



Metropolitan Transportation Authority

Audit Committee Meeting

November 2012

Committee Members

J. Sedore Jr., Chair

M. Page, Vice Chair

A. Saul

J. Ballan

S. Metzger

C. Moerdler



MEETING AGENDA

MTA AUDIT COMMITTEE

NOVEMBER 26, 2012 – 3:15 p.m.

347 Madison Avenue
Fifth Floor Board Room
New York, NY

<u>AGENDA ITEMS</u>	<u>PAGE</u>
PUBLIC COMMENTS PERIOD	
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6. OPEN AUDIT RECOMMENDATIONS (<i>no materials</i>)	
7. AUDIT APPROACH PLANS/COORDINATION WITH EXTERNAL AUDITOR *	
8. INFORMATION TECHNOLOGY REPORT *	

* *materials previously distributed*

Date of next meeting: To be announced

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
WEDNESDAY, SEPTEMBER 19, 2012 – 10:00 A.M.
5TH FLOOR BOARD ROOM
347 MADISON AVENUE
NEW YORK, NEW YORK 10017**

The following were present:

Honorable:

**James L. Sedore
Susan G. Metzger**

**Mark Page
Jonathan Ballan**

**M. Fucilli – MTA
R. Foran – MTA
L. Kearse – MTA**

**P. Kane – MTA
D. Jones – D&T**

1. APPROVAL OF MINUTES

The minutes of the July 23, 2012 Audit Committee meeting were approved.

2. AUDIT COMMITTEE WORKPLAN

The Committee Chair reported that there is no meeting scheduled for October and the next Audit Committee meeting is scheduled for November. The November agenda will include the annual review of the Audit Committee charter; a report on compliance with the requirements of the Internal Control Act; a review of information systems security and controls by the agencies' CIOs; a review of open audit recommendations; and a briefing from Deloitte & Touche on their audit approach for the 2012 year-end audits, as well as the impact of any new or proposed changes in accounting or financial reporting practices.

3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT FOR SECOND QUARTER 2012

The Committee was provided with a revised report for the second quarter of 2012, and the Chair asked for a clarification of the revision. Patrick Kane (MTA) indicated that it was the result of a reclassification adjustment of \$62 million increasing other non-operating revenue and decreasing receipts restricted for capital projects. The accounting entry was a reversal of a prior year's accrual. A motion was made and seconded to accept the report.

4. MTA ETHICS PROGRAM

Lamond Kearse reported that his office handled more than 460 documented ethics inquiries in 2011. The inquiries addressed outside activity approval request, reimbursement for travel expenses and attending certain events. Lamond indicated that his office has scheduled 33 sessions of ethics training in 2012 which should provide training for 2,500 employees, an increase of 500 from last year. The Committee inquired as to whether this training could be provided electronically. Lamond replied that Compliance is looking into it for some aspects of the training, but some training is required to be done in person. He also reminded the Committee that Board members are required to

participate in training upon their appointment and re-appointment. Lamond reviewed the various communications that were sent to employees in 2012 and indicated that Compliance is working with Corporate Communications to find better ways to reach out to employees.

5. **SUMMARY OF AUDIT COMMITTEE ACTIVITY**

The Chair directed the Committee's attention to the annual Summary of Audit Committee Activity report that was included in this month's package, and indicated that he had already reviewed and approved it. This is a report that the Audit Committee prepares each year which outlines all activities conducted at Audit Committee for the 12-month ended July 2012. It is prepared in compliance with the MTA Audit Committee Charter and is consistent with the report issued to the Board last year.

6. **EXECUTIVE SESSION**

Motion was made and approved to go into Executive Session to allow the Committee to discuss an audit matter with Deloitte & Touche.

7. **MOTION TO RETURN TO PUBLIC SESSION**

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

8. **APPOINTMENT OF EXTERNAL AUDITORS**

The Chair requested the Committee vote on the re-appointment of Deloitte & Touche as the single independent auditor for MTA HQ and all the agencies. This is the fourth year of a seven-year contract, and the previously agreed-upon cost for the 2012 year-end audit is \$1,628,100. The Chair also asked if the reappointment review could be made in June next year. A motion was made and approved to appoint D&T as the independent auditor for the MTA and all its agencies for the 2012 year-end audit.

9. **MOTION TO ADJOURN**

A motion was made and seconded to adjourn the meeting.

10. **NEXT MEETING**

The next meeting of the Audit Committee, originally scheduled for November 19th was moved to November 26, 2012 due to the effects of hurricane Sandy.

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

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

December 2012

(No Meeting Scheduled)

II. SPECIFIC AGENDA ITEMS (CON'T.)

Responsibility

January 2013

Quarterly Financial Statements – 3rd

Quarter 2012

Pension Audits

2012 Audit Plan Status Report

2013 Audit Plan

Information Technology Reports (In January 2014)

External Auditor/CFOs

External Auditor

Auditor General

Auditor General

Chief Information Officers

February 2013

(No Meeting Scheduled)

March 2013

(No Meeting Scheduled)

April 2013

Financial Statements w/Audit

Representation Letters

Contingent Liabilities/Third Party

Lawsuits (Executive Session)

Financial Interest Reports

Ethics and Compliance Program

External Auditor/CFOs/Controllers

General Counsels/External Auditor

Chief Compliance Officer

Chief Compliance Officer

May 2013

(No Meeting Scheduled)

June 2013

Quarterly Financial Statements – 1st Quarter

Single Audit Report

MTAAS Audit Plan Status Report

Investment Compliance Report

Management Letter Reports

Open Audit Recommendations

External Auditor/CFOs

External Auditor/CFOs

Auditor General

External Auditor

External Auditor/CFOs/Controllers

Agency CIOs/Chief Compliance Officer

II. SPECIFIC AGENDA ITEMS (CON'T.)

July 2013

(No Meeting Scheduled)

August 2013

(No Meeting Scheduled)

September 2013

Quarterly Financial Statements – 2nd Quarter
Compliance with the Requirements
of the Internal Control Act
MTA Enterprise Risk Management
and Internal Control Guidelines
Annual Audit Committee Report
Review of Audit Committee Charter
Appointment of External Auditors
Audit Approach Plans/Coordination
with External Auditors
Review of MTA/IG's Office

External Auditor/CFOs

Agency CIOs/Chief Compliance Officer

Chief Compliance Officer

Audit Committee

Committee Chair

CFOs/Controllers

External Auditor

External Auditor/IG

October to December 2013

(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

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 changes for 2013, including the recommendation to reduce the number of meetings required in the current Charter from "at least six" to "at least four". 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).

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 Approach Plans/Coordination With External Auditors

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.

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.

Ethics and Compliance Program

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

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.

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.

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.

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 MTA Enterprise Risk Management and Internal Control Guidelines

These MTA-wide guidelines were adopted by the Board in November 2011, pursuant to Public Authority Law Section 2931. The Audit Committee is required to review these Guidelines annually. The MTA Chief Compliance Officer will brief the Committee with respect to agency compliance with these guidelines and answer any questions and offer additional comments, as appropriate.

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.

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 2014. The review will also show if the Committee's performance in 2013 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).

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.

Audit Approach Plans/Coordination With External Auditors

Representatives of MTA's public accounting firm will review their audit approach for the 2013 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.

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 office regulations, rules, policies and procedures.

OCTOBER to DECEMBER 2013

No Meeting Scheduled

The Metropolitan Transportation Authority

AUDIT COMMITTEE

This Charter for the Audit Committee was adopted by the Board Chair and a majority of the members of the Metropolitan Transportation Authority, a public benefit corporation established under the laws of the State of New York (together with any other entity or corporation for which the members of the Metropolitan Transportation Authority serve as a board of directors, the "MTA"), on the 29th day of July, 2004. This charter was amended on December 17, 2008, December 16, 2009 and further amended on November 16, 2011.

I. PURPOSE

The Audit Committee (the "Committee") shall assist and provide guidance to the Board Chair and the Board in monitoring and overseeing (a) the conduct of the MTA's financial reporting process, the application of accounting principles, and the engagement of the MTA's outside accountants; (b) the MTA's internal controls and risk management systems; and (c) general matters relating to legal, regulatory and ethical compliance at the MTA (hereinafter referred to as the "Purpose").

II. COMMITTEE AUTHORITY

The Committee's role is one of oversight. In carrying out this oversight function, the chairperson of the Committee (the "Committee Chair") and the vice-chairperson of the Committee (the "Committee Vice-Chair") shall have additional responsibilities, as set forth in Section VI of this Charter. The Committee Chair and/or the Committee Vice-Chair regularly shall report to the entire Committee their findings with respect to these additional responsibilities and refer to the entire Committee for its consideration any matter relating thereto as the Committee Chair and/or the Committee Vice-Chair deem necessary or appropriate. MTA Audit Services' organizational independence is derived from its reporting structure as it reports to the MTA Audit Committee and MTA Chairman/CEO.

Notwithstanding these oversight responsibilities, the MTA and each of its subsidiary corporations and affiliates are responsible for preparing their own financial statements and the respective outside auditors are responsible for auditing the respective financial statements. The Committee, the Committee Chair, and the Committee Vice-Chair recognize that the Auditor General and the outside auditors have more time, knowledge and detailed information about the MTA and each of its subsidiary corporations and affiliates than do Committee members. Consequently, in carrying out its oversight responsibilities, no member of the Committee shall be deemed to provide (i) any expert or special assurance as to the financial statements of the MTA or of any subsidiary corporation or affiliate or (ii) any professional certification as to the work of any outside auditor.

In discharging its role, the Committee is empowered to investigate any matter brought to its attention. To facilitate any such investigation, the Committee Chairman and/or Vice

Chairman shall have access to all books, records, facilities and staff of the MTA (including any of its subsidiary corporations or affiliates). The foregoing is not intended to alter or curtail existing rights of individual board members to access books, records or staff in connection with the performance of their fiduciary duties as board members. With the prior approval of the Board Chair or a majority of the Board, the Committee may retain, compensate and/or terminate outside counsel, auditors or other experts as it deems necessary and will receive adequate funding from the MTA to engage such advisors in accordance with MTA procedures.

III. COMMITTEE MEMBERSHIP

The Committee shall consist of 3 or more members of the Board, appointed by the Board Chair. If not otherwise a member of the Committee, each Vice-Chair of the Board shall be an *ex officio* member of the Committee. The Board Chair shall appoint the Committee Chair and the Committee Vice-Chair. A member of the Committee may be removed, for cause or without cause, by the Board Chair. In the absence of the Committee Chair or the Committee Vice-Chair at a meeting of the Committee, the Board Chair shall appoint a temporary chairperson to chair such meeting. No member of the Committee shall be employed by (a) the MTA, or (b) a private entity that does, or is likely to do, business with the MTA. Members of the audit committee shall be familiar with corporate financial and accounting practices.

IV. COMMITTEE MEETINGS

The Committee shall meet on a regularly-scheduled basis at least 4 times per year, and more frequently as circumstances dictate. The Committee will cause to be kept adequate minutes of all its proceedings and records of any action taken and will report on its proceedings and any action taken to the next full meeting of the Board. Committee members will be furnished with copies of the minutes of each meeting. Meetings of the Committee shall be open to the public, and the Committee shall be governed by the rules regarding public meetings set forth in the applicable provisions of the Public Authorities Law and Article 7 of the Public Officers Law that relate to public notice, public speaking and the conduct of executive session. The Committee may form and assign responsibilities to subcommittees when appropriate.

The Committee may request that any member of the Board, the Auditor General, the Chief Compliance Officer, any officer or staff of the MTA, or any other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information at the Committee requests. The Auditor General shall (1) furnish the Committee with all material information pertinent to matters appearing on the Committee agenda relating to the Purpose, (2) provide the chairperson of the Committee with all information regarding the Purpose that is material to the Committee's monitoring and oversight of the Purpose, and (3) inform the chairperson of the Committee of any matters not already on the Committee agenda that should be added to the agenda in order for the Committee to be adequately monitoring and overseeing the Purpose.

V. COMMITTEE REPORTS.

The Committee Chair shall report on the Committee's proceedings, and any recommendations made.

VI. KEY RESPONSIBILITIES OF COMMITTEE CHAIR AND VICE-CHAIR

The following responsibilities are set forth as a guide. The Committee Chair and the Committee Vice-Chair are authorized to carry out these and such other responsibilities assigned by the Committee, the Board Chair or the Board, from time to time, and take any actions reasonably related to the mandate of this Charter.

To assist the Committee in fulfilling its purpose, the Committee Chair and/or the Committee Vice-Chair shall:

Auditors, Financial Statements & Accounting Policies:

1. review and discuss with the Auditor General, the relevant MTA employees, each outside auditor, and the internal auditors any audit problems or difficulties encountered in the course of audit work, including any restrictions on the scope of activities or access to required information and advise the Committee as to how to resolve any disagreements regarding financial reporting;
2. inquire as to each outside auditor's view of the accounting treatment related to significant new transactions or other significant matters or events not in the ordinary course of business;
3. review and discuss with the Auditor General, the relevant MTA employees, and each outside auditor any material financial or non-financial arrangements that do not appear on the financial statements of the MTA (or of any subsidiary corporation or affiliate);
4. review and discuss with the Auditor General and each outside auditor: (i) any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise), (ii) any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any "management" or "internal control" letter issued, or proposed to be issued, by any outside auditor to the MTA (including to any subsidiary corporation or affiliate);
5. review with the Auditor General and the outside auditor the periodic financial statements and footnotes of the MTA (and of each subsidiary corporation or affiliate, as applicable) and discussing the adequacy of the system of internal and the appropriateness of the accounting principles used, and the judgments made, in the preparation of such periodic financial statements;

6. meet annually (or more frequently if necessary) with each respective outside auditor (without the Auditor General or any other officers or staff of the MTA present) to discuss the periodic financial statements of the MTA (and of each subsidiary corporation or affiliate, as applicable).

Internal Controls & Risk Management:

7. together with the Auditor General and the Chief Compliance Officer, review, discuss and (if necessary) investigate compliance with MTA policies and/or refer instances of non-compliance to the MTA Inspector General for investigation;
8. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant employees of the MTA, and each outside auditor: (i) any significant deficiencies in the design or operation of the internal controls of the MTA (ii) any fraud, whether or not material, involving any MTA employees and (iii) related findings and recommendations of the outside auditors together with management's responses;
9. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant MTA employees, and each outside auditor the MTA's risk assessment and risk management systems, and oversee the underlying policies with respect to risk assessment and risk management;
10. together with the Auditor General and the Chief Compliance Officer, serve as the point of contact for the MTA Inspector General, including by reviewing all reports and draft reports delivered to the MTA by the MTA Inspector General, and being available to meet with the MTA Inspector General as part of the Inspector General's audits of the MTA's books and records;
11. recognizing the statutory obligations of the MTA Inspector General, and without denigrating from those obligations, seek to communicate with the MTA Inspector General with respect to any matter the Committee Chair and/or Vice Chair, the entire Committee, the Board Chair, the Board or the MTA Inspector General deem appropriate;

Miscellaneous:

12. submit to the entire Committee for its consideration any matters (including matters relating to the foregoing) that the Committee Chair and/or Committee Vice-Chair deem should appropriately be considered by the entire Committee; and
13. report regularly to the Committee on the findings and recommendations of the Committee Chair and the Committee Vice-Chair relating to the foregoing, and on any other matters the Committee Chair and/or the Committee Vice-Chair deem appropriate or the Committee, the Board Chair or the Board request.

VII. KEY RESPONSIBILITIES OF THE COMMITTEE

The following responsibilities are set forth as a guide with the understanding that the Committee may diverge as appropriate given the circumstances. The Committee is authorized to carry out these and such other responsibilities assigned by the Board Chair or the Board, from time to time, and take any actions reasonably related to the mandate of this Charter.

To fulfill its purpose, the Committee shall:

Auditors, Financial Reporting & Accounting Policies:

1. in consultation with the Auditor General and the officer primarily responsible for the finances of the MTA and each subsidiary corporation and affiliate, oversee the work of the MTA's outside auditor and provide guidance to the Board Chair and the Board with respect to the appointment (and if appropriate dismissal), evaluation, compensation of the outside MTA's auditors;
2. review and provide guidance to the Board with respect to any auditing and non-auditing services provided to the MTA by any of the MTA's the outside auditor;
3. review and provide guidance to the Board with respect to the annual audit plan and risk assessment as proposed by the Auditor General in consultation with the MTA Chairman/CEO and the President of each subsidiary corporation and affiliate;
4. review and discuss with the Auditor General, the relevant MTA employees, each outside auditor, and the internal auditors: (i) any significant audit findings during the year, including the status of previous audit recommendations; (ii) any changes required in the scope of the audit plan; (iii) the audit budget and staffing; and (iv) the coordination of audit efforts, status of the internal audit plan and the adequacy of internal audit resources (both numbers and capabilities);
5. review and discuss with the Auditor General, the relevant MTA employees, and the outside auditor accounting policies that may be viewed as critical, as well as any recent or proposed significant changes in MTA accounting policies; and inquire as to the outside auditors' views as to the application of accounting principles;
6. monitor the consistency and comparability of the financial reporting processes of the MTA;
7. monitor the integrity, consistency and comparability of the financial reports and other financial information provided by the MTA to any other governmental or regulatory body, the public or other users thereof, including reconciliations where necessary;

8. review and provide guidance to the Board with respect to the appointment, compensation and (if necessary) dismissal of the Auditor General;
9. at least annually, review with the Auditor General a report by each outside auditor describing: (i) such outside auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the outside auditor and the MTA (or any subsidiary corporation or affiliate);
10. on an annual basis, in each case together with the Auditor General: (i) review a formal written statement from each outside auditor delineating all relationships between such outside auditor and the MTA; (ii) actively engage in a dialogue with each outside auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of such outside auditor and take appropriate action in response to such outside auditor's report to satisfy itself of such auditor's independence; (iii) consider whether, in the interest of assuring continuing independence of each outside auditor, the MTA's respective outside auditors should be rotated; and (iv) set clear hiring policies for employees or former employees of the outside auditors;

Internal Controls & Risk Management:

11. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant MTA employees, and each outside auditor the adequacy of the MTA's internal and disclosure controls and procedures;
12. together with the Chief Compliance Officer, review and discuss with the relevant MTA employees, and each outside auditor any significant risks or exposures and assess the steps such employees have taken to minimize such risks;
13. review periodically with the Chief Compliance Officer and the General Counsels of the MTA and each subsidiary corporation and affiliate: (i) legal and regulatory matters that may have a material impact on the financial statements of the MTA (or any subsidiary corporation or affiliate); and (ii) the scope and effectiveness of compliance policies and programs;

Ethics & Conflicts of Interests:

14. together with the Chief Compliance Officer, review periodically with the relevant MTA employees the level of compliance with all applicable ethics codes, guidelines, and regulations;

Miscellaneous:

15. conduct an annual self-evaluation of the performance of the Committee, including its effectiveness and compliance with this Charter;
16. review and reassess the adequacy of this Charter annually;
17. consider any matter referred to the entire Committee by the Committee Chair and/or Vice-Chair; and
18. report regularly to the Board on Committee findings and recommendations and any other matters the Committee deems appropriate, or the Board Chair or the Board request.



METROPOLITAN TRANSPORTATION AUTHORITY ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL GUIDELINES

Pursuant to Public Authorities Law Section 2931

Adopted by the Board on November 16, 2011

These guidelines apply to the Metropolitan Transportation Authority ("MTA"), the New York City Transit Authority, the Long Island Rail Road Company, The Metro-North Commuter Railroad Company, Staten Island Rapid Transit Operating Authority, Metropolitan Suburban Bus Authority, Manhattan and Bronx Surface Transit Operating Authority, MTA Capital Construction, MTA Bus Company, Triborough Bridge and Tunnel Authority, and to all future affiliated or subsidiary agencies of the MTA (each of which is referred to severally and together, as the "Authority").

Article I. Purpose of Guidelines

The purpose of these guidelines is to establish an effective system of internal controls for the Authority which complies with the requirements of the New York State Government Accountability, Audit and Internal Control Act of 1999 ("the Act") amending Public Authorities Law ("PAL") Sections 2930 through 2932, and is consistent with the Standards for Internal Control in New York State published by the Office of the State Comptroller ("Comptroller Standards"), Guidelines issued by the Independent Authority Budget Office ("IABO"), and the Commission of Sponsoring Organizations of the Treadway Commission ("COSO") standards.

Article II. Requirements of the Act

In compliance with the requirements of PAL Section 2931 the MTA Board is required to:

1. Establish and maintain for the Authority guidelines for a system of internal control that are in accordance with the Act and internal control standards;
2. Establish and maintain for the MTA a system of internal controls and a program of internal control review. The program of internal review shall be designated to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of the necessary corrective actions and periodically assess the adequacy of the Authority's ongoing internal controls;
3. Make available to each member, officer and employee a clear and concise statement of the generally applicable managerial policies and standards with which he or she is expected to comply. Such statement shall emphasize the importance of effective internal controls to the Authority and the responsibility of each member, officer and employee for effective internal control;

4. Designate an internal control officer who shall report to the head of the Authority to implement and review the internal control responsibilities established pursuant to this section; and
5. Implement education and training efforts to ensure that Board Members, officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Article III. Guidelines Maintenance

These guidelines replace MTA All Agency Policy Directive 11-008 Accountability & Internal Control issued June 8, 1990.

These guidelines are subject to annual review by the Audit Committee. In advance of submission of these guidelines for such review, the Enterprise Risk Management Committee ("the Committee" defined in Article IV(B)) shall be responsible for preparing any proposed revisions to the guidelines necessary to ensure that they continue to be in compliance with the Act and consistent with the Comptroller standards, LABO guidelines and COSO standards.

Article IV. System of Internal Controls and Program of Internal Control Review

Section A. Enterprise Risk Management/Internal Controls

Enterprise Risk Management ("ERM")/Internal Controls is defined as a process conducted by management and other personnel, applied across the Authority, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Strategic - high-level goals, aligned with and supporting Authority's mission
- Operations - effective and efficient use of the Authority's resources
- Reporting - reliability of reporting
- Compliance - compliance with applicable laws, regulations and policies

The definition reflects certain fundamental concepts regarding ERM/Internal Control management. ERM/Internal Control management is:

- An ongoing and flowing process throughout the Authority
- Effected by people at every level within the Authority
- Applied in developing and implementing strategy
- Applied across the Authority, at every level and in all areas of responsibility
- Designed to identify potential risks that, if they occur, will affect the Authority

ERM/Internal Controls consists of eight interrelated components. These components are:

1. Control Environment – The internal environment encompasses the tone of the Authority, and sets the basis for how risk is viewed and addressed by employees, including risk management philosophy, integrity and ethical values, and the environment in which they operate.
2. Objective Setting – Objectives must exist before management can identify potential events affecting their achievement. Internal control management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the Authority's' mission.
3. Event Identification – Internal and external events affecting achievement of Authority's objectives must be identified, distinguishing between risks and opportunities.
4. Risk Assessment – Risks are analyzed by, considering likelihood and impact, as the basis for computing the overall risk rating. The vulnerability of the Authority to various risks determines how they should be managed.
5. Risk Response – Management evaluates the available risk response options (avoiding, accepting, reducing or sharing) and selects the strategy that optimizes the cost-benefit goals of the Authority.
6. Control Activities – Policies and procedures are established and implemented to ensure that the risk responses strategy is established and effectively executed.
7. Information and Communication – Relevant information is identified, analyzed, and communicated in a form and timeframe that enable employees to effectively carry out their responsibilities.
8. Monitoring – Internal Controls are monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate periodic evaluations, or both.

Section B. Enterprise Risk Management Committee

The Enterprise Risk Management Committee ("the Committee") has the authority and responsibility for ensuring compliance by the Authority with the Act, Comptroller Standards, IABO guidelines and COSO standards. In addition, the Committee has authority to oversee the ERM program as it relates to those Business Processes and

their associated risks and controls that occur between multiple Agencies.

Authority Internal Control Officers or their designees serve on the Committee, which is chaired by the MTA Chief Compliance Officer. The Committee will meet as needed but generally not less than every six months to review and suggest improvements to the ERM program.

Section C. Vulnerability Assessments

Part 1. Components

Vulnerability (Risk) Assessments ("VA") is an analysis of the potential exposure to a thing going wrong, what can happen if it does, and what controls, if any, are or should be in place to manage risk. The VA also defines how often and when controls are to be tested. Each VA must at a minimum contain the following:

- Identification of key business processes
- Objectives of each business process
- Risks to those objectives
- Effect and likelihood (in the absence of controls) of risks occurring and an overall vulnerability rating
- Controls in place to manage each risk to an acceptable level
- Testing frequency (based on vulnerability rating)
- Testing schedule (approximately when each control will be tested during a particular cycle)

Part 2. Controls

Controls will be classified as key, subordinate, secondary, or monitoring.

Key Controls -an internal control that is assessed by management that provides reasonable assurance that material errors will be prevented or detected in a timely manner and that without which the business process will break down.

Subordinate Controls- those internal controls that are utilized to supplement key controls. Subordinate controls can be compensating, mitigating or redundant as it relates to the key control.

Secondary Controls – those controls which are not key or subordinate controls.

Monitoring Controls - those controls that are not designed to mitigate risk but are designed to monitor non-critical business process risks.

Part 3. Assessing Risk Effect, Probability, and Overall Risk Rating

Risk within a business process is the inherent potential for events to occur that will negatively impact that business process, its objectives, and/or related activities. Vulnerability within a business process can be assessed by defining what negative event can reasonably occur (risk), evaluating their significance (effects) and estimating the likelihood that they can happen (probability). When assessing the effect if the risk occurs the following categories should be used in determining level of significance.

Significance Rating	Evaluation Criteria
<i>High (5)</i>	Will cause a failure of the business process to meet its objectives, or cause objective failure in other activities, which will, in turn, cause or expose the Authority to significant financial losses, interruptions in operations, failure to comply with laws and regulations, major waste of resources, failure to achieve stated goals, etc.
<i>Med High (4)</i>	May cause a failure of the business process to meet a significant part of its objectives, or impact the objectives of other activities, which may, in turn, expose the Authority to unacceptable financial losses, reductions to or ineffectiveness of operations, non-compliance with laws and regulations, sizable waste of resources, etc.
<i>Medium (3)</i>	May cause a failure of the business process to meet part of its objectives, which may, in turn, expose the Authority to unacceptable financial losses, inefficient operations, non-compliance with laws and regulations, waste of resources, etc.
<i>Medium Low (2)</i>	May cause the business process, or other activities, not to meet part of its objectives which, may, in turn, expose the Authority to potentially unacceptable financial losses, less effective or efficient operations, some non-compliance with laws and regulations, waste of resources, etc.
<i>Low (1)</i>	Unlikely to cause the activity not to meet part of its objectives. If the activity does not meet part of its objective, this, in turn, may cause or expose the Authority to potentially unacceptable financial losses, less efficient operations, some non-compliance with laws and regulations, less efficient use of resources, etc.

When assessing the likelihood the risk will occur the following categories should be used in determining level of likelihood.

Likelihood Rating	Evaluation Criteria (Assumes No Controls in Place)
<i>Extreme (5)</i>	Reasonable assumption that this risk will almost certainly occur
<i>High (4)</i>	Reasonable assumption that this risk will likely, but not certainly, occur
<i>Medium (3)</i>	Reasonable assumption that this risk may occur
<i>Low (2)</i>	Reasonable assumption that this risk will likely not occur
<i>Negligible (1)</i>	Reasonable assumption that this risk will not occur

The overall risk rating is used to identify the relative importance and required testing of each control. For ease of assessing, the impact of each risk multiply the numeric values associated with the significance rating and the likelihood rating to determine a relative overall risk rating to each risk: Effect x Probability = Vulnerability

Overall Risk Rating				
Very High (25-20)	High (19-16)	Medium (15-9)	Low (8-4)	Very Low (3-1)

Section D. Control Testing

The frequency of performing an internal control test is determined by the overall risk rating. Risks with very high or high overall risk rating are considered to be more critical than those in lower categories given that controls are used to manage risks to acceptable levels. Therefore controls over high risk activities must be tested more frequently. The Authority's testing cycle is classified as follows:

Vulnerability	Control Test Cycle
<i>Very High</i>	Annually (Minimum)
<i>High</i>	Not less than Every 2 years
<i>Moderate</i>	Not less than Every 3 years
<i>Low</i>	Not less than Every 4 years
<i>Very Low</i>	Not less than Every 5 years

Each Business Process Owner along with their Authority Internal Control Officer is responsible for creating test instructions. Test instructions should contain at a minimum the standard which will be used to judge the control, the methods which will be utilized to test the control, the sample size and test period. In addition the test instructions should include criteria for what constitutes passing versus failing of any given test.

Business Process Owners must maintain records, both electronic and paper, for each test. The records must include when the test was performed, by whom, what was tested, how it was done, scope (period of time covered), number of records reviewed, personnel involved, personnel interviewed, actions observed, errors found, conclusions and corrective action plans to be implemented. Records must be maintained at a minimum through at least one internal control review cycle (1-5 years) or as required by Authority's records retention policy.

The Committee shall establish standards for testing for the ERM business processes.

The Business Process Owners must provide proof of testing, including copies of all testing records at the request of the MTA Chief Compliance Officer, the Authority ICO for their respective Agency, MTA Audit Services, or the MTA Inspector General Office. Failure to provide testing documentation must be reported to the Chief Compliance Officer and the Agency President.

Section E. Internal Control Review and Assessment

The Authority shall conduct an annual Internal Control Review and Assessment ("ICRA") which is an examination and evaluation of the Authority's system of internal controls to ascertain whether adequate controls exist to:

- Encourage adherence to Authority's policies and procedures
- Promote operational efficiency and effectiveness
- Safeguard assets
- Create and maintain a safe environment for employees and customers
- Ensure reliability of accounting data

The results of the ICRA, at a minimum, reaffirms that there is reasonable assurance that controls are functioning as intended.

Based upon the result of the ICRA, the Authority's shall complete, as part of its Annual Report, an annual assessment of the effectiveness of internal control structures and procedures. The assessment is a written statement from the MTA Chief Compliance Officer setting forth the Authority has conducted a formal, documented process to assess the effectiveness of its internal control structure and procedures, and indicating whether or not the internal controls are adequate.

Section F. Certification and Summary Reports

The Chairman/Chief Executive Officer on behalf of the Authority shall complete a signed certification and summary report that the Authority's internal control program is compliant with the Act. In support of this certification each Agency President shall also sign a certification and summary report that their Agency is compliant with the Act.

Section G. Corrective Action Plans

If any control should fail the Control Testing or ICRA process, described in Section D and E above, a corrective action plan must be initiated. The corrective action plans will at a minimum list the severity of the issue as either:

- Material Weakness
- Significant Deficiency
- Deficiency
- Documentation Only

This corrective action plan shall also include:

- Actions to be undertaken
- Persons responsible for those actions
- Resources required to complete the corrective action
- Date corrective actions were completed or date by which they are expected to be achieved

Article V. Generally Applicable Managerial Policies and Standards

The Chief Executive Officer or Executive Director of the Authority, together with Agency Presidents shall prepare and disseminate annually a statement emphasizing the tone at the top, the importance of effective internal controls and the responsibility of each officer and employee for effective internal controls. This statement should list the name and contact number of the Authority Internal Control Officer for their respective Agency and any other individuals who can be contacted for further information on internal controls.

Managerial policies and procedures for the performance of specific functions shall be articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

Each Agency shall establish procedures for policy lifecycle management, including but not limited to the creation, approval, maintenance, storage, monitoring and review of

Agency specific policies and procedures. MTA Corporate Compliance shall establish procedures for all agency policy lifecycle management, including but not limited to the creation, approval, maintenance, storage, monitoring and review of All Agency Policy Directives and Guidelines.

Article VI. Designation of an Internal Control Officer

The MTA Chief Compliance Officer shall serve as Internal Control Officer for the Authority and shall report to the Chairman and Chief Executive Officer of the Authority or his/her designee. The Chief Compliance Officer shall implement and review the internal control responsibilities established by these guidelines to ensure compliance by the Authority.

Each MTA Agency President shall appoint an Authority Internal Control Officer, who shall report to the Agency President or to his/her designee within the executive office

Article VII. Implementation of Education and Training Programs

Senior management and employees responsible for specific functions relating to the Authority's internal control program must attend recurring internal control training.

The training will utilize the standardized Training Manual for Internal Controls developed by the Committee as well as the Office of the New York State Comptroller's Internal Control Guide-Compliance Road Map. Agencies may augment this guide, if necessary, to provide specialized instruction.

The Committee shall determine at a minimum which classification of employees should attend internal control training, including the method, content and frequency of such training.

Article VIII. MTA Audit Services

In order to maintain independence, MTA's Auditor General and MTA Audit Services shall not directly or indirectly manage the Authority's ERM/Internal Control program. MTA Audit Services shall evaluate the Authority's internal controls and operations, identify internal control weaknesses that have not been corrected and make recommendations to correct those weaknesses.