by this report, the firm adopted new policies and procedures for performing audits accompanied by interpretive guidance, practice aids and specified training. The new audit policies and procedures were designed to be “principles based” to emphasize the use of professional judgment as compared to the prior more prescriptive policies and procedures. The firm experienced some implementation challenges and we noted that the specificity of certain audit policies and procedures adopted and related training was not sufficient to ensure consistent performance and documentation of all necessary procedures on its non-SEC issuer audit engagements. As a result, we noted the firm did not consistently demonstrate that sufficient procedures were performed and/or documented in certain substantive areas. For certain audit engagements, the firm subsequently supplemented its procedures and/or prepared additional documentation to support its opinions. In one instance, the related financial statements were restated.

Recommendation – While we are mindful that the review covered the initial year of adoption of new audit policies and procedures, we believe the firm should further review its policies and processes, including its interpretive guidance, practice aids, and training, to determine where additional specificity and requirements would improve the consistency of its audit execution and/or documentation. The firm's review should place added emphasis on the audit evidence needed to corroborate management's significant judgments and estimates and the auditing of income taxes.

In our opinion, except for the deficiency described above, the system of quality control for the accounting and auditing practice of Deloitte & Touche LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency* or *fail*. Deloitte & Touche LLP has received a peer review rating of *pass with deficiency*.

Ernst & Young LLP

June 26, 2012



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National Peer Review Committee of the AICPA Peer Review Board

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with the peer review of our firm's system of quality control for the accounting and auditing practice applicable to non-SEC issuers in effect for the year ended March 31, 2011. The actions discussed in this letter will be monitored to ensure that they are an effective part of our system of quality control.

We continually update our risk-based audit methodology, policies, guidance and tools in order to address matters identified through monitoring activities. We have provided enhanced tools related to auditing management's estimates and to the performance of many types of audit procedures for use on all engagements. For example, we have provided more comprehensive libraries of examples of the risks of material misstatement at the assertion level and substantive procedures to be performed in response to risks of material misstatement for relevant assertions and account balances, including income taxes. Management's estimates have been included in our training sessions for all levels and these topics will be included in 2012 training efforts. For example, our recent training sessions included specific focus on enhancing procedures for auditing data and assumptions used in the evaluation of management's estimates.

As part of our Fiscal Year 2012 Audit Imperatives, published in September of 2011 and applicable to subsequent audits, we established a clear, nationally-driven expectation that relevant tools and guidance would be consistently used by our professionals and that documentation would reflect the application of the tools and guidance. We incorporated into our employee and partner goal, evaluation, and compensation systems assessment of the extent to which they implemented these Audit Imperatives. Our Fiscal Year 2013 Audit Imperatives, which apply to audits beginning this summer, continue to focus our professionals on the required use of guidance and tools and include enhanced emphasis specifically tailored to provide additional assistance with the application of such tools and guidance on non-SEC issuer audits. Our goal setting process for fiscal 2013 requires the establishment by all professionals of goals related to compliance with requirements of the 2013 Audit Imperatives.

As mentioned above, these actions will also be emphasized in our monitoring procedures, including our internal inspections.

We believe the actions taken or to be taken are responsive to the finding of the peer review.

Sincerely,

June 26, 2012