



Metropolitan Transportation Authority

# Audit Committee Meeting

## November 2014

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### Committee Members

J. Sedore Jr., Chair

F. Ferrer

R. Bickford

C. Moerder

A. Saul

**MTA Audit Committee Meeting**  
**347 Madison Avenue - 5th Floor Board Room**  
**New York, NY 10017**  
**Wednesday, 11/19/2014**  
**8:30 - 10:00 AM ET**

**1. PUBLIC COMMENTS PERIOD**

**2. APPROVAL OF MINUTES - SEPTEMBER 24, 2014**

*Minutes of September 24, 2014 Meeting - Page 3*

**3. AUDIT COMMITTEE WORK PLAN**

*2014-15 WORKPLAN - Condensed - Page 6*

*2014 15 WORKPLAN - Detailed - Page 8*

**4. AUDIT APPROACH PLANS/COORDINATION WITH EXTERNAL AUDITORS (Materials previously distributed)**

**5. MTA ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL GUIDELINES**

*Enterprise Risk Management Committee Report - Page 12*

**6. SECURITY OF SENSITIVE DATA (Materials previously distributed)**

**7. REVIEW OF AUDIT COMMITTEE CHARTER**

*Audit Committee Charter - Page 25*

**8. ANNUAL AUDIT COMMITTEE REPORT (Materials previously distributed)**

**9. OPEN AUDIT RECOMMENDATIONS (No materials)**

**MINUTES OF MEETING  
AUDIT COMMITTEE OF THE BOARD  
WEDNESDAY, SEPTEMBER 24, 2014 – 8:30 A.M.  
5TH FLOOR BOARD ROOM  
347 MADISON AVENUE**

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The following were present:

**Honorable:**

**James L. Sedore  
Fernando Ferrer**

**Robert Bickford  
Andrew Albert**

**Neal Zuckerman**

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

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

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

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**1. PUBLIC COMMENTS PERIOD**

There were no public speakers.

**2. APPROVAL OF MINUTES**

The minutes of the June 25, 2014 Audit Committee meeting were approved.

**3. AUDIT COMMITTEE WORKPLAN**

The Agenda for the next Audit Committee meeting is scheduled for November 19, 2014 and will include: a briefing on the MTA Enterprise Risk Management and Internal Control Guidelines; the Annual Audit Committee Report; the Review of the Committee Charter; a presentation on the Audit Approach Plan by the External Auditor; a status report on Open Audit Recommendations; and a presentation on Security of Sensitive Data. It was noted that updates on Enterprise Risk Management and any new emerging risks have been added to the Work Plan for April and September of next year.

**4. INDEPENDENT ACCOUNTANTS' REVIEW REPORT – 2nd QUARTER 2014**

The Chair first mentioned that there was a revision to the “Schedule of Consolidated Subsidy Accrual Reconciliation between Financial Plan and Financial Statements” as of June 30, 2014. Mike Fritz (Deloitte) then discussed the results of Deloitte’s review of the MTA’s 2nd Quarter 2014 Financial Statements. He indicated their review noted no material adjustments or changes to accounting policies and principles; that the financial statement disclosures were consistent with that as of year-end; and there was nothing of significance to bring to the Committee’s attention. The Chair inquired about two receivable items in the financial statements: (1) whether the \$630 million relating to insurance recoveries were part of the non-current receivables and (2) the status and collectability of the \$14 million receivable from Nassau County related to Long Island Bus. Mike Fritz confirmed that the \$630 million was part of the non-current receivables. Pat Kane (MTA Comptroller) explained that the \$14 million receivable represented payments made by MTA for Long Island Bus (LIB) employees’ worker compensation and post-employment costs and that the receivable transaction has been the subject of a litigation and the balance is fully reserved. Bob Foran (MTA Chief Financial Officer) provided the Committee with a brief background of MTA’s business

relationship with Nassau County and the nature of the receivable, explaining that Nassau County is contractually obligated to pay the LIB employees' benefit that MTA has paid and continues to pay currently. In response to Committee's further inquiry, Pat Kane responded that Nassau County had not been invoiced for the current payments at the advice of Legal. He said the payments are not reflected in receivable account but are being tracked and fully reserved. Mike Fritz (Deloitte) commented that, given the litigation and Legal's advice on the matter, financial management is handling the payment transactions correctly. In response to the Committee inquiry regarding the ownership of former LIB vehicles, Bob Foran indicated that the vehicles are owned by Nassau County.

A motion was made and seconded to approve the 2nd Quarter 2014 financial statements.

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

Michael Fritz (Deloitte) said the results of the Inspector General's office expenses for 2013 that Deloitte performed based on the "Agreed Upon" procedures are presented in the two-page draft report handed out to the Committee. He indicated that the report included exceptions noted during the review regardless of dollar amounts. He mentioned that the IG monthly expense report for IT Hardware expense for December was off by \$63 when compared to the MTA monthly expense report. He also mentioned that expenses were higher than budgeted for three of the four items noted in item # 13 of the report. He said the fourth item related to MTA Recoveries from Agencies was not an expense item and as such will not appear as an exception in the final report.

A motion was made and seconded to approve the Review of the MTA IG's office expenses.

**6. REAPPOINTMENT OF EXTERNAL AUDITORS**

The Chair presented to the Committee the re-appointment of Deloitte & Touche as the independent auditor for MTA HQ and all the agencies. He mentioned that this is the sixth year of the contract with Deloitte and for the 2014 year-end audit the fee is \$1,772,600 which includes the fees for the audit of MNR New Haven Line 2013 Deficit billings to CDOT, the NYS Single Audit and the MTA Retiree Plan. The Chair stated that the Committee reviewed the recent report on the inspection of Deloitte by the Public Company Accounting Oversight Board (PCAOB) and the Committee received a briefing from Deloitte about the PCAOB report in Executive Session of the June 25<sup>th</sup> Committee meeting.

A motion was made and seconded to approve the reappointment of Deloitte as the independent auditor for the MTA HQ and all the agencies for the year ending 2014.

**7. COMPLIANCE WITH THE INTERNAL CONTROL ACT**

Lamond Kearse (MTA Chief Compliance Officer) informed the Committee of the Board responsibility for the MTA and its agencies to comply 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 based on the reviews conducted by the Chief Compliance Officer and the internal control officer of each agency, the MTA is in

compliance with the requirements of the Internal Control Act. The committee inquired if the internal control officers of the agencies report to him. Lamond responded that he is the designated Internal Control Officer for the MTA and the agency's internal control officer report to him via the Enterprise Risk Management committee. He said he will elaborate on the internal control reporting structure when he reviews with the Committee the Enterprise Risk Management and Internal Control Guidelines which is scheduled to be presented in the next Committee meeting.

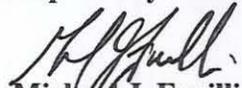
8. **NEXT MEETING**

The next meeting is scheduled for November 19<sup>th</sup>.

9. **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

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### I. RECURRING AGENDA ITEMS

#### Responsibility

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

#### November 2014

#### Responsibility

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
Security of Sensitive Data	Chief Information Officer

#### January 2015

Quarterly Financial Statements – 3 <sup>rd</sup> Quarter 2014	External Auditor/CFOs
Pension Audits	External Auditor
2014 Audit Plan Status Report	Auditor General
2015 Audit Plan	Auditor General
Information Technology Reports	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

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

June 2015

Quarterly Financial Statements – 1<sup>st</sup> 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

September 2015

Quarterly Financial Statements – 2<sup>nd</sup> Quarter 2015  
Compliance with the Requirements  
of the Internal Control Act  
Appointment of External Auditors  
Review of MTA/IG's Office  
Enterprise Risk Management Update

External Auditor/CFOs  
Agency ICOs/Chief Compliance Officer  
  
CFOs/Controllers  
External Auditor/IG  
Chief Compliance Officer

# 2014 – 2015 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

### **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.

### Security of Sensitive Data

The MTA Chief Information Officer will make a presentation to the Committee on the security of sensitive data at the MTA, including a discussion on mobile device security.

## **JANUARY 2015**

### Quarterly Financial Statements – 3<sup>rd</sup> 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 – 1<sup>st</sup> 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 2015.

### 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.

## **SEPTEMBER 2015**

### Quarterly Financial Statements - 2<sup>nd</sup> 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 second quarter of 2015.

### 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

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.

# Risk Management Process Overview

Audit Committee  
November 2014



Corporate Compliance

# Table of Contents

## Risk Management Process Overview

1. Internal Controls Definition and Purpose
2. How Does Internal Controls Work
3. Risk Ranking – Why We Do It!



# INTERNAL CONTROLS DEFINITION AND PURPOSE



# HOW DOES INTERNAL CONTROLS WORK



# Risk Ranking - Why We Do It!

Likelihood-  
that event  
will occur  
without  
mitigation



Overall  
Risk  
Rating

Significance-  
Impact of  
event on  
organization's  
objectives

To insure that the appropriate controls are being used to mitigate the risk

To make sure those controls are tested with the right frequency

# Enterprise Risk Management Committee Report

Audit Committee  
November 2014



Corporate Compliance

# Table of Contents

## ERM Committee Report

1. Executive Summary
2. ERM Committee Structure
3. ERM Staffing by Agency
4. Review of Internal Controls Performance
5. Status of Corrective Action Plans
6. Risk Changes and Impact
  - I. External Driven Risk Change
  - II. Strategy / Internal Driven Risk Change



# Executive Summary

## Period Snapshot

- All Agencies Submitted Their Annual Internal Controls Certifications and All of the Programs Were in Full Compliance with NYS Governmental Accountability, Audit and Internal Control Act Requirements
- ERM Committee Met During the Period to Discuss Significant Issues and MTA Organizational Changes
- Agencies Continue to Document Their Vulnerability Assessments in the Governance Risk and Compliance (GRC) System

## Summary of Control Activities

- 1873 Total Business Processes
- 679 Total Significant Business Processes of which 436 Were Reviewed
- Approximately 3,739 Total Risks (all business processes)
- Approximately 6,257 Total Controls (all business processes)

## Strategy/Internal Driven Risk Change

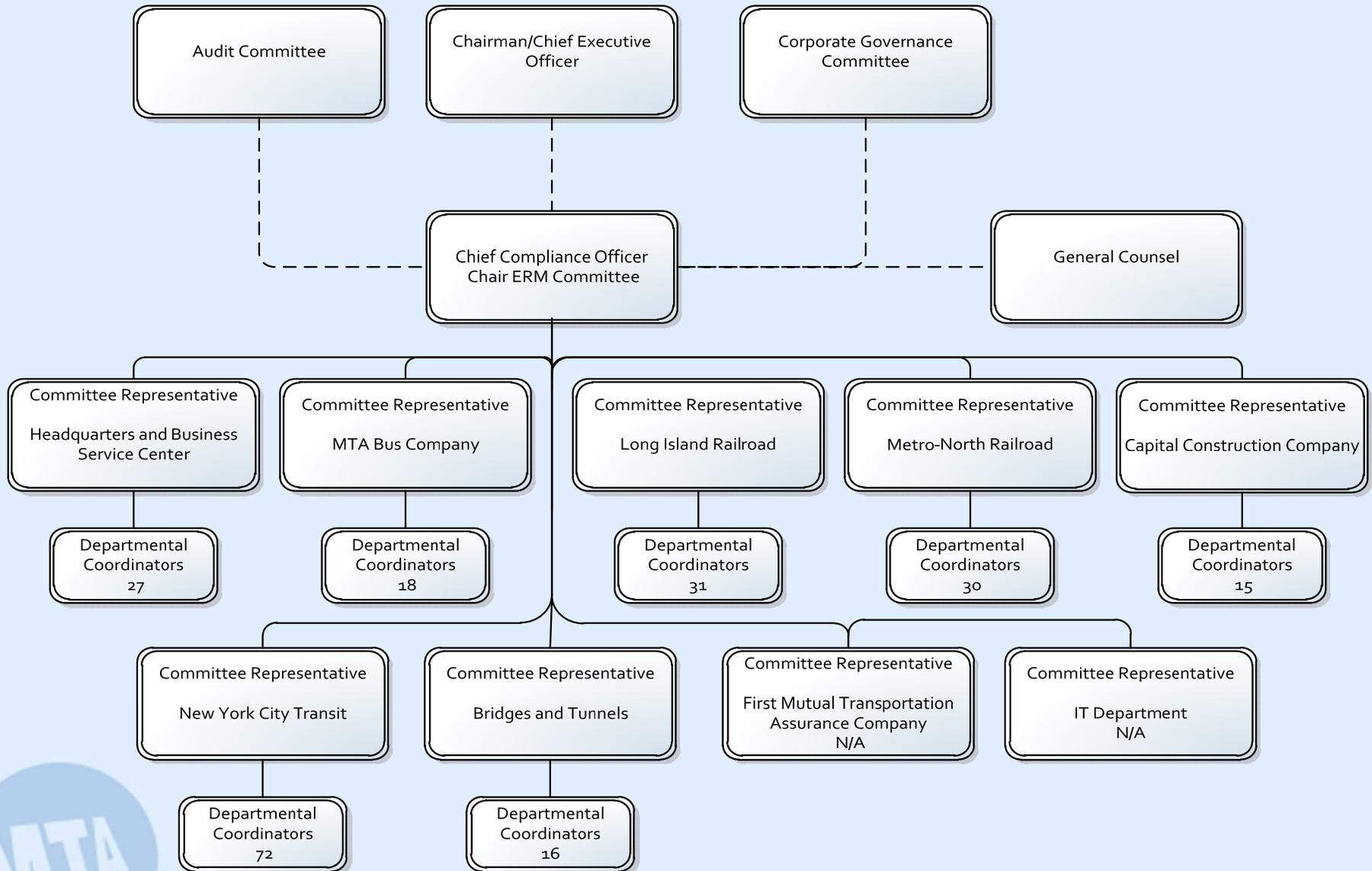
- Procurement to Pay Process Review
- IT Transformation
- Treasury Transformation
- GRC Migration
- ERM Guidelines

## External Driven Risk Change

- New State Mandated Internal Controls Training
- COSO 2013 / NYS Comptroller Guidelines



# ERM Committee Structure



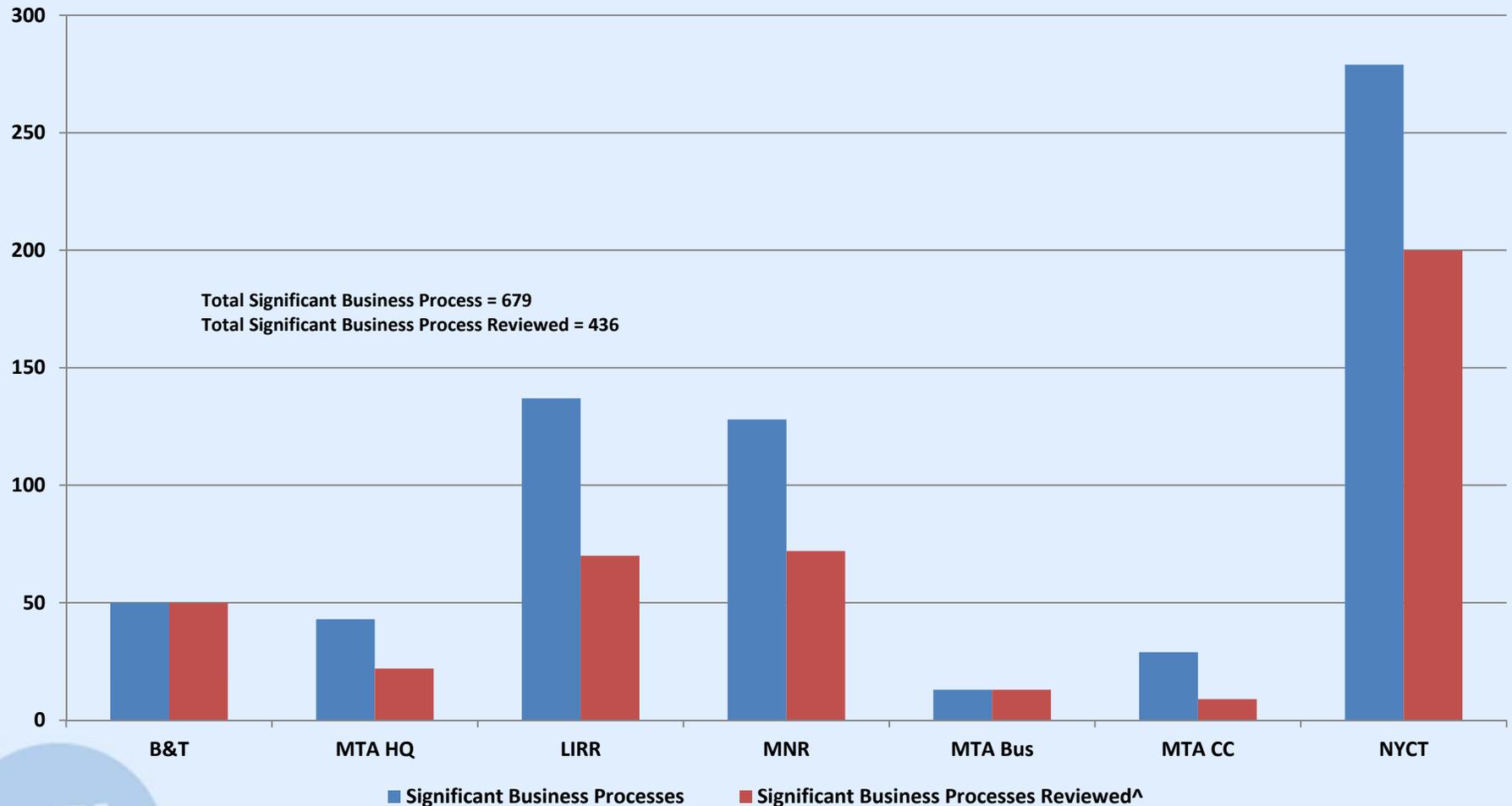
# ERM Staffing by Agency

Agency	Number of Agency Coordinators	Total Business Processes	Total Risks	Total Controls
B&T	16	144	395	425
MTA HQ	27	170	480	355
LIRR	31	425	774	1,199
MNR	30	226	452	496
MTA Bus	18	31	113	147
MTA CC	15	106	140	379
NYCT	72	771	1,385	3,256
<b>Enterprise</b>	<b>209</b>	<b>1,873</b>	<b>3,739</b>	<b>6,257</b>



# Review of Internal Controls Performance

## Significant Business Processes Reviewed



<sup>^</sup> Note that significant processes are reviewed based on Board Guidelines and Agency's risk assessments (i.e., they are reviewed at least annually or biannually)



# Status of Corrective Action Plans

Agency	Total Controls	Total Material Weakness / Significant Deficiencies	% Total Material Weakness / Significant Deficiencies to Total Controls
B&T	425	0	0%
MTA HQ	355	0	0%
LIRR	1,199	25	2%
MNR	496	26	5%
MTA Bus	147	1	1%
MTA CC	379	0	0%
NYCT	3,256	31	1%
<b>Enterprise</b>	<b>6,257</b>	<b>83</b>	<b>1%</b>



# Risk Changes and Impact

External Driven Risk Change	Impact
State Comptroller Guidelines <ul style="list-style-type: none"> <li>- IT Risk Assessment</li> <li>- Fraud Risk Assessment</li> </ul>	IT & Fraud Risk Assessment that have not been conducted previously. MTA will have to coordinate and evaluate the impact of these assessments on the organization
COSO 2013	Enhancements to the COSO Framework presents unique opportunities to refresh internal controls and comply with the new standards
Strategy / Internal Driven Risk Change	Impact
IT Transformation	Change addresses IT, staffing, policies and procedures, and ethics considerations that creates a number of concerns on the related risks and controls  With the reorganization of the business process, opportunity exists to reevaluate risks, enhance controls and eliminate duplication
Procurement to Pay Process Review	Opportunity to review process objectives, risks and controls as well as to evaluate manual vs. automated controls
Treasury Transformation	Opportunity for major cost and efficiency benefits through centralization and also the associated risks and controls



## **The Metropolitan Transportation Authority**

### **AUDIT COMMITTEE**

This Charter for the Audit Committee was adopted by the Board Chair and a majority of the members of the Metropolitan Transportation Authority, a public benefit corporation established under the laws of the State of New York (together with any other entity or corporation for which the members of the Metropolitan Transportation Authority serve as a board of directors, the “MTA”), on the 29th day of July, 2004. This charter was amended on the December 17, 2008, December 16, 2009 and further amended on November 16, 2011.

#### **I. PURPOSE**

The Audit Committee (the “Committee”) shall assist and provide guidance to the Board Chair and the Board in monitoring and overseeing (a) the conduct of the MTA’s financial reporting process, the application of accounting principles, and the engagement of the MTA’s outside accountants; (b) the MTA’s internal controls and risk management systems; and (c) general matters relating to legal, regulatory and ethical compliance at the MTA (hereinafter referred to as the “Purpose”).

#### **II. COMMITTEE AUTHORITY**

The Committee’s role is one of oversight. In carrying out this oversight function, the chairperson of the Committee (the “Committee Chair”) and the vice-chairperson of the Committee (the “Committee Vice-Chair”) shall have additional responsibilities, as set forth in Section VI of this Charter. The Committee Chair and/or the Committee Vice-Chair regularly shall report to the entire Committee their findings with respect to these additional responsibilities and refer to the entire Committee for its consideration any matter relating thereto as the Committee Chair and/or the Committee Vice-Chair deem necessary or appropriate. MTA Audit Services’ organizational independence is derived from its reporting structure as it reports to the MTA Audit Committee and MTA Chairman/CEO.

Notwithstanding these oversight responsibilities, the MTA and each of its subsidiary corporations and affiliates are responsible for preparing their own financial statements and the respective outside auditors are responsible for auditing the respective financial statements. The Committee, the Committee Chair, and the Committee Vice-Chair recognize that the Auditor General and the outside auditors have more time, knowledge and detailed information about the MTA and each of its subsidiary corporations and affiliates than do Committee members. Consequently, in carrying out its oversight responsibilities, no member of the Committee shall be deemed to provide (i) any expert or special assurance as to the financial statements of the MTA or of any subsidiary corporation or affiliate or (ii) any professional certification as to the work of any outside auditor.

In discharging its role, the Committee is empowered to investigate any matter brought to its attention. To facilitate any such investigation, the Committee Chairman and/or Vice

Chairman shall have access to all books, records, facilities and staff of the MTA (including any of its subsidiary corporations or affiliates). The foregoing is not intended to alter or curtail existing rights of individual board members to access books, records or staff in connection with the performance of their fiduciary duties as board members. With the prior approval of the Board Chair or a majority of the Board, the Committee may retain, compensate and/or terminate outside counsel, auditors or other experts as it deems necessary and will receive adequate funding from the MTA to engage such advisors in accordance with MTA procedures.

### **III. COMMITTEE MEMBERSHIP**

The Committee shall consist of 3 or more members of the Board, appointed by the Board Chair. If not otherwise a member of the Committee, each Vice-Chair of the Board shall be an *ex officio* member of the Committee. The Board Chair shall appoint the Committee Chair and the Committee Vice-Chair. A member of the Committee may be removed, for cause or without cause, by the Board Chair. In the absence of the Committee Chair or the Committee Vice-Chair at a meeting of the Committee, the Board Chair shall appoint a temporary chairperson to chair such meeting. No member of the Committee shall be employed by (a) the MTA, or (b) a private entity that does, or is likely to do, business with the MTA. Members of the audit committee shall be familiar with corporate financial and accounting practices.

### **IV. COMMITTEE MEETINGS**

The Committee shall meet on a regularly-scheduled basis at least 4 times per year, and more frequently as circumstances dictate. The Committee will cause to be kept adequate minutes of all its proceedings and records of any action taken and will report on its proceedings and any action taken to the next full meeting of the Board. Committee members will be furnished with copies of the minutes of each meeting. Meetings of the Committee shall be open to the public, and the Committee shall be governed by the rules regarding public meetings set forth in the applicable provisions of the Public Authorities Law and Article 7 of the Public Officers Law that relate to public notice, public speaking and the conduct of executive session. The Committee may form and assign responsibilities to subcommittees when appropriate.

The Committee may request that any member of the Board, the Auditor General, the Chief Compliance Officer, any officer or staff of the MTA, or any other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information at the Committee requests. The Auditor General shall (1) furnish the Committee with all material information pertinent to matters appearing on the Committee agenda relating to the Purpose, (2) provide the chairperson of the Committee with all information regarding the Purpose that is material to the Committee's monitoring and oversight of the Purpose, and (3) inform the chairperson of the Committee of any matters not already on the Committee agenda that should be added to the agenda in order for the Committee to be adequately monitoring and overseeing the Purpose.

## **V. COMMITTEE REPORTS.**

The Committee Chair shall report on the Committee's proceedings, and any recommendations made.

## **VI. KEY RESPONSIBILITIES OF COMMITTEE CHAIR AND VICE-CHAIR**

The following responsibilities are set forth as a guide. The Committee Chair and the Committee Vice-Chair are authorized to carry out these and such other responsibilities assigned by the Committee, the Board Chair or the Board, from time to time, and take any actions reasonably related to the mandate of this Charter.

To assist the Committee in fulfilling its purpose, the Committee Chair and/or the Committee Vice-Chair shall:

### *Auditors, Financial Statements & Accounting Policies:*

1. review and discuss with the Auditor General, the relevant MTA employees, each outside auditor, and the internal auditors any audit problems or difficulties encountered in the course of audit work, including any restrictions on the scope of activities or access to required information and advise the Committee as to how to resolve any disagreements regarding financial reporting;
2. inquire as to each outside auditor's view of the accounting treatment related to significant new transactions or other significant matters or events not in the ordinary course of business;
3. review and discuss with the Auditor General, the relevant MTA employees, and each outside auditor any material financial or non-financial arrangements that do not appear on the financial statements of the MTA (or of any subsidiary corporation or affiliate);
4. review and discuss with the Auditor General and each outside auditor: (i) any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise), (ii) any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any "management" or "internal control" letter issued, or proposed to be issued, by any outside auditor to the MTA (including to any subsidiary corporation or affiliate);
5. review with the Auditor General and the outside auditor the periodic financial statements and footnotes of the MTA (and of each subsidiary corporation or affiliate, as applicable) and discussing the adequacy of the system of internal and the appropriateness of the accounting principles used, and the judgments made, in the preparation of such periodic financial statements;

6. meet annually (or more frequently if necessary) with each respective outside auditor (without the Auditor General or any other officers or staff of the MTA present) to discuss the periodic financial statements of the MTA (and of each subsidiary corporation or affiliate, as applicable).

*Internal Controls & Risk Management:*

7. together with the Auditor General and the Chief Compliance Officer, review, discuss and (if necessary) investigate compliance with MTA policies and/or refer instances of non-compliance to the MTA Inspector General for investigation;
8. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant employees of the MTA, and each outside auditor: (i) any significant deficiencies in the design or operation of the internal controls of the MTA (ii) any fraud, whether or not material, involving any MTA employees and (iii) related findings and recommendations of the outside auditors together with management's responses;
9. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant MTA employees, and each outside auditor the MTA's risk assessment and risk management systems, and oversee the underlying policies with respect to risk assessment and risk management;
10. together with the Auditor General and the Chief Compliance Officer, serve as the point of contact for the MTA Inspector General, including by reviewing all reports and draft reports delivered to the MTA by the MTA Inspector General, and being available to meet with the MTA Inspector General as part of the Inspector General's audits of the MTA's books and records;
11. recognizing the statutory obligations of the MTA Inspector General, and without denigrating from those obligations, seek to communicate with the MTA Inspector General with respect to any matter the Committee Chair and/or Vice Chair, the entire Committee, the Board Chair, the Board or the MTA Inspector General deem appropriate;

*Miscellaneous:*

12. submit to the entire Committee for its consideration any matters (including matters relating to the foregoing) that the Committee Chair and/or Committee Vice-Chair deem should appropriately be considered by the entire Committee; and
13. report regularly to the Committee on the findings and recommendations of the Committee Chair and the Committee Vice-Chair relating to the foregoing, and on any other matters the Committee Chair and/or the Committee Vice-Chair deem appropriate or the Committee, the Board Chair or the Board request.

## **VII. KEY RESPONSIBILITIES OF THE COMMITTEE**

The following responsibilities are set forth as a guide with the understanding that the Committee may diverge as appropriate given the circumstances. The Committee is authorized to carry out these and such other responsibilities assigned by the Board Chair or the Board, from time to time, and take any actions reasonably related to the mandate of this Charter.

To fulfill its purpose, the Committee shall:

### *Auditors, Financial Reporting & Accounting Policies:*

1. in consultation with the Auditor General and the officer primarily responsible for the finances of the MTA and each subsidiary corporation and affiliate, oversee the work of the MTA's outside auditor and provide guidance to the Board Chair and the Board with respect to the appointment (and if appropriate dismissal), evaluation, compensation of the outside MTA's auditors;
2. review and provide guidance to the Board with respect to any auditing and non-auditing services provided to the MTA by any of the MTA's the outside auditor;
3. review and provide guidance to the Board with respect to the annual audit plan and risk assessment as proposed by the Auditor General in consultation with the MTA Chairman/CEO and the President of each subsidiary corporation and affiliate;
4. review and discuss with the Auditor General, the relevant MTA employees, each outside auditor, and the internal auditors: (i) any significant audit findings during the year, including the status of previous audit recommendations; (ii) any changes required in the scope of the audit plan; (iii) the audit budget and staffing; and (iv) the coordination of audit efforts, status of the internal audit plan and the adequacy of internal audit resources (both numbers and capabilities);
5. review and discuss with the Auditor General, the relevant MTA employees, and the outside auditor accounting policies that may be viewed as critical, as well as any recent or proposed significant changes in MTA accounting policies; and inquire as to the outside auditors' views as to the application of accounting principles;
6. monitor the consistency and comparability of the financial reporting processes of the MTA;
7. monitor the integrity, consistency and comparability of the financial reports and other financial information provided by the MTA to any other governmental or regulatory body, the public or other users thereof, including reconciliations where necessary;

8. review and provide guidance to the Board with respect to the appointment, compensation and (if necessary) dismissal of the Auditor General;
9. at least annually, review with the Auditor General a report by each outside auditor describing: (i) such outside auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the outside auditor and the MTA (or any subsidiary corporation or affiliate);
10. on an annual basis, in each case together with the Auditor General: (i) review a formal written statement from each outside auditor delineating all relationships between such outside auditor and the MTA; (ii) actively engage in a dialogue with each outside auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of such outside auditor and take appropriate action in response to such outside auditor's report to satisfy itself of such auditor's independence; (iii) consider whether, in the interest of assuring continuing independence of each outside auditor, the MTA's respective outside auditors should be rotated; and (iv) set clear hiring policies for employees or former employees of the outside auditors;

*Internal Controls & Risk Management:*

11. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant MTA employees, and each outside auditor the adequacy of the MTA's internal and disclosure controls and procedures;
12. together with the Chief Compliance Officer, review and discuss with the relevant MTA employees, and each outside auditor any significant risks or exposures and assess the steps such employees have taken to minimize such risks;
13. review periodically with the Chief Compliance Officer and the General Counsels of the MTA and each subsidiary corporation and affiliate: (i) legal and regulatory matters that may have a material impact on the financial statements of the MTA (or any subsidiary corporation or affiliate); and (ii) the scope and effectiveness of compliance policies and programs;

*Ethics & Conflicts of Interests:*

14. together with the Chief Compliance Officer, review periodically with the relevant MTA employees the level of compliance with all applicable ethics codes, guidelines, and regulations;

*Miscellaneous:*

15. conduct an annual self-evaluation of the performance of the Committee, including its effectiveness and compliance with this Charter;
16. review and reassess the adequacy of this Charter annually;
17. consider any matter referred to the entire Committee by the Committee Chair and/or Vice-Chair; and
18. report regularly to the Board on Committee findings and recommendations and any other matters the Committee deems appropriate, or the Board Chair or the Board request.