



**Metropolitan Transportation Authority**

# **Audit Committee Meeting**

## **January 2013**

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### **Committee Members**

J. Sedore Jr., Chair

M. Page, Vice Chair

F. Ferrer

J. Ballan

R. Bickford

S. Metzger

C. Moerdler

A. Saul



## MEETING AGENDA

### MTA AUDIT COMMITTEE

JANUARY 30, 2013 – 8:30 a.m.

347 Madison Avenue  
Fifth Floor Board Room  
New York, NY

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<u>AGENDA ITEMS</u>	<u>PAGE</u>
PUBLIC COMMENTS PERIOD	
1. APPROVAL OF MINUTES – NOVEMBER 26, 2012	1
2. AUDIT COMMITTEE WORK PLAN	4
3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT 3 <sup>RD</sup> Quarter 2012 *	
4. 2011 PENSION AUDITS MNR Cash Balance Plan * MaBSTOA Pension Plan * MTA Defined Benefit Pension Plan * MTA Deferred Compensation Program * LIRR Company Plan for Additional Pensions *	
5. SIRTOA - UPDATE OF ACCOUNTING RECORDS AND 2012 YEAR-FINANCIAL STATEMENTS (no materials)	
6. OVERVIEW OF NEW MTA FINANCIAL STATEMENTS CONSOLIDATION INITIATIVE *	
7. 2012 AUDIT PLAN YEAR-END REPORT	11
8. 2013 AUDIT PLAN	15

*\* (materials previously distributed)*

**MINUTES OF MEETING  
AUDIT COMMITTEE OF THE BOARD  
MONDAY, NOVEMBER 26, 2012 – 3:15 P.M.  
5TH FLOOR BOARD ROOM  
347 MADISON AVENUE  
NEW YORK, NEW YORK 10017**

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The following were present:

**Honorable:**

James L. Sedore  
Susan G. Metzger  
Jonathan Ballan

M. Fucilli - MTA  
R. Foran - MTA  
L. Kearse - MTA

P. Kane - MTA  
W. Hibri - MTA

D. Jones - D&T  
G. Friedrich - D&T

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1. **APPROVAL OF MINUTES**

The minutes of the September 19, 2012 Audit Committee meeting were approved.

2. **AUDIT COMMITTEE WORKPLAN**

The Committee Chair reported that there is no meeting scheduled for December and the next Audit Committee meeting is scheduled for January. The January agenda will include a briefing from Deloitte & Touche on the results of the 2012 third quarter financial statement review; and the results of the 2012 Pension Audits. Additionally, there will be a briefing to the Committee on the status of the 2012 Audit Plan; and the proposed Audit Plan for 2013. The Committee was also advised there will be four meetings scheduled in 2013.

3. **REVIEW OF AUDIT COMMITTEE CHARTER**

Lamond Kearse briefed the Committee that each year the Committee is required to review and assess the adequacy of its Charter. He informed the Committee that there were no recommendations for any changes to the Charter and that therefore no vote was required.

4. **COMPLIANCE WITH THE REQUIREMENTS OF THE INTERNAL CONTROL ACT**

Lamond Kearse (MTA) informed the Committee of the review process that the MTA go through annually to determine whether its agencies are in compliance with the requirements of Public Authorities Law Section 2931 (Internal Control Act). He informed the Committee that the MTA and its agencies are in compliance with the requirements of the Law and that his office is in the process of preparing a report to the Committee on the results of the review. Further, there were no recommendations regarding revisions to the new Enterprise Risk Management and Internal Control guidelines approved by the Board last November.

5. **2012 AUDIT APPROACH PLAN**

David Jones (D&T) briefed the Committee on Deloitte's approach for the 2012 annual audit of the financial statements. He introduced the supervisory staff for the audit and indicated which agencies and/or functions they will manage. He briefed the Committee on key aspects of their audit approach, which is contained in Deloitte's "MTA Audit 2012 Service Plan" document that was provided to the Committee. He said it starts with knowing and understanding each of the Authority's businesses and includes reviewing the system of internal controls, focusing on whether existing controls are appropriate to produce reliable and accurate financial information; conducting a risk assessment to identify accounts that are sensitive to potential misstatements and issues that could cause material misstatements in the financial statements; paying particular attention to non-recurring journal entries related to a judgment or event; and meeting with the agency General Counsels, along with the actuarial advisories, for the valuation of large accounts involving claims and judgments. He also directed the Committee's attention to page 7 of the Plan which discusses risk assessment, and pointed out key areas of risk such as derivatives, postemployment benefits, inventories, and ticket revenues. Finally, David said they will look at any potential issues relating to the recent storm (Hurricane Sandy) focusing on material impairments, and examine whether business interruptions were handled appropriately with respect to recognizing recoveries and booking receivables.

6. **OPEN AUDIT RECOMMENDATIONS**

Lamond Kearsse informed the Committee that the review of the open audit recommendations found that none exceeded the six month period beyond their implementation date. Therefore, there were no open recommendations to report to the Committee.

7. **INFORMATION TECHNOLOGY REPORT**

Wael Hibri (MTA) briefed the Committee on the "Information Systems Enterprise Initiatives, Security & Controls" report that was provided in the agenda package. He informed the Committee that Hurricane Sandy has refocused EITG's attention on risks to IT services and operations for which they will need to invest time and resources to address them going forward. This includes reassessment of the earlier strategy of consolidating multiple data center operations at 2 Broadway. He informed the Committee that, of the six work streams IT reported to the Committee last year that could produce savings in the technology area, four have been completed with savings of \$71 million to be realized over the 2011-2015 period. The two remaining work streams, related to application rationalization and data center strategy, are ongoing and progress continues to be made. He also discussed several IT related strategic sourcing successes that has resulted in savings to the MTA, and that the BSC went live with Release 2 on July 2, which has resulted in the processing of payroll and benefits for 45,000 NYC Transit and MTA Bus employees. Finally, he also brief the Committee on the successful performance of the MTA website during Hurricane Sandy despite the heavy loads experienced, the IT governance process and the progress on several other new IT initiatives throughout the MTA.

8. **MOTION TO ADJOURN**

A motion was made and seconded to adjourn the meeting.

The next meeting of the Audit Committee is scheduled for January 30, 2013.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "M. J. Fucilli", is written over the printed name.

**Michael J. Fucilli**  
**Auditor General**

## 2013 AUDIT COMMITTEE WORK PLAN

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### I. RECURRING AGENDA ITEMS

#### Responsibility

Approval of Minutes  
 Audit Work Plan  
 Pre-Approval of Audit and Non-Auditing Services  
 Follow-up Items  
 Status of Audit Activities

Committee Chair & Members  
 Committee Chair & Members

Executive Sessions

As Appropriate  
 As Appropriate  
 Auditor General/MTA IG/  
 Chief Compliance Officer/  
 External Auditor/As Appropriate  
 As Appropriate

### II. SPECIFIC AGENDA ITEMS

#### Responsibility

#### 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 and 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 – 1<sup>st</sup> 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

July and August 2013

*(No Meeting Scheduled)*

September 2013

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

# **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**

### **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.

### 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 – 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

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 - 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.

#### 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*

# **MTA AUDIT SERVICES**

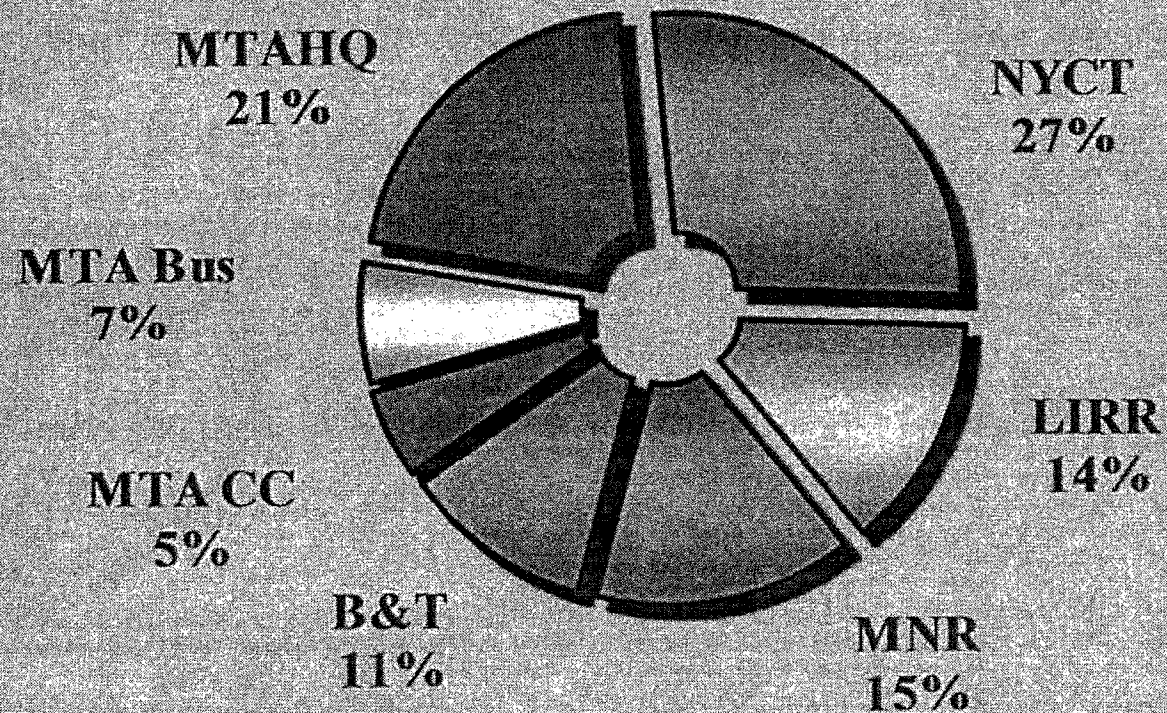
## **2012 Year End Status and the Proposed 2013 Audit Plan**

**Michael J. Fucilli  
Auditor General**

**JANUARY 30, 2013**

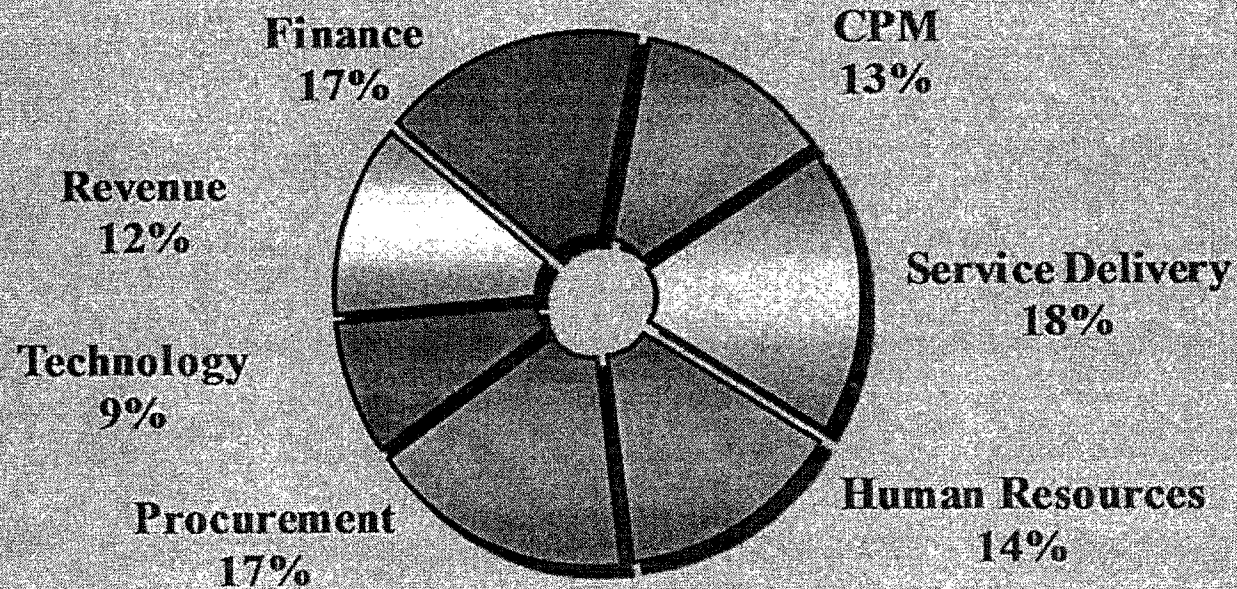


# 2012 RESOURCE ALLOCATION





# 2012 RESOURCE ALLOCATION





# **2012 Audit Plan Summary**

## **Financial/Operational/Technology**

- Projects Completed = 148
- Recommendations = 397
- Savings/Cost Efficiencies = \$ 14 M

## **Contracts**

- Projects Completed = 137
- \$ Audited = \$ 676 M
- Questioned Costs = \$ 32 M

**Total = \$ 46 Million**



# MTA AUDIT SERVICES

## 2013 AUDIT PLAN



# *Audit Plan Formulation*

## **Perform Company Analysis**

Analyze strategies, financial indicators, and operational controls to identify the audit universe.

## **Develop Value Driver Analysis**

Understand enterprise, business unit and functional strategies based on business risk factors and discussions with key management personnel.

## **Evaluate Enterprise Risk**

Evaluate the enterprise risk using five main key indicators.

## **Prioritize Audits**

Identify auditable activities / units, based on the results of the risk assessment.

## **Refine Audit Strategy**

Using the IIA's risk assessment methodology formulate audit plan and obtain Audit Committee approval.

**September**

**October**

**November**

**December**

**January**



# *Risk Factor Considerations*

***Financial Exposure***

***Condition of Internal Controls***

***Change in Operation Conditions***

***Impact of Technology***

***Previous Audit Results***

***Management Interest***



**Conducted  
85 Interviews**



# Risk Assessment Results

## *Audit Universe*

**351 Activities**  
**(821 Sub-Activities)**

**191 High**

**117 Moderate**

**43 Low**

**2013 Audit Plan**  
**160 Audits**

**Audit Universe based on a Five Year Cycle**

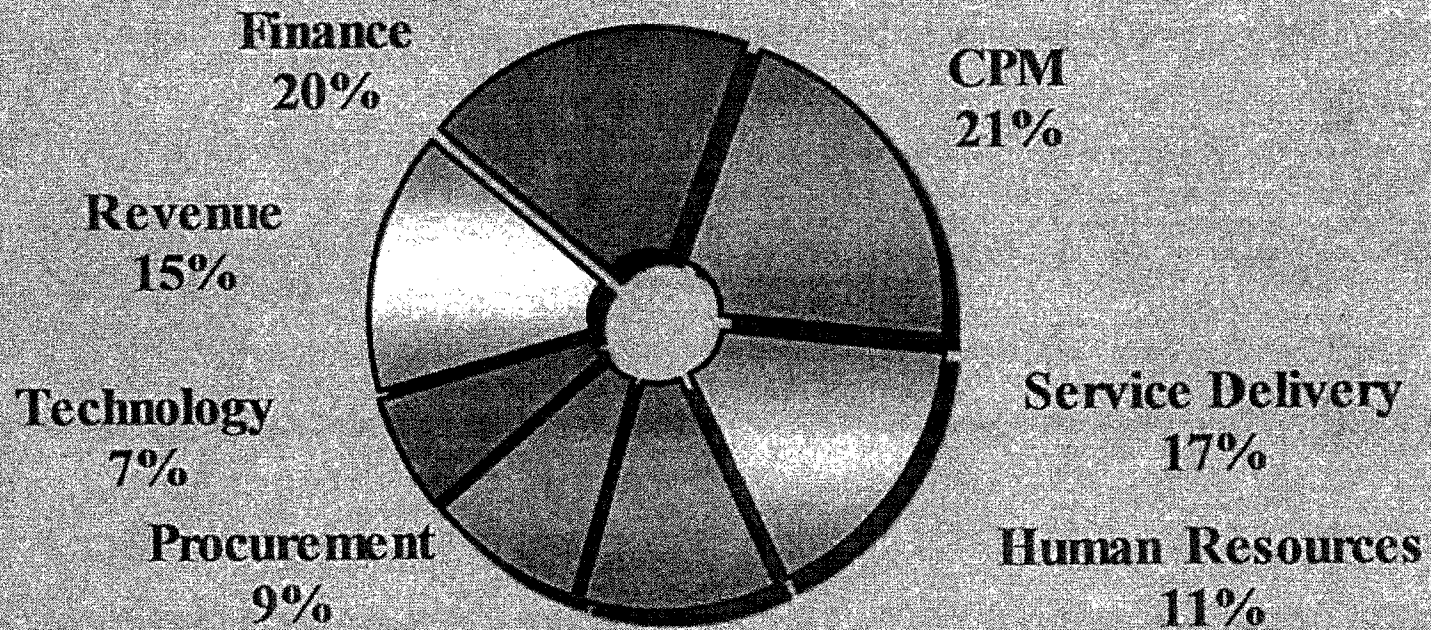


# **2013 Audit Strategy**

- ☐ **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**

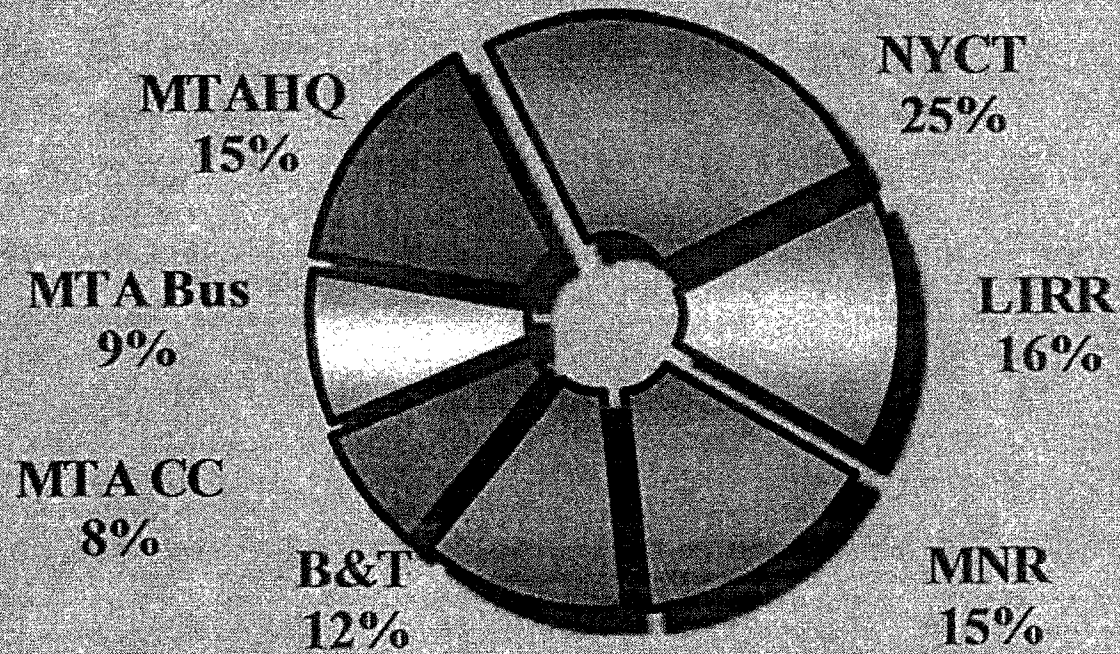


# 2013 RESOURCE ALLOCATION





# 2013 RESOURCE ALLOCATION





# 2013 Audit Areas

## Finance

Corporate Governance  
Super Storm Sandy Costs  
Treasury Investments  
Business Service Center  
SIRTOA Accounting Controls  
Payroll  
Accounts Payable  
Timekeeping  
Overtime  
Electronic Fund Transfers  
Prior Audit Recommendations

## Revenue

Advertising Contracts  
Project Management Cost  
Rental Property Income  
Smart Card Program  
MetroCard  
E-ZPass  
Select Bus Services  
On-Board Fare Collection  
Ticket Refunds  
Credit Card Transactions

## Procurement / Materiel

Operating Contracts  
Capital Contracts  
RFP / IFB Process  
Store Room Controls  
Material Inspections  
Strategic Initiatives  
Vendor History File  
Supply Logistics

## Service Delivery

FASTRACK  
Bus Depots  
Power Maintenance  
Station Maintenance  
Car Maintenance  
Bridges & Tunnels Facilities  
Grand Central Terminal  
Hours of Service  
Station Cleaning  
Warranties

## Capital Program

Construction Management  
ARRA  
In-House Construction  
#7 Line  
Security Contracts  
Prevailing Wages  
Third Party Contracts

## Human Resources

Health Benefit Costs  
Pensions  
Hiring  
Employee Availability  
Workers' Compensation

## Technology

IT Rationalization  
Data Center Operations  
Outsourced Services  
Business Continuity  
PeopleSoft Security  
Kronos Timekeeping  
Data Warehouse



# Keeping the Balance

