



**Metropolitan Transportation Authority**

# **Audit Committee Meeting**

## **June 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

June 5, 2013 – 8:30 a.m.

347 Madison Avenue  
Fifth Floor Board Room  
New York, NY

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#### AGENDA ITEMS

#### PAGE

##### PUBLIC COMMENTS PERIOD

- |   |    |
|---|----|
| 1. APPROVAL OF MINUTES – APRIL 24, 2013                                     | 1  |
| 2. AUDIT COMMITTEE WORK PLAN  | 4  |
| 3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT<br>1 <sup>ST</sup> QUARTER 2013 * |    |
| 4. 2012 SINGLE AUDIT *  |    |
| 5. 2012 MANAGEMENT LETTER REPORT *  |    |
| 6. INVESTMENT COMPLIANCE REPORT *   |    |
| 7. 2013 AUDIT PLAN STATUS REPORT  | 11 |

*\*(material previously distributed)*

**MINUTES OF MEETING  
AUDIT COMMITTEE OF THE BOARD  
WEDNESDAY, APRIL 24, 2013 – 8:30 A.M.  
5TH FLOOR BOARD ROOM  
347 MADISON AVENUE**

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**The following were present:**

**Honorable:**

**James L. Sedore  
Susan G. Metzger  
Jonathan A. Ballan**

**Mark Page  
Robert Bickford  
Andrew Albert**

**M. Fucilli - MTA  
R. Foran - MTA**

**L. Kearse - MTA  
P. Kane - MTA**

**D. Jones - D&T  
M. Malloy- D&T**

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**1. APPROVAL OF MINUTES**

The minutes of the January 30, 2013 Audit Committee meeting were approved.

**2. AUDIT COMMITTEE WORKPLAN**

The Committee Chair indicated that the next committee meeting is scheduled for June 5, 2013. The agenda for that meeting includes: the review of 1<sup>st</sup> Quarter 2013 Financial Statements, the Single Audit Reports, the Investment Compliance Report, Management Letter Reports and the 2013 Audit Plan Status. All concerned were reminded of the tight timeframe to complete their respective deliverables.

**3. 2012 FINANCIAL STATEMENTS**

Patrick Kane (MTA Comptroller) presented a management's review of the 2012 MTA consolidated financial statements. He briefed the Committee about the statements preparation and presentation, including Management's Discussion and Analysis; the Consolidated Financial Statements; the Notes to the Financial Statements; the Required Supplementary Information and the Additional Supplementary Information. In reviewing the 2012 vs. 2011 changes in financial position, he provided explanation on the \$2,079 million increase in Net Capital Assets; the \$1,484 million decrease in Other Assets & Deferred Outflows; the \$932 million increase in Liabilities; and the \$337 million decrease in ending Net Assets. He also presented the required supplementary information relating to Pension Funding Progress and Post-Employment Benefit Plan Funding Progress. There were discussions on the gain on asset impairment related to Superstorm Sandy and the accounting and economic valuation of the assets being replaced. The Chair commented on the increase in salaries and wages and the need to have a consistency in presenting operating expenses between agencies. The Chair also inquired about the progress with PeopleSoft regarding financial statements consolidation. Patrick Kane advised that significant progress has been made and that automation has sped up the consolidation process.

David Jones (D&T) informed the Committee that in addition to performing the audits of the consolidated financial statements of the MTA and its agencies in accordance with the work scope contained in the July 2012 audit engagement agreement, they spent a considerable amount of time on the accounting and valuation of assets damaged due to Superstorm Sandy, performing due diligence work: reviewing management's estimates on asset impairment and replacement costs; meeting with agency engineers; and touring damaged facilities. He spoke about the changes in the audit letter, explaining its new format and additional supplementary information disclosures and that the letter mirrored the changes in the financial report.

David briefed the Committee on the auditing procedures they performed, including conducting risk assessments, evaluating internal controls and reviewing management judgments and estimates to ensure consistency and compliance with accounting principles. He mentioned that the MTA adopted GASB 63, a major change in MTA's financial reporting relating to Deferred Outflows and Inflows of Resources and Net Position. He also mentioned that they reviewed the information presented in the "Required Supplementary Information" and the information reported in the MTA's budgetary or "official" statements to ensure they are consistent with the consolidated financial statements. He noted that there were no uncorrected misstatements in the financial statements, but mentioned that an audit adjustment was made to reclassify an agency's negative cash balances to a liability account. He indicated that estimates reflected in the statements relating to Superstorm Sandy could change in the future as better information becomes known. He noted that a material weakness related to SIRTGA's inability to close its 2011 financial statements has been corrected and no longer exists this year. He reported that the accounting policies and practices used by the MTA were in accordance with GAAP and that there were no disagreements with management and no consultation with other accountants took place during the audit.

A motion was made and seconded to approve the 2012 financial statements.

#### **4. FINANCIAL INTEREST REPORTS AND ETHICS PROGRAM**

Lamond Kears (MTA Corporate Compliance) provided the Committee with a report on the 2012 Financial Interest Report covering calendar year 2011 filings. He briefly outlined the financial interest reporting requirements of Public Officers Law Section 73-a, and advised that out of the 5,673 individuals required to file, 11 filers were delinquent; the delinquents were down to two at meeting time. He informed the Committee that Corporate Compliance reminded all "covered employees" of the filing due date for calendar year 2012 and of the changes relating to approved outside activities. He mentioned that this year's filings require disclosure of clients.

Lamond also provided the Committee with an overview of the MTA Ethics and Compliance Program. He reported that in 2012 they handled over 470 ethics issues, including attendance at prohibited sources, outside activity approval requests, gifts, financial disclosures and acceptance of honoraria. He noted that Corporate Compliance conducted 38 Ethics Training sessions in 2012 and trained 2,795 employees, 309 better than 2,486 employees projected. Corporate Compliance also mailed out communication covering code of ethics, holiday gifts, political activity and other ethic-related issues to 67,000 employees last year and Lamond indicated that more mailings may be required by Albany for this year. There were discussions on the cost of the mailings and as to who or which entities are considered prohibited sources.



5. **EXECUTIVE SESSION**

A motion was made and approved to go into Executive Session to allow the Committee to discuss current litigation with the agencies' General Counsels.

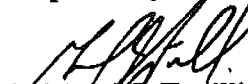
6. **MOTION TO RETURN TO PUBLIC SESSION**

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

7. **MOTION TO ADJOURN**

A motion was made and seconded to adjourn the meeting.

Respectfully submitted,



Michael J. Fucilli  
Auditor General

## 2013 – 2014 AUDIT COMMITTEE WORK PLAN

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### I. RECURRING AGENDA ITEMS

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

### II. SPECIFIC AGENDA ITEMS

|  | <u>Responsibility</u>                |
|--|--------------------------------------|
| <u>June 2013</u>   |                                      |
| Quarterly Financial Statements – 1 <sup>st</sup> 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    |
| Open Audit Recommendations                                     | Agency CIOs/Chief Compliance Officer |
| <u>September 2013</u>  |                                      |
| Quarterly Financial Statements – 2 <sup>nd</sup> Quarter       | External Auditor/CFOs                |
| Compliance with the Requirements of the Internal Control Act   | Agency CIOs/Chief Compliance Officer |
| MTA Enterprise Risk Management and Internal Control Guidelines | Chief Compliance Officer             |
| Annual Audit Committee Report                                  | Audit Committee                      |

September 2013 - continued

Review of Audit Committee Charter  
Appointment of External Auditors  
Audit Approach Plans/Coordination  
with External Auditors  
Review of MTA/IG's Office

Committee Chair  
CFOs/Controllers

External Auditor  
External Auditor/IG

January 2014

Quarterly Financial Statements – 3<sup>rd</sup>  
Quarter 2013  
Pension Audits  
2013 Audit Plan Status Report  
2014 Audit Plan  
Information Technology Reports

External Auditor/CFOs  
External Auditor  
Auditor General  
Auditor General  
Chief Information Officers

April 2014

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

# **2013 – 2014 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**

### **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.

## **JUNE 2013 - continued**

### **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.

## **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.

## **SEPTEMBER 2013 – continued**

### 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 sixth 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.

## **SEPTEMBER 2013 – continued**

### 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.

## **JANUARY 2014**

### 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 2013.

### 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.

### 2013 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.

### 2014 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.

### 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.

**APRIL 2014**

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 2013 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.



# **MTA Audit Services**

## **2013 Audit Plan Status**

**June 5, 2013**

# **Agenda**

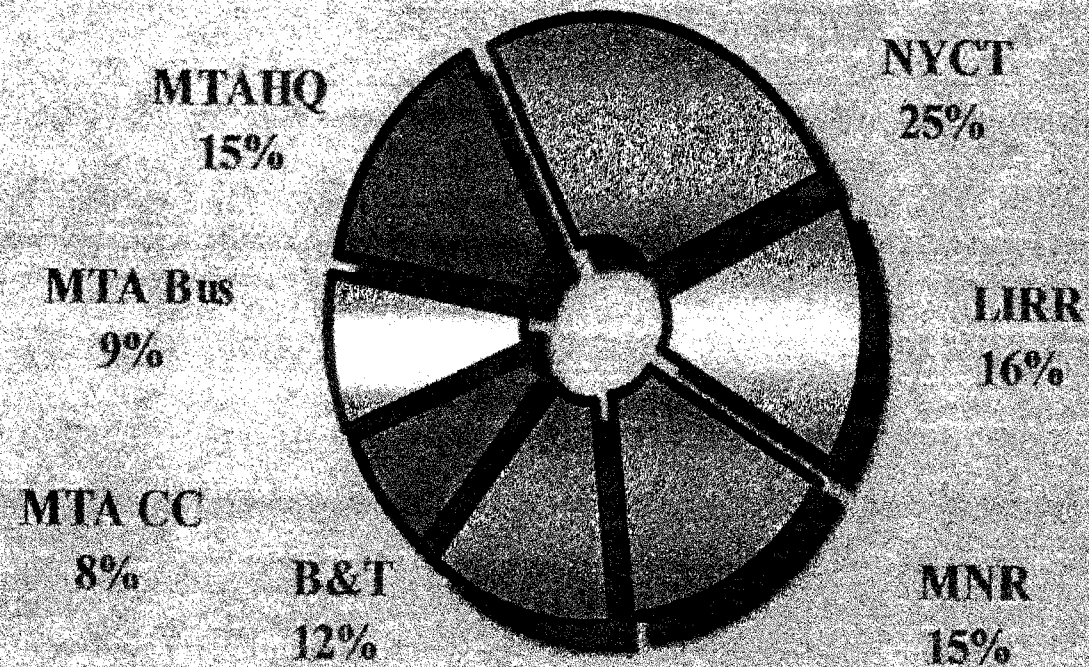
- **2013 Goals**
- **Audit Plan Status**
- **Management Surveys**



# **2013 Audit Strategy**

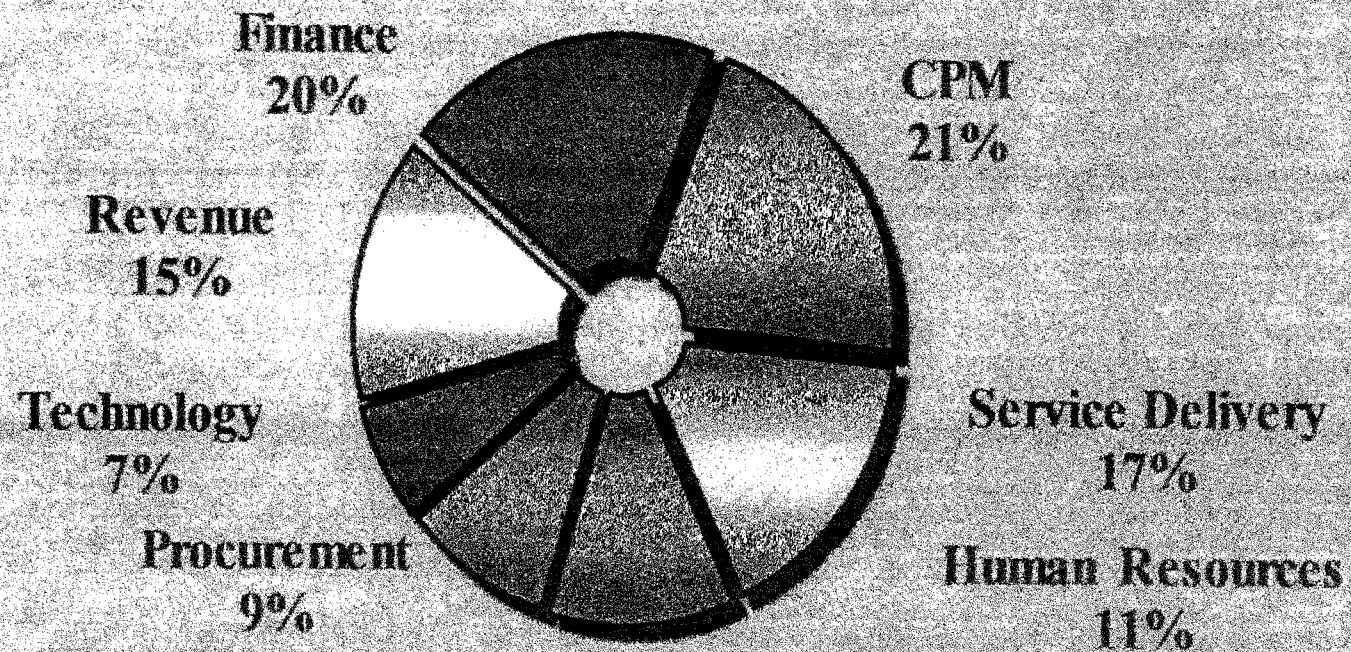
- ☐ **Focus the Audit work on Risk, Internal Control Environment, and Cost of Operations**
- ☐ **Support Agency-wide Goals & Initiatives**
- ☐ **Promote Effective Corporate Governance**
- ☐ **Secure implementation of Audit Recommendations**

# 2013 RESOURCE ALLOCATION





# 2013 RESOURCE ALLOCATION



# ***2013 - Plan Summary***

## **Financial/Operational/Technology**

- Projects Completed = 58
- Recommendations = 200
- Savings/Cost Efficiencies = \$ 10.4 M

## **Contracts**

- Projects Completed = 69
- \$ Audited = \$ 227 M
- Questioned Costs = \$ 17.3 M

**Total = \$ 27.7 Million**



# **PERFORMANCE AGREEMENTS**

# Annual Surveys

## 2012 Management Survey

| <u>Category (1-5 range)</u>        | <u>2013</u> | <u>2012</u> |
|------------------------------------|-------------|-------------|
| AUDIT COVERAGE                     | 4.5         | 4.4         |
| RESPONSIVENESS & COMMUNICATIONS    | 4.3         | 4.4         |
| PARTICIPATION IN AGENCY/MGT FORUMS | 4.5         | 4.4         |
| AUDIT PERFORMANCE                  | 4.4         | 4.6         |



## 2013 Independent Quality Assurance Review Of MTA Audit Services

| <b>Results: "Fully Complies"</b> |   |                   |
|----------------------------------|---|-------------------|
| <b>Seq#</b>                      | <b>IIA - Audit Elements</b>                   | <b>Compliance</b> |
| 1                                | Purpose, Authority & Responsibility           | ✓                 |
| 2                                | Independence & Objectivity                    | ✓                 |
| 3                                | Proficiency & Due Professional Care           | ✓                 |
| 4                                | Quality Assurance & Improvement Program       | ✓                 |
| 5                                | Managing the Internal Audit Activity          | ✓                 |
| 6                                | Nature of Work                                | ✓                 |
| 7                                | Engagement Planning                           | ✓                 |
| 8                                | Performing the Engagement                     | ✓                 |
| 9                                | Communicating Results                         | ✓                 |
| 10                               | Monitoring Progress                           | ✓                 |
| 11                               | Resolution of Management's Acceptance of Risk | ✓                 |

**QUESTIONS?**