



Metropolitan Transportation Authority

Audit Committee Meeting

January 2014

Committee Members

J. Sedore Jr., Chair

M. Page, Vice Chair

F. Ferrer

R. Bickford

C. Moerdler

A. Saul



MEETING AGENDA

MTA AUDIT COMMITTEE

JANUARY 29, 2014 – 8:30 a.m.

347 Madison Avenue
Fifth Floor Board Room
New York, NY

<u>AGENDA ITEMS</u>	<u>PAGE</u>
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* (materials previously distributed)

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
WEDNESDAY, SEPTEMBER 18, 2013 – 8:30 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
Jonathan A. Ballan

Mark Page
Robert Bickford
Andrew Albert

Fernando Ferrer

M. Fucilli - MTA
R. Foran - MTA
P. Kane - MTA

L. Kears - MTA
W. Vazoulas - NYCTA

M. Fritz - D&T
G. Friedrich - D&T
M. Malloy - D&T

PUBLIC COMMENTS PERIOD

A speaker appeared before the Committee and spoke about the inflexibility of committee rules and made positive comments about the FasTrack program.

1. APPROVAL OF MINUTES

The minutes of the June 5, 2013 Audit Committee meeting were approved.

2. AUDIT COMMITTEE WORKPLAN

The next Audit Committee meeting is scheduled for January 29, 2014. The January agenda will include a briefing on the results of the review of the 3rd Quarter Financial statements and the Pension audits by Deloitte and a presentation on the 2013 Audit Plan Status and the 2014 Audit Plan by Audit Services and the Information Technology Report by the agency CIOs.

3. INDEPENDENT ACCOUNTANTS' REVIEW REPORT FOR SECOND QUARTER 2013

Patrick Kane (MTA) informed the Committee of changes to the draft financial statements, involving a reclassification between restricted and unrestricted accounts within the Net Position section of the statements and a change of \$11.4 million in the "Other non-operating income" account reported in the Reconciliation between Financial Plan and Financial Statements.

Michael Fritz (D&T) briefed the Committee on the results of their review of the 2nd Quarter 2013 Consolidated Interim Financial Statements. Similar to previous quarterly reviews the MTA's financial statements were reviewed for consistency. He commented that the statements were prepared in accordance with generally accepted accounting principles and that they did not note any significant issues that would have a material effect on the financial statements. The Committee inquired if any adjustments were required as a result of the mobility tax litigation

settlement. Deloitte responded no adjustments were required. The Committee also inquired about the significant increase in unredeemed fares and tolls. William Vazoulas (NYC Transit Controller) explained that the increase was due in part to advertising revenues received in advance which have been deferred and included in the unredeemed fare and toll account. There were discussions regarding the effective dates when the MTA will begin to adopt GASB No. 67, 68 and 70; the significant decrease in obligations under capital leases; and the \$892 million increase in "Other Postemployment Benefits" (OPEB) obligations. A motion was made and seconded to approve the MTA Consolidated Interim Financial Statements for the 2nd Quarter 2013.

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

Michael Fritz (D&T) indicated a review of the Inspector General's office expenses for 2012 that D&T performed based on the "Agreed Upon" procedures found no exceptions. The Committee commented that the MTA IG budget to actual expense comparison showed a favorable variance of \$974,000. A motion was made and seconded to approve the Review of the MTA IG's office expenses.

5. **RE-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. The Chair noted that this is the fifth year of a seven-year contract, and the previously agreed-upon cost for the 2013 year-end audit is \$1,658,000. A motion was made and seconded to approve the appointment of D&T as the independent auditor for the MTA and all its agencies for the 2013 year-end audit.

6. **2013 AUDIT APPROACH PLAN**

Michael Fritz (D&T) introduced the audit engagement team for the 2013 audit: Glenn Friedrich, Partner; Mike Malloy, Director; and Senior Managers Jill Strohmeier and Darshan Patel. He briefed the Committee on key aspects of their audit approach, which is contained in Deloitte's "*MTA 2013 Audit Service Plan*" document that was provided to the Committee. He highlighted the focus for their 2013 audit and mentioned several areas, including internal controls over financial reporting, cash, valuation of investments, capital asset impairment, pension and other postemployment benefits (OPEB), toll revenues, salaries and wages and grant funds and FEMA money. He indicated they will use a risk-based approach in designing procedures to detect "what could go wrong" and ensure the financials contain no material misstatements. He also directed the Committee's attention to the section of the Plan which presents Deloitte's response to address the key areas of risk: investments, derivatives, OPEB, estimated liability arising from injuries to persons and capital assets. He indicated that a significant amount of time will be spent in capital assets impairment and recoveries. He mentioned that in terms of audit timeline, the audit team will perform the audit testing in November and December and will do the audit work itself in February through April. Finally, he mentioned that Deloitte value reputation and is well known for its quality work and has been inspected by PCAOB and has been subjected to an external Peer Review every three years as required by the professional standards. He indicated that next Peer Review is scheduled this year and if MTA is selected for the review, the Committee will be notified.

7. **REVIEW OF AUDIT COMMITTEE CHARTER**

Lamond Kears (MTA) briefed the Committee that each year the Committee is required to review and assess the adequacy of its Charter. He informed the Committee that the staff has no recommended changes to the Charter. The Chair noted increasing the number of meetings to 5 a year would not require a Charter change as it is within the minimum four meetings required in the Charter. A motion was made and seconded to accept the Committee Charter.

8. **REVIEW OF THE ERM AND INTERNAL CONTROL GUIDELINES**

Lamond Kears (MTA) informed the Committee that the Enterprise Risk Management and Internal Control Guidelines are required to be reviewed annually and the CCO staff is not recommending changes to the Guidelines at this time. He mentioned, however, that as a result of the revisions to the Committee on Sponsoring Organization (COSO) framework, which are effective December 2014, a review will be made to determine if changes to the Guidelines are necessary to conform to the new COSO framework. The Committee noted that the list of agencies required to comply with the Guidelines still included Metropolitan Suburban Bus Company. Lamond Kears responded that in recent discussions with General Counsel about that matter, the General Counsel advised to leave it in the list for now.

9. **OPEN AUDIT RECOMMENDATIONS**

Lamond Kears (MTA) informed the Committee that the review of the open audit recommendations found that only one exceeded the six month period beyond their implementation date. It pertained to the Audit of NYC Transit Accounts Receivable reported on September 24, 2012 in which, to date, 15 of the 16 recommendations in that audit have been implemented. The open recommendation required NYC Transit to update its written guidelines and procedures in the collection, the provision of reserves and the write-off of receivables. NYC Transit expects to complete the guidelines and procedures by end of the year. The Committee commented on the significant improvement in this area, considering the backlog of open recommendations in the past years.

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

Lamond Kears (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 of the requirements of the law, which included, among others: the establishment of guidelines for a system of internal controls, maintaining a systems of internal controls and program of internal control review, performing risk assessments and control testing, making available to each employee a clear and concise statement of the managerial policies and standards that he or she is expected to comply, designation of internal control officers, conducting applicable training and the establishment of an internal audit function. He indicated to the Committee that the MTA is in compliance with the requirements of PAL Section 2931.

11. **SUMMARY OF AUDIT COMMITTEE ACTIVITY**

The Chair directed the Committee's attention to the annual Summary of Audit Committee Activity report, which presents all activities conducted at Audit Committee for the 12-month ended July 2013. It is prepared in compliance with the MTA Audit Committee Charter and is consistent with the report issued to the Board last year. The Chair requested for comments and a motion to accept the report. The Committee voted to accept the report.

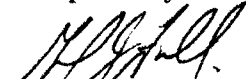
12. **MOTION TO ADJOURN**

A motion was made and seconded to adjourn the meeting.

13. **NEXT MEETING**

The next meeting of the Audit Committee is scheduled for January 29, 2014.

Respectfully submitted,


Michael J. Fucilli
Auditor General

2014 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

January 2014

	<u>Responsibility</u>
Quarterly Financial Statements – 3 rd Quarter 2013	External Auditor/CFOs
Pension Audits	External Auditor
2013 Audit Plan Status Report	Auditor General
2014 Audit Plan	Auditor General
Information Technology Reports	Chief Information Officers

April 2014

Financial Statements w/Audit Representation Letters	External Auditor/CFOs/Controllers
Contingent Liabilities/Third Party Lawsuits (Executive Session)	General Counsels/External Auditor
Financial Interest Reports	Chief Compliance Officer
Ethics and Compliance Program	Chief Compliance Officer

II. SPECIFIC AGENDA ITEMS - continued

June 2014

Quarterly Financial Statements – 1 st Quarter 2014	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

September 2014

Quarterly Financial Statements – 2 nd Quarter 2014	External Auditor/CFOs
Compliance with the Requirements of the Internal Control Act	Agency CIOs/Chief Compliance Officer
Appointment of External Auditors	CFOs/Controllers
Review of MTA/IG's Office	External Auditor/IG

November 2014

MTA Enterprise Risk Management and Internal Control Guidelines	Chief Compliance Officer
Annual Audit Committee Report	Audit Committee
Review of Audit Committee Charter	Committee Chair
Audit Approach Plans/Coordination with External Auditors	External Auditor
Open Audit Recommendations	Agency CIOs/Chief Compliance Officer

2014 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

JANUARY 2014

Quarterly Financial Statements – 3rd Quarter 2013

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.

JANUARY 2014 - continued

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 2014 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.

APRIL 2014 - continued

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.

JUNE 2014

Quarterly Financial Statements – 1st Quarter 2014

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 2014.

Single Audit Report

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.

SEPTEMBER 2013

Quarterly Financial Statements - 2nd Quarter 2014

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 2014.

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.

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.

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.

NOVEMBER 2014

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.

NOVEMBER 2014 - continued

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).

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.

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.

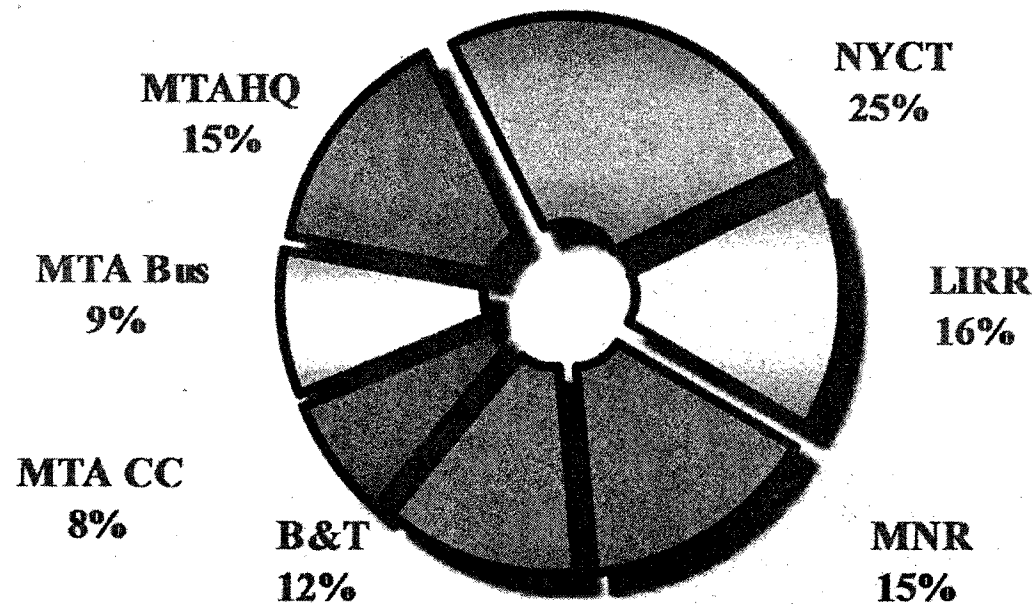
MTA AUDIT SERVICES

2013 Year End Status and the Proposed 2014 Audit Plan

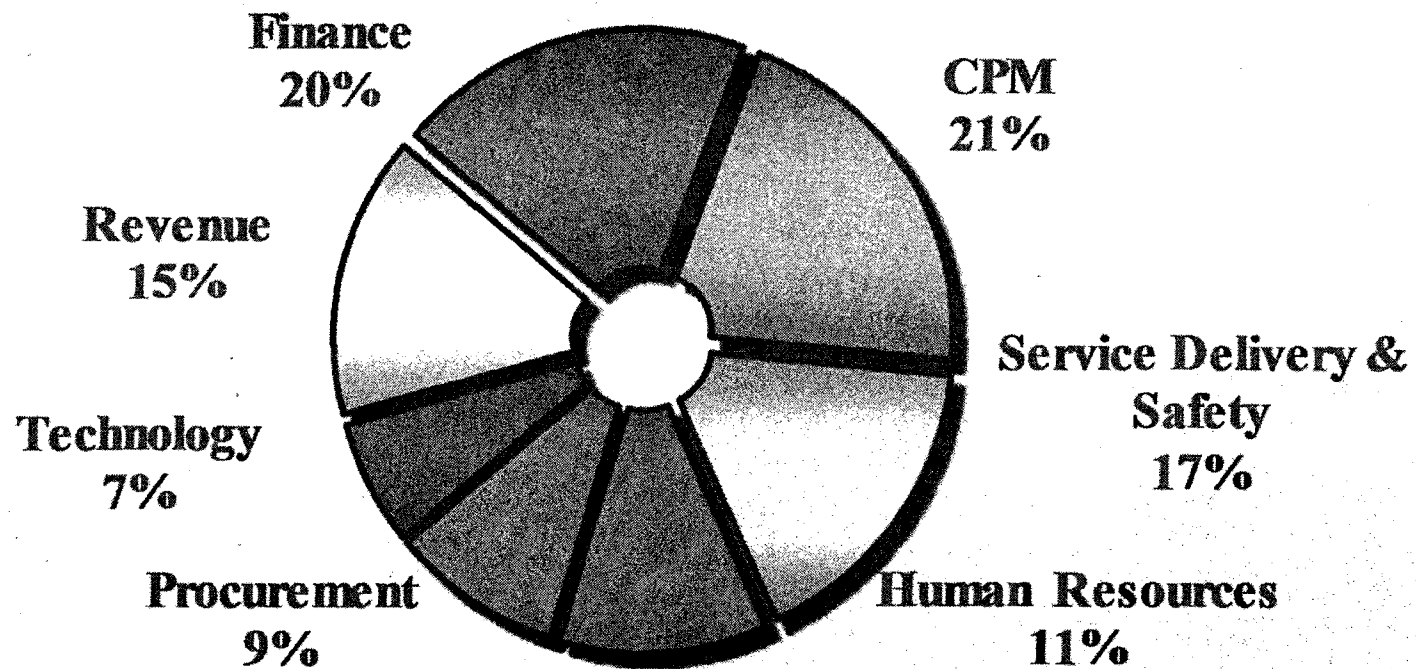
**Michael J. Fucilli
Auditor General**

JANUARY 29, 2014

2013 RESOURCE ALLOCATION



2013 RESOURCE ALLOCATION



2013 Audit Plan Summary

Financial/Operational/Technology

- Projects Completed	=	178
- Recommendations	=	731
- Savings/Cost Efficiencies	=	\$ 24.7 M

Contracts

- Projects Completed	=	134
- Pre-Award OH Reviews Done	=	252
- \$ Audited	=	\$ 594 M
- Questioned Costs	=	\$ 39.3 M

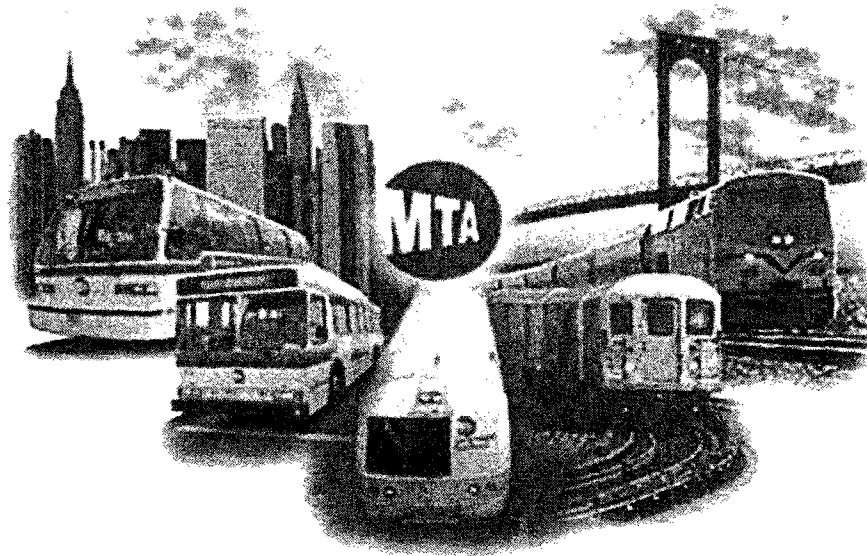
Total = \$ 64.2 Million

2013 Key Assurance Audits

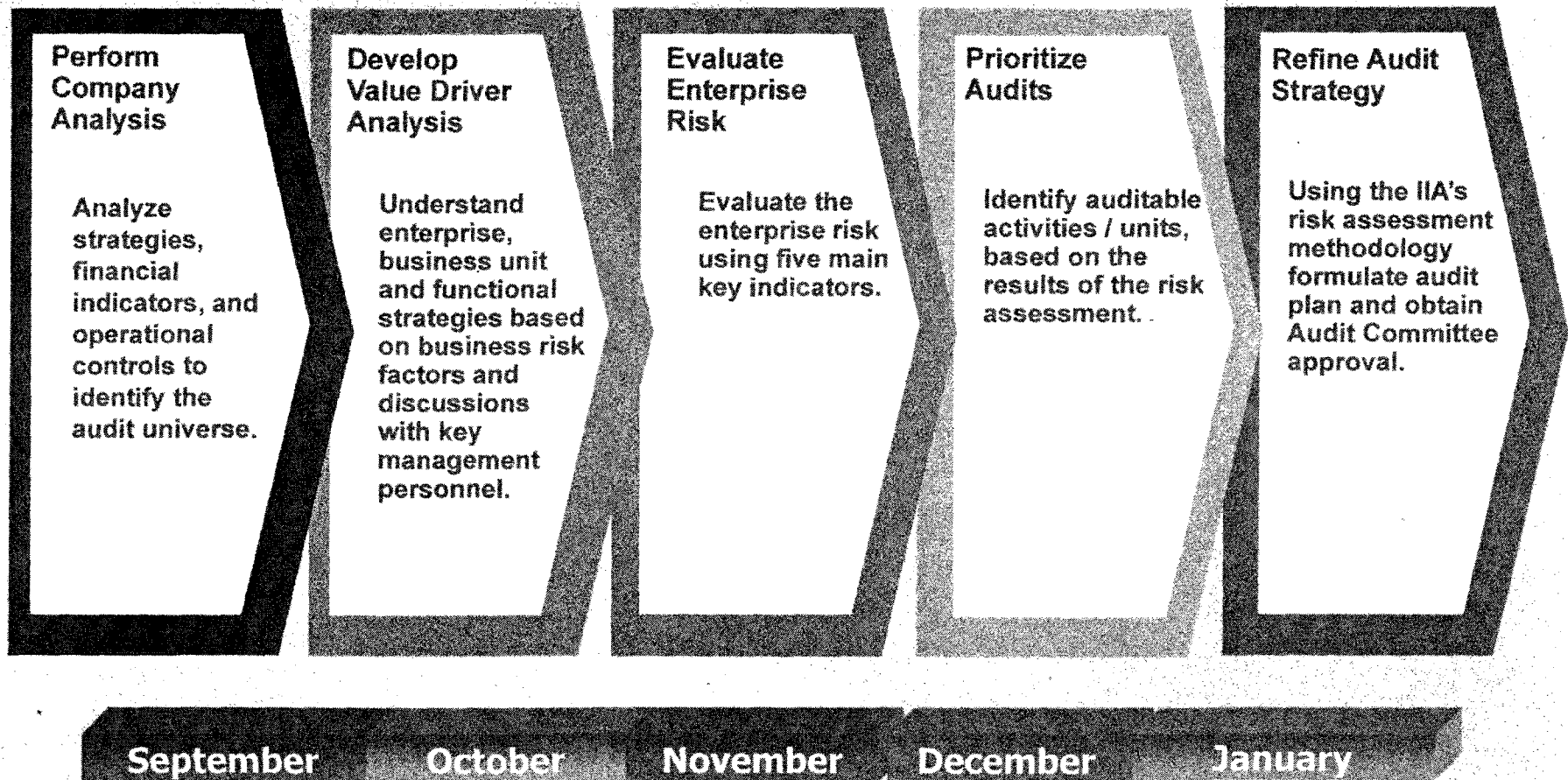
- **Superstorm Sandy Audit Unit**
- **Business Service Center**
- **Pensions**
- **Employee Benefits**
- **Service Delivery**
- **Revenue Collection**

MTA AUDIT SERVICES

2014 AUDIT PLAN



Audit Plan Formulation



Risk Factor Considerations

Financial Exposure

Condition of Internal Controls

Change in Operation Conditions

Impact of Technology

Previous Audit Results

Management Interest



**Conducted
87 Interviews**

Risk Assessment Results

Audit Universe

**351 Activities
(817 Sub-Activities)**

191 High

117 Moderate

43 Low

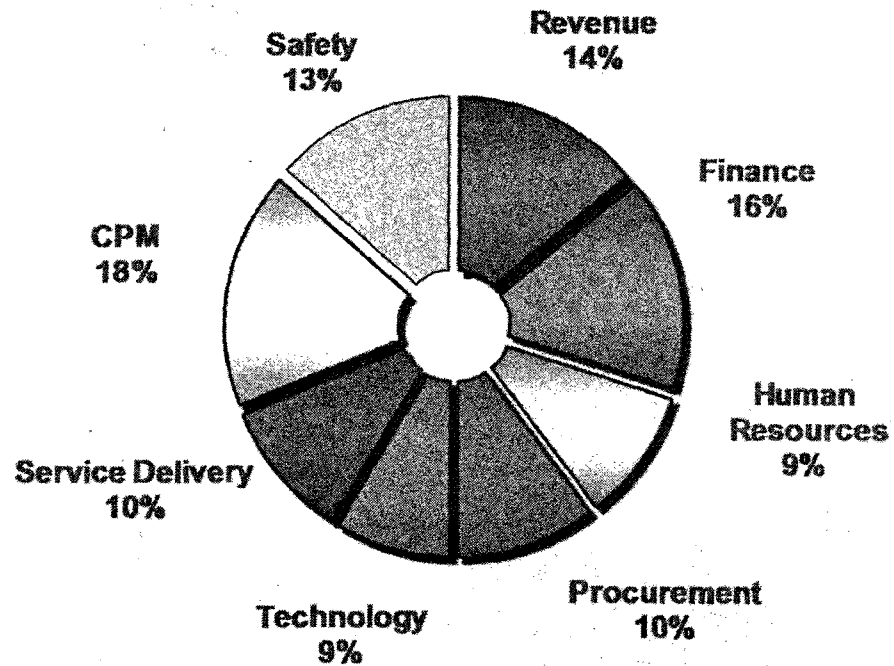
2014 Audit Plan
164 Audits

Audit Universe based on a Five Year Cycle

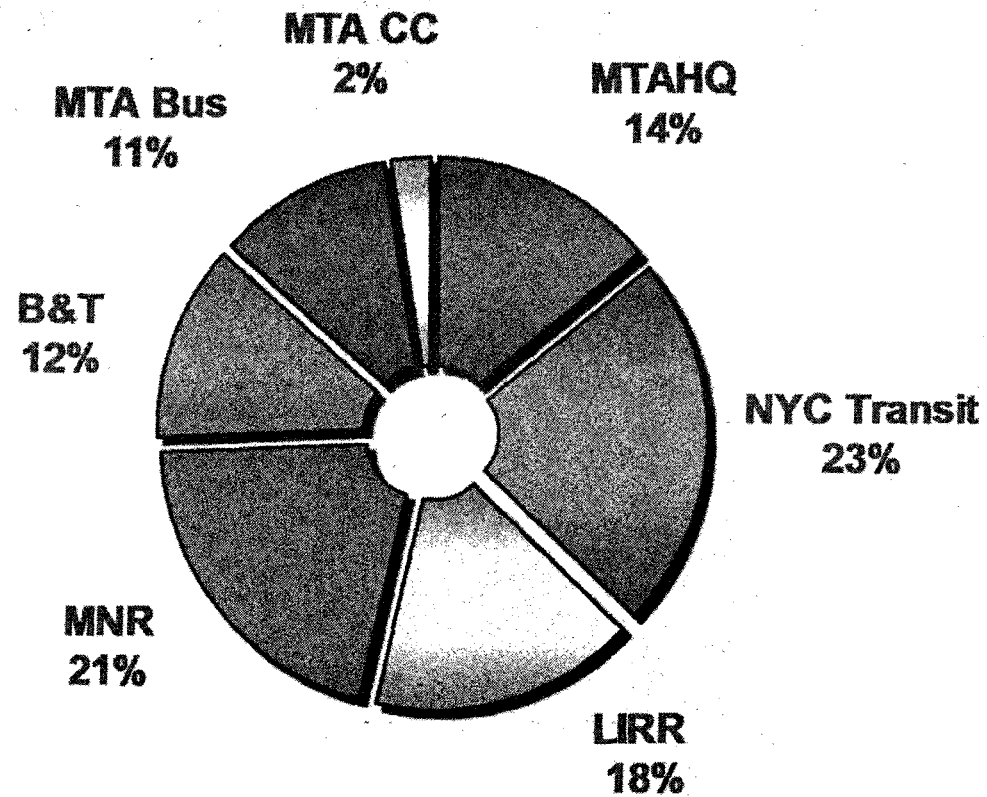
2014 Audit Strategy

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

2014 RESOURCE ALLOCATION



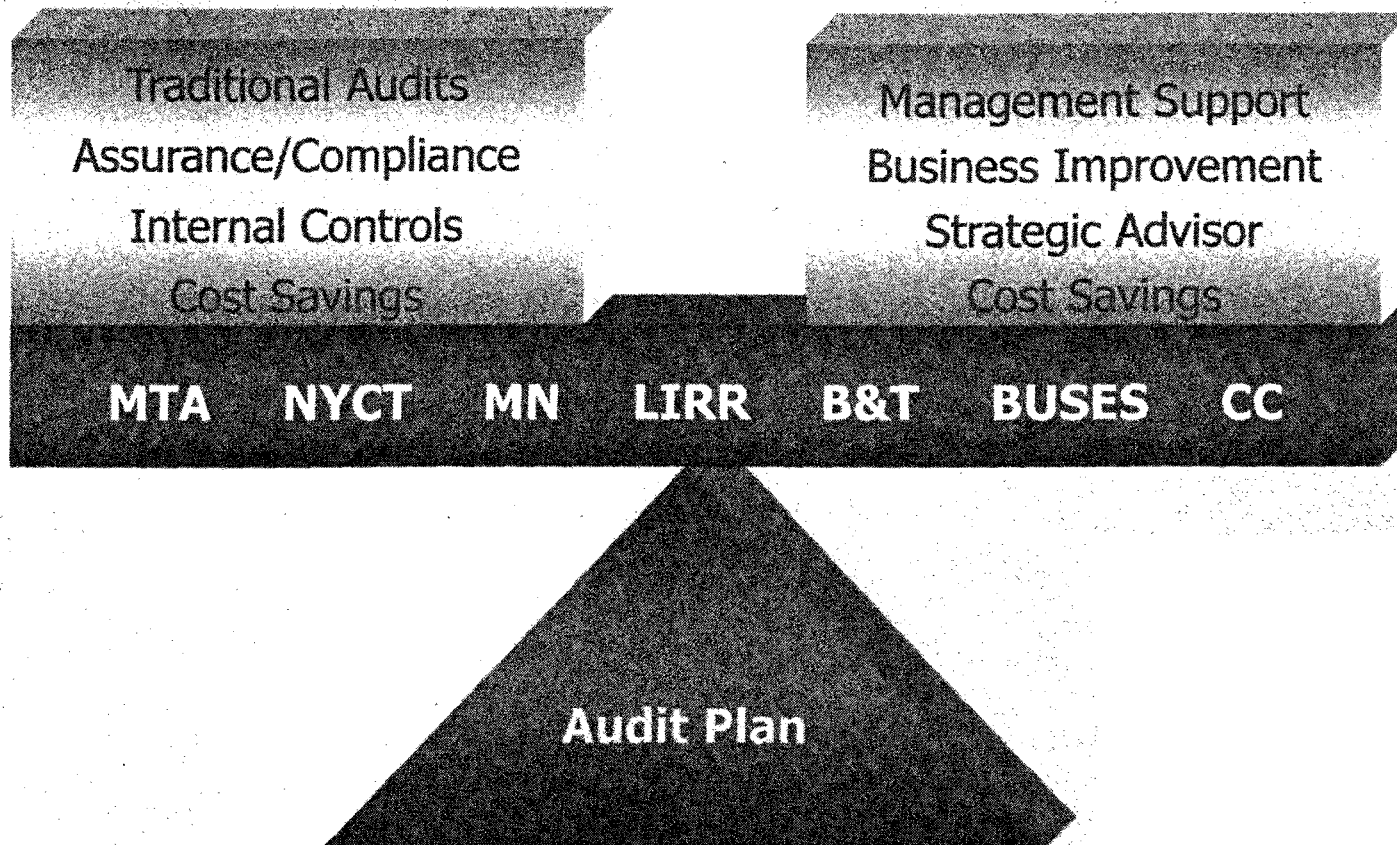
2014 AGENCY RESOURCE ALLOCATION



2014 Audit Areas

Finance	Safety	Capital Program
Treasury Investments West Side Yards McKinsey Cost Savings Advertising Contracts Payroll FLSA Costs Accounts Payable SIR Financials Timekeeping Overtime Electronic Fund Transfers Prior Audit Recommendations	Hours of Services Flagging Safety Blue Ribbon Panel Recs. NTSB Recommendations FRA Recommendations TTCI Recommendations Bridge Inspections Safety Efficiency Testing	Superstorm Sandy Costs Change Order Process Force Account Labor Prevailing Wages Project Management Third Party Contracts
Revenue	Procurement / Materiel	Human Resources
Project Management Costs Rental Property Income ParaTransit Zero Fare MetroCard E-ZPass Select Bus Services On-Board Fare Collection Transit Wireless Money Rooms	Operating Contracts Capital Contracts Procure to Pay Process Inventory Management Disadvantage Business Goals Excess / Obsolete Stock	Nepotism Policy Compliance Health Benefit Costs Pensions Hiring Employee Availability Workers' Compensation
	Service Delivery	Technology
	Depot Operations Station Maintenance New Jersey Agreement Amtrak Agreement Elevators / Escalators Maintenance of Way	BSC PeopleSoft IT Consolidation Data Center Operations Data Warehouse BSC Customer Service Center Cyber Security Applications Controls

Keeping the Balance



QUESTIONS?