



Metropolitan Transportation Authority

Audit Committee Meeting

June 2014

Committee Members

J. Sedore Jr., Chair

M. Page, Vice Chair

F. Ferrer

R. Bickford

C. Moerdler

A. Saul

Audit Committee Meeting

**347 Madison Ave.
5th Floor Boardroom
Wednesday, 6/25/2014
8:30 - 10:00 AM ET**

1. PUBLIC COMMENTS PERIOD

2. APPROVAL OF MINUTES - APRIL 30, 2014

Minutes April 30 2014 meeting - Page 3

3. AUDIT COMMITTEE WORK PLAN

2014 CONDENSED WORKPLAN - June 25th Meeting - Page 7

2013 14 Audit Committee Work Plan - June Detail - Page 9

4. INDEPENDENT ACCOUNTANTS' REVIEW REPORT - 1ST QUARTER 2014 (Materials previously distributed)

5. 2103 SINGLE AUDIT (Materials previously distributed)

6. 2013 MANAGEMENT LETTER REPORT (Materials previously distributed)

7. INVESTMENT COMPLIANCE REPORT (Materials previously distributed)

8. 2014 AUDIT PLAN STATUS REPORT

2014 MidYear Audit Committee Presentation AUDIT COMMITTEE PACKAGE - Page 14

9. EXECUTIVE SESSION

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
WEDNESDAY, APRIL 30, 2014 – 8:30 A.M.
5TH FLOOR BOARD ROOM
347 MADISON AVENUE**

The following were present:

Honorable:

**James L. Sedore
Fernando Ferrer
Charles Moerdler**

**Mark Page
Robert Bickford
Andrew Albert**

**M. Fucilli - MTA
R. Foran - MTA
W. Vazoulas – NYC Transit**

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

**M. Fritz - Deloitte
G. Friedrich - Deloitte
J. Strohmeyer- Deloitte**

PUBLIC COMMENTS PERIOD

There were no public speakers.

1. APPROVAL OF MINUTES

The minutes of the January 29, 2014 Audit Committee meeting were approved.

2. AUDIT COMMITTEE WORKPLAN

The Chair indicated that there are no changes to the plan and the next meeting scheduled for June 25th will include the review of the 1st Quarter 2014 Consolidated Financial Statements, Single Audit Report and Management Letters.

3. 2013 FINANCIAL STATEMENTS

Mike Fritz (Deloitte) reported to the Committee that their audit of MTA Consolidated Financial Statements and the financial statements of Bridges & Tunnels, Metro-North Railroad, NYC Transit Authority, Long Island Rail Road, MTA Bus Company, FMTAC and SIRTOA as of December 31, 2013 resulted in an “Unmodified” opinion, which is synonymous to “Unqualified” or “Clean” opinion cited in past certifications. He noted that the adoption of GASB 65 caused a change in the financial statements of MTA, NYC Transit and Bridges & Tunnels, citing the cost of bond offerings previously capitalized under GAAP is now expensed under GASB 65. He mentioned the 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 also mentioned that there were no disagreements with management and no consultation with other accountants took place during the audit. He reported their audits found no past adjustments, but have two current year adjustments relating to: (1) an understatement of capital

assets by \$105 million due to the recording of liabilities based on invoice date instead of service date and (2) an under-accrual of operating costs by \$10 million. Finally, Mike Fritz cited two items they deemed "significant deficiencies" that the MTA needs to address to avoid their recurrence: (1) the \$115 million of unrecorded liabilities that he just cited and (2) the receipt of \$12 million of Federal Funds not accounted for in the "Schedule of Federal Awards" as the transaction was recorded through the Risk Management accounts. The Committee inquired if finance management is confident that the issues just cited will be resolved. Pat Kane (MTA Comptroller) responded in the affirmative and indicated that steps are being put in place to prevent their recurrence. The Committee also asked for a clarification if the un-booked assets were physical assets. Pat Kane responded that they represent construction in progress.

Pat Kane presented a management's review of the 2013 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 2013 vs. 2012 changes in financial position, he provided explanation on the \$2,498 million increase in Net Capital Assets; the \$332 million increase in Other Assets & Deferred Outflows; the \$4,304 million increase in Liabilities; the \$1,474 million decrease in Net Position; and the \$125 million increase in cash at year end. He also presented the Required Supplementary Information on: (1) the Total Unfunded Liability and Funded Ratio of the LIRR, MaBSTOA and MNR Cash Balance pension plans and (2) the Post Employment Benefit Plan Funding Progress. Finally, he presented the Reconciliation of Operating Expenses, Net Operating Deficit and Total Subsidies per the Financial Plan to GAAP Financial Statements. The Chair noted a comparison of LIRR and MNR financial statements still showed inconsistencies in the way accounts are presented and inquired about the progress in making them conform to the consolidated financial statement. Pat Kane advised that MNR has done the necessary changes and they are working on LIRR accounts to achieve uniformity in account presentation in the next set of financials.

A motion was made and seconded to approve the 2013 financial statements.

4. FINANCIAL INTEREST REPORTS AND ETHICS PROGRAM

Lamond Kearse (MTA Corporate Compliance) informed the Committee that notices, via-emails, were sent to all "covered" employees and Board Members reminding them to file the Financial Interest Report covering calendar year 2013 by the May 15th deadline. He advised that there were 438 employees who were delinquent in filing their 2012 FIR, but that number could go down as such issues as retirements, duplication or extended leave could resolve the employee's delinquency status. The Committee inquired if dismissal is a penalty for failure to file. Lamond responded that the penalty is imposed on a case by case basis and could range from disciplinary action, fines and up to termination. The Committee also asked, given the confidential nature of the filings, when the delinquent filers will be made known. Lamond responded that their identities would be known when the State Joint Commission on Public Ethics (JCOPE) has notified the employees and posted their names on the web. The Chair also requested for an update on the implementation of the internal control system. Lamond informed the committee that substantial progress has been made in automating the internal control process and cited that HQ and BSC's internal control program processes have been fully implemented and their risk and control information are now in the GRC (Governance Risk and Compliance) system; LIRR, MNR and Buses' program are substantially implemented and are in GRC while B&T's program is expected to be implemented by year-end.

Lamond noted that work towards implementing NYC Transit internal control program processes is continuing. Bill Vazoulas (NYC Transit Controller) confirmed the efforts being undertaken, including coordination with IT and developing a business plan, to fully integrate the NYC Transit program into the GRC system.

Lamond also provided the Committee with an overview of the MTA Ethics and Compliance Program. He reported that in 2013, Corporate Compliance handled over 500 ethics issues, including attendance at prohibited sources, outside activity approval requests, gifts, financial disclosures and acceptance of honoraria. He also reported that Comprehensive Ethics Training was provided to 5,294 covered employees and Board Members as required by the State JCOPE. He noted that the training was done through webinars, completed in 8 months of 2013 and only 11 employees missed it. He also informed the Committee of the various communication methods Corporate Compliance used in 2013 to ensure all MTA employees are fully informed of the Code of Ethics and constantly reminded of ethics and compliance issues. These included: (1) distributing the Code via hard copy mailings and postings on the MTA Intranet and the internet; (2) "Tone at the Top" training for Senior Management; (3) presenting ethics guidance video on the MTA Today site each month; (4) e-mail distribution of a magazine on Ethics to all senior executives; and (5) the use of Ethics Helpline-signage. The Committee inquired if Board Member training is done annually and Lamond responded that the comprehensive training of the Board is required once every three years.

5. PROCUREMENT MATTER

The Auditor General provided the Committee with two advance procurement items: (1) to start the solicitation process to obtain an Independent Integrity Monitor for the Sandy-related activities and expenditures and (2) to engage the services of Deloitte to audit the MTA Retiree Welfare Benefits Plan. The AG explained that the MTA, being a recipient of over a \$100 million in Sandy recovery funds, is required by the FTA to have an Independent Integrity Monitor. The monitor will supplement the work of MTA Audit Services and MTA IG and it would be engaged only if the need for monitoring services arises. The AG explained that the FTA initially earmarked \$40 million for the monitor but due to MTA Audit Services and the IG involvement in auditing the Sandy funds, only \$3 million instead was budgeted for the IIM. The AG has requested the Committee to approve the RFP process for the IIM solicitation. Pat Kane (MTA Controller) informed the Committee that the Other Post Employment Benefit (OPEB) Trust required an audit of the MTA Retiree Welfare Benefits Plan. He requested that the Committee approve Deloitte perform the audit as Deloitte is also the auditor of all the other pension plans. The AG noted that Deloitte's fee for the audit is consistent with rates charged on the other plans and has been negotiated by Procurement to be approximately \$43,000.

A motion was made and seconded to approve the two advance procurement items.

The Committee inquired about the Governance of all pension boards. Bob Foran responded that this matter will be addressed in an overall presentation to be made to the Committee, including the consolidation of the various pension administrative functions and the hiring of a Chief Investment Officer. The presentation will be included in the June 26 meeting agenda. The Committee was interested in knowing the individuals who make up the members of the pension boards. Bob Foran indicated he will provide that information to the Committee within a week. The Chair noted that consideration should be given to have Board participation in these plans.

6. **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.

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

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

8. **MOTION TO ADJOURN**

A motion was made and seconded to adjourn the meeting.

Respectfully submitted,



Michael J. Fucilli
Auditor General

2014 – 2015 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

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

II. SPECIFIC AGENDA ITEMS - continued

November 2014

MTA Enterprise Risk Management
and Internal Control Guidelines
Annual Audit Committee Report
Review of Audit Committee Charter
Audit Approach Plans/Coordination
with External Auditors
Open Audit Recommendations

Responsibility

Chief Compliance Officer
Audit Committee
Committee Chair

External Auditor
Agency CIOs/Chief Compliance Officer

January 2015

Quarterly Financial Statements – 3rd
Quarter 2014
Pension Audits
2014 Audit Plan Status Report
2015 Audit Plan
Information Technology Reports

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

April 2015

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

2014 – 2015 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

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.

JUNE 2014 - continued

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 2014

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.

SEPTEMBER 2014 - 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.

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 2014. 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 2015. The review will also show if the Committee's performance in 2014 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 2014 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.

JANUARY 2015

Quarterly Financial Statements – 3rd Quarter 2014

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 2014.

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.

2014 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.

2015 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2015 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 2015

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 2014 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 2015 - 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.

MTA Audit Services

2014 Audit Plan Status

June 25, 2014

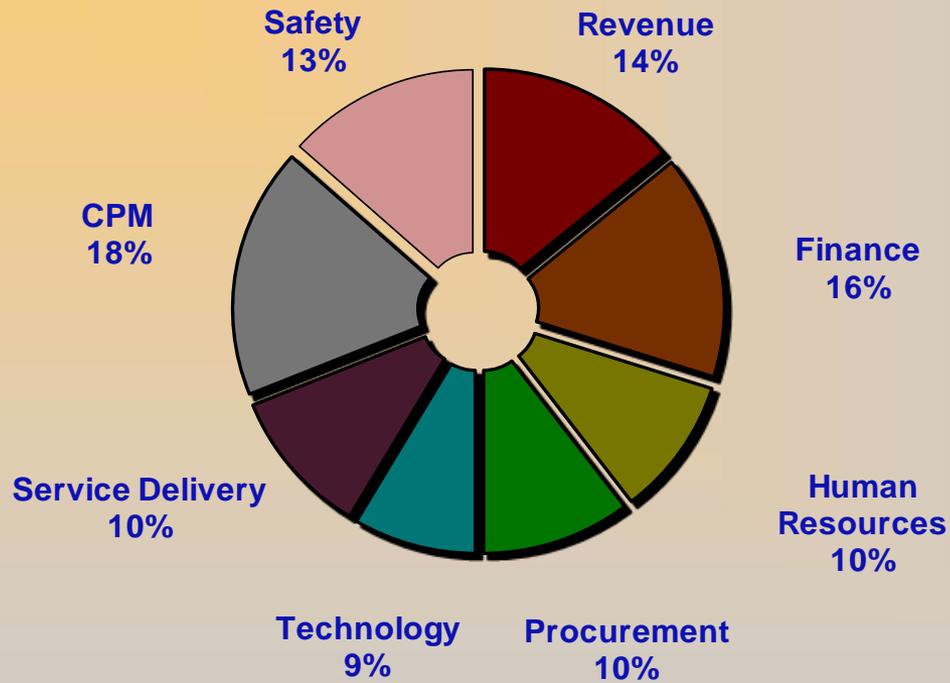
Agenda

- **2014 Goals**
- **Audit Plan Status**
- **Management Surveys**

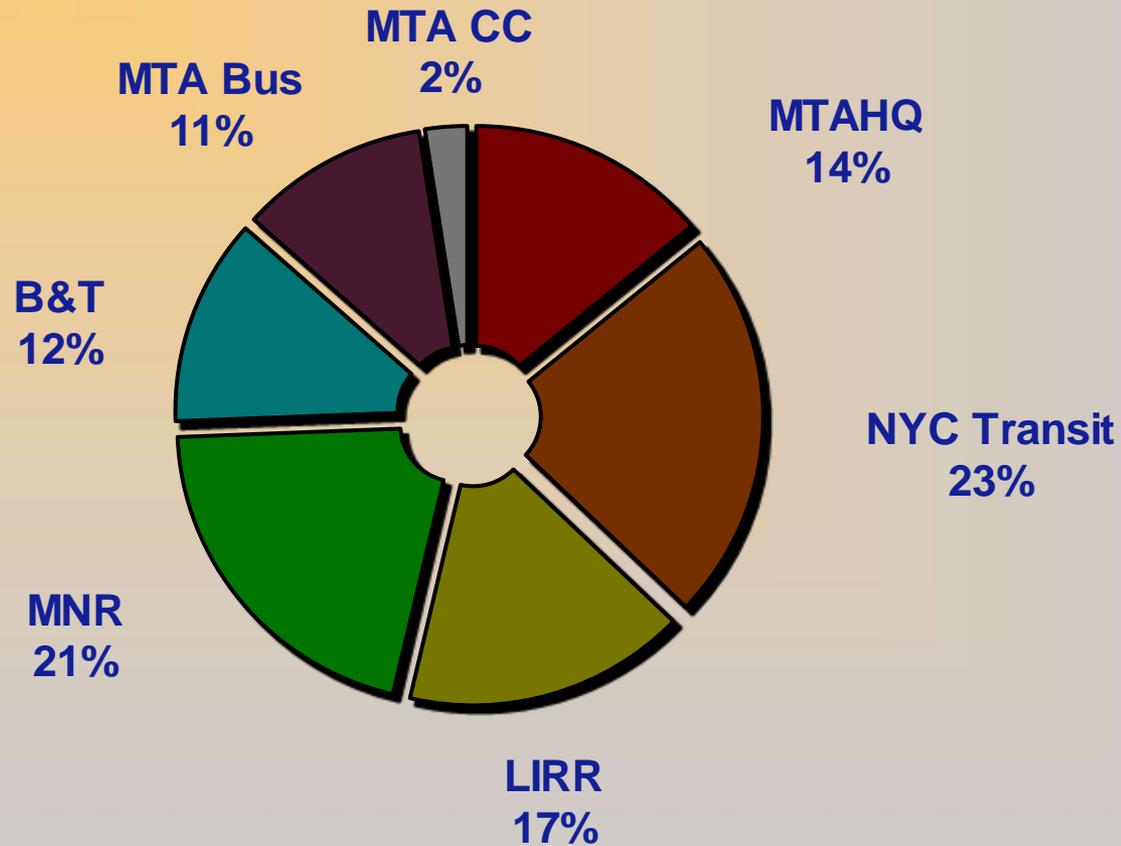
2014 Audit Strategy

- ❑ Focus the 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 RESOURCE ALLOCATION



2014 - Plan Summary

Financial/Operational/Technology

- **Projects Completed** = **75**
- **Recommendations** = **328**
- **Savings/Cost Efficiencies** = **\$ 23.6 M**

Contracts

- **Projects Completed** = **58**
- **\$ Audited** = **\$ 189 M**
- **Questioned Costs** = **\$ 19 M**

Total = \$ 42.6 Million

PERFORMANCE AGREEMENTS

Annual Surveys

2014 Management Survey

<u>Category (1-5 range)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
AUDIT COVERAGE	4.4	4.5	4.4
RESPONSIVENESS & COMMUNICATIONS	4.3	4.3	4.4
PARTICIPATION IN AGENCY/MGT FORUMS	4.6	4.5	4.4
AUDIT PERFORMANCE	4.4	4.4	4.6

Internal Quality Assurance Review

Seq#	IIA - Audit Elements	Fully Complies
1	Proficiency & Due Professional Care	✓
2	Quality Assurance & Improvement Program	✓
3	Managing the Internal Audit Activity	✓
4	Nature of Work	✓
5	Engagement Planning	✓
6	Performing the Engagement	✓
7	Communicating Results	✓
8	Monitoring Progress	✓

QUESTIONS?