



Metropolitan Transportation Authority

Audit Committee Meeting

September 2014

Committee Members

J. Sedore Jr., Chair

F. Ferrer

R. Bickford

C. Moerdler

A. Saul

Audit Committee Meeting
347 Madison Ave. - 5th Floor Board Room New York, NY 10017
Wednesday, 9/24/2014
8:30 - 10:00 AM ET

1. PUBLIC COMMENTS PERIOD

2. APPROVAL OF MINUTES - JUNE 25, 2014

Minutes of the June 25th meeting - Page 3

3. AUDIT COMMITTEE WORK PLAN

2014 - 2015 Condensed Work Plan - Page 6

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4. INDEPENDENT ACCOUNTANTS' REVIEW REPORT – 2ND QUARTER 2014

(Materials previously distributed)

5. REVIEW OF MTA/IG OFFICE

(Materials previously distributed)

6. REAPPOINTMENT OF EXTERNAL AUDITORS

(No materials)

7. COMPLIANCE WITH THE INTERNAL CONTROL ACT

(Materials previously distributed)

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
WEDNESDAY, JUNE 25, 2014 – 8:30 A.M.
5TH FLOOR BOARD ROOM
347 MADISON AVENUE**

The following were present:

Honorable:

**James L. Sedore
Fernando Ferrer**

**Charles Moerdler
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**

1. PUBLIC COMMENTS PERIOD

There were no public speakers.

2. APPROVAL OF MINUTES

The minutes of the April 30, 2014 Audit Committee meeting were approved.

3. AUDIT COMMITTEE WORKPLAN

There are no changes to the work plan, except that a presentation on Security of Sensitive Data, including discussions of Mobil Device Security, will be added to the November 19th Audit Committee meeting agenda.

4. EXECUTIVE SESSION

A motion was made and approved to go into Executive Session to allow the external auditors to brief the Committee on a matter related to audit performance. After the briefing, a motion was made and seconded to return to public session.

5. 2014 AUDIT PLAN STATUS REPORT

The Auditor General (Mike Fucilli) briefed the Committee on Audit Services' mid-year Audit Plan status report as of June 25, 2014. The AG outlined the 2014 audit strategy, which included focusing the audit activities on risk, internal controls and cost of operations; supporting agency-wide goals; promoting effective corporate governance; and validating the implementation of audit recommendations. The AG discussed the audit resource allocation among the agencies and to the eight business functions agency-wide. The AG responded to Committee inquiry regarding the level of resources allocated to Metro-North and NYC Transit; the audit coverage related to agency "infrastructure;" and the effect of evolving risks to the planned audit coverage. The AG summarized the number of audits, recommendations and cost savings/efficiencies reported in the first half of the year, which included work in validating Superstorm Sandy, Medical and Paratransit costs; verifying Pension calculations; and participation in the IT

Transformation process. Lastly, the AG presented the results of the 2013 Annual Management Survey which provided feedback on Audit's performance and the internal Quality Assurance review which confirmed Audit's compliance with the internal auditing standards. In response to the Committee inquiry about the flexibility of the Audit Plan, the AG indicated that the plan is flexible and included contingencies to accommodate senior management's requests and to respond to emerging risks. The Committee also inquired about the identification and evaluation of risks and how frequent management is updated on the status of existing and evolving risks. Lamond Kears (MTA Chief Compliance Officer) and the AG informed the Committee about the risk assessment process in place, including the evaluation of risk and controls undertaken by each agency pursuant to MTA Enterprise Risk Management and Internal Control guidelines. The Chair indicated the work plan will be adjusted to allow for increased reporting on the status of risks.

6. **INDEPENDENT ACCOUNTANTS' REVIEW REPORT – 1ST QUARTER 2014**

Mike Fritz (Deloitte) indicated that Deloitte's review of MTA's 1st Quarter 2014 Financial Statements noted no material adjustments or changes to accounting policies and principles. Also, the interim financial statements are presented in the same format as the year-end financial statements and in accordance with Generally Accepted Accounting Principles. The Chair commented on the significant improvement in financial reporting, citing the narrowed gap between Financial Plan and interim Financial Statements figures. Bob Foran (MTA) attributed the improvement to continued monitoring and agency/HQ financial management team efforts.

A motion was made and seconded to approve the 1st Quarter 2014 financial statements.

7. **2013 SINGLE AUDIT REPORT**

Mike Fritz advised that Deloitte had no findings or questioned costs as a result of their audit of federal grant program expenditures for 2013 reported in the Single Audit Report. He noted one exception, however, that related to a grant that was not accounted for by MTA Grant Management that Deloitte reported to the Committee as an internal control matter at year-end. There were discussions regarding a new requirement by NY State for a similar "Single Audit" report covering State grant expenditures. Glen Friedrich (Deloitte) confirmed that the State Department of Transportation did request recipients of State grants to provide separate stand-alone Single Audit reports for 2012 and 2013 and that Deloitte has conducted the reviews for MTA pursuant to the request. The Committee asked for an example of a substantive or material difference between the Federal and State single audit reporting requirements. Glen indicated the requirements vary and cited the tracking of expenditures by project as one difference between State and Federal requirements, as the State requires more information about how their grant money is spent.

A motion was made and seconded to approve the 2013 Single Audit report.

8. **2013 MANAGEMENT LETTERS**

Mike Fritz presented the 2013 Management Letters for all the MTA agencies, stating they included: comments relating to current year's audit; the status of prior years' audit comments that have not yet been corrected; and prior years' audit comments that have been corrected. He indicated that the Management Letters included a comment regarding the significant deficiency relating to a large under-accrual of capital expenditures at year-end, which was previously reported to the Committee. He further noted that no material weaknesses were cited in the letters. The Chair noted that there was confusion with respect to whether the agencies were in compliance with MTA policy on "password" security. Glen Friedrich (Deloitte) explained that their audit comment was based on the IT security policy that was made available to them by the agencies at the time of their audit. It was subsequently determined that Deloitte was

inadvertently given the old IT security policy and guidelines that contained "password parameters" no longer in use. Glen Friedrich said that since the information about the old policy was received post-audit, the deficiency as originally stated in the Management Letter was kept intact as it reflected the facts at the time of the audit. He acknowledged, however, that the agencies responses, too, were correct as they are compliant with the "password parameters" set in the new IT security policy and guidelines. Also, there was a discussion regarding the reporting of recurring audit recommendations related to business transactions such as liabilities, receivables and debt. There were also discussions concerning the depth in which salary costs are audited, after the Chair made reference to an MTA IG report on Metro-North employees being paid even though they were not at the work site and increased overtime costs at NYC Transit. Glen Friedrich remarked that payroll is a major concern in their audits and described to the Committee the process they go through in auditing payroll, from planning through identifying risks, evaluating controls, verifying documentation for proper signature/authorization and testing the controls to ensure they are working as intended. In response to a Committee inquiry, Glen Friedrich stated they also review timekeeping and payroll systems and that their payroll audit work goes beyond the verification of authorization and employee signatures.

A motion was made and seconded to accept the 2013 Management Letters.

9. **INVESTMENT COMPLIANCE REPORT**

Mike Fritz presented the Investment Compliance Report. He stated the report is dated April 30, 2014 and contained the results of their review of investments, performed in accordance with the guidelines set forth by the NY State Comptroller's Office and as part of their audit of the year-end consolidated financial statements. He indicated the report provided the Committee "negative assurance," stating that nothing came to their attention during their audit of the financial statements that the MTA was not in compliance with the guidelines.

A motion was made and seconded to accept the Investment Compliance Report.

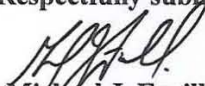
10. **NEXT MEETING**

The next meeting is scheduled for September 24th.

11. **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

September 2014

Quarterly Financial Statements – 2 nd Quarter 2014	External Auditor/CFOs
Compliance with the Requirements of the Internal Control Act	Agency ICOs/Chief Compliance Officer
Appointment of External Auditors	CFOs/Controllers
Review of MTA/IG's Office	External Auditor/IG
Enterprise Risk Management Update (New)	Chief Compliance Officer

November 2014

	<u>Responsibility</u>
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 ICOs/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
Enterprise Risk Management Update (New)

External Auditor/CFOs/Controllers

General Counsels/External Auditor
Chief Compliance Officer
Chief Compliance Officer
Chief Compliance Officer

June 2015

Quarterly Financial Statements – 1st Quarter 2015
Single Audit Report
MTAAS Audit Plan Status Report
Investment Compliance Report
Management Letter Reports

External Auditor/CFOs
External Auditor/CFOs
Auditor General
External Auditor
External Auditor/CFOs/Controllers

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

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.

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.

Enterprise Risk Management Update (starting 2015)

The MTA Chief Compliance Officer will brief the Committee on the status of agency compliance with the ERM guidelines and any new or emerging risk.

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 MTA Chief Information Officer 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.

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.

Enterprise Risk Management Update (New)

The MTA Chief Compliance Officer will brief the Committee on the status of agency compliance with the ERM guidelines and any new or emerging risk.

JUNE 2015

Quarterly Financial Statements – 1st Quarter 2015

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 and State 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.