



Metropolitan Transportation Authority

Audit Committee Meeting

November 2016

Committee Members

J. Vitiello, Chair

C. Moerdler

J. Molloy

M. Pally

N. Zuckerman

Audit Committee Meeting
2 Broadway, 20th Floor Board Room
New York, NY 10004
Monday, 11/14/2016
2:45 - 3:45 PM ET

1. PUBLIC COMMENTS

2. APPROVAL OF MINUTES

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3. AUDIT COMMITTEE WORK PLAN

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4. AUDIT APPROACH PLAN/COORDINATION WITH EXTERNAL AUDITOR (Materials previously distributed)

5. MTA ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL GUIDELINES

ERM Guidelines Staff Summary - Page 12

6. ENTERPRISE RISK MANAGEMENT UPDATE

Enterprise Risk Management Internal Control Audit Committee Update November-2016 - Page 23

7. COMPLIANCE WITH THE REQUIREMENTS OF THE INTERNAL CONTROL ACT

Effectiveness of MTA Internal Controls - Page 33

8. REVIEW OF THE AUDIT COMMITTEE CHARTER

Audit Committee Charter - Page 36

9. ANNUAL AUDIT COMMITTEE ACTIVITY REPORT (Materials previously distributed)

10. OPEN AUDIT RECOMMENDATIONS (Materials previously distributed)

11. DDCR PERFORMANCE MEASURES UPDATE

DDCR Update for Nov 2016 Audit Committee - Page 43

12. EXECUTIVE SESSION

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
MONDAY, SEPTEMBER 26, 2016 - 2:45 P.M.
RONAN BOARD ROOM – 20TH FLOOR
2 BROADWAY**

The following were present:

Honorable:

**James Vitiello
John Molloy**

**Susan Metzger
Andrew Albert**

Neal Zuckerman

**M. Fucilli - MTA
P. Kane - MTA**

R. Foran - MTA

**M. Malloy - Deloitte
J. Strohmeier - Deloitte**

1. PUBLIC COMMENTS PERIOD

There were no public speakers.

2. APPROVAL OF MINUTES

The minutes of the June 22, 2016 Audit Committee meeting were approved.

3. AUDIT COMMITTEE WORK PLAN

There were no changes to the work plan.

4. INDEPENDENT ACCOUNTANTS REVIEW REPORT – 2nd QUARTER 2016

Mike Malloy (Deloitte) made the presentation for Deloitte on behalf of Mike Fritz, the engagement partner, who he said is unable to attend this meeting due to a scheduling conflict. He said the review of the MTA Consolidated Financial Statements as of June 30, 2016 that has just been completed is less than an audit and that it involved, among other things, analytical procedures, discussions with management and looking into account variances and changes in accounting policies and procedures. He said that with the adoption of Governmental Accounting Standards Board Statement # 72 (GASB 72), the MTA Consolidated Financial Statements now reflected the financial disclosure required in the area of investments, including the identification of levels of risk associated with the investments. He stated that Deloitte encountered no difficulties in performing the review work and received full cooperation from financial management and staff during the review. Chair Vitiello commented on the number of GASBs still outstanding and inquired if there is a work plan for the MTA to fully adopt the GASBs. Mike explained that several of the issued GASBs are not yet effective and those that were effective did not necessarily apply to the MTA. He said that the GASBs that are applicable to MTA's financial statements have been adopted by the MTA.

Chair Vitiello asked for an explanation on the significant variations in liability account balances, specifically the increase in Accounts Payable and Other Liabilities and the significant decrease in the Post-Employment Benefit Other than Pension (OPEB) liability. Pat Kane (MTA Comptroller) explained that: the \$76 million increase in Accounts Payable was mainly due to timing and not the effect of late payments; the

\$3.6 billion increase in Other Liabilities was the result of an increase in the non-current portion of the long term debt and from actuarial calculations required by GASB; and the \$257 million decrease in the OPEB liability was primarily due to the decrease in pharmacy benefits as a result of the Affordable Care Act. Chair Vitiello also inquired why salaries and wages for the six months of 2016 increased \$96 million compared to same period last year. Pat Kane indicated that the total payroll expense was within budget and that the increase could be attributed to regular wage increase and inflation. Member Metzger noted that the increased service on the No. 7 Line Extension could have also contributed to the increase. Lastly, Chair Vitiello asked if the footnote on MTA's Net Pension Liability that stated "pre-2014 pension information as not being available" has any bearing on the actuarial calculation of the liability or just a disclosure that such information is not available for detailed presentation. Mike Malloy responded that it is the latter and confirmed that the previous data not being available does not affect the determination or calculation of the pension liability.

Member Metzger asked Bob Foran (MTA Chief Financial Officer) about the status of the "Cadillac Fee" or costs associated with the OBAMACARE. Bob indicated that its effective date was extended from 2018 to 2020 and that he recalled MTA's exposure to be in the \$120 million range. He said that discussions between the unions and business council continue and that there seems to be an agreement with the unions that have robust plans and the business community to have its implementation pushed back.

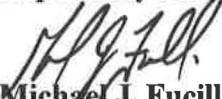
Member Albert commented that the financial statements reported a lower bus and subways ridership compared to last year but the graphs presented in the committee meetings earlier that day showed ridership for both bus and subways was up. Pat Kane indicated the difference may be due to a different reporting cut-off date, but he said the Committee will be provided with a detailed explanation of the variance.

A motion was made and seconded to accept the 2nd Quarter 2016 Consolidated Financial Statements.

5. MOTION TO ADJOURN

A motion was made and seconded to adjourn the meeting.

Respectfully submitted,


Michael J. Fucilli
Auditor General

2016 - 2017 AUDIT COMMITTEE WORK PLAN

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	Committee Chair & Members
Follow-Up Items	As Appropriate
Status of Audit Activities	Auditor General/MTA IG/ Chief Compliance Officer/ Chief Financial Officers/ Controllers/External Auditor/As Appropriate
Executive Sessions	As Appropriate

II. SPECIFIC AGENDA ITEMS

November 2016

MTA Enterprise Risk Management and Internal Control Guidelines	Chief Compliance Officer
Enterprise Risk Management Update	Chief Compliance Officer
Compliance with the Requirements of the Internal Control Act	Chief Compliance Officer/Agency ICOs
Annual Audit Committee Report	Audit Committee
Review of Audit Committee Charter	Committee Chair
Audit Approach Plans/Coordination	External Auditor
Open Audit Recommendations	Agency ICOs/Chief Compliance Officer
Security of Sensitive Data	Chief Information Officer
DDCR Performance Measures	Chief Diversity Officer

January 2017

Quarterly Financial Statements – 3 rd Quarter 2016	External Auditor/CFOs
Pension Audits	External Auditor
2016 Audit Plan Status Report	Auditor General
2017 Audit Plan	Auditor General
Information Technology Report	Chief Information Officer
DDCR Performance Measures	Chief Diversity Officer

April 2017

Financial Statements and Audit Representation Letters	External Auditor/CFOs/Controllers
Management's Review of Consolidated Financial Statements	Comptroller
Contingent Liabilities/Third Party Lawsuits (Executive Session)	General Counsels/External Auditor
Financial Interest Reports	Chief Compliance Officer
DDCR Performance Measures	Chief Diversity Officer

June 2017

Quarterly Financial Statements – 1 st Quarter 2017	External Auditor/CFOs
Single Audit Report	External Auditor/CFOs
Investment Compliance Report	External Auditor
Management Letter Reports	External Auditor/CFOs/Controllers
Review of MTA/IG's Office	External Auditor/IG
Appointment of External Auditors	Committee Chair & Members
Enterprise Risk Management Update	Chief Compliance Officer
Ethics and Compliance Program	Chief Compliance Officer
MTAAS Audit Plan Status Report	Auditor General

September 2017

Quarterly Financial Statements – 2 nd Quarter 2017	External Auditor/CFOs
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2016 - 2017 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

NOVEMBER 2016

MTA Enterprise Risk Management and Internal Control Guidelines

These MTA-wide guidelines, which were adopted by the Board in 2011 pursuant to Public Authority Law Section 2931, are required to be reviewed by the Committee annually. The MTA Chief Compliance Officer will brief the Committee on the agency compliance with these guidelines and answer any questions and offer additional comments, as appropriate.

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.

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.

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 2016. 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. The review will also show if the Committee's performance in 2016 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 2016 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.

DDCR Performance Measures

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

JANUARY 2017

Quarterly Financial Statements – 3rd Quarter 2016

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 2016.

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.

2016 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.

2017 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2017 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 Report

The MTA Chief Information Officer will brief the Committee on the activities of the MTA IT for the past year, including its accomplishments, strategies and plans for the current year.

DDCR Performance Measures

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

APRIL 2017

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 2016 Financial Statements.

Management's Review of MTA Consolidated Financial Statements

The MTA Comptroller will present a management's review of the 2016 MTA consolidated financial statements, including changes in capital, net assets, other assets and operating revenues and expenses.

Contingent Liabilities and Status of Third Party Lawsuits

The General Counsels from each agency, along with representatives from the independent accounting firm, 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 on the agencies' compliance with the State Law regarding the filing of Financial Interest Reports (FIRs), including any known conflicts of interest.

DDCR Performance Measures

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

JUNE 2017

Quarterly Financial Statements – 1st Quarter 2017

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 2017.

Single Audit Report

Representatives of MTA's public accounting firm will provide the results of their Federal- and State-mandated single audits of MTA and NYC Transit.

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.

Review of the MTA 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.

Appointment of External Auditors

The Audit Committee will review the appointment of the independent auditor for MTA HQ and all the agencies. 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.

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.

Ethics and Compliance Program

The MTA Chief Compliance Officer will brief the Committee on selected aspects of the MTA Ethics Program.

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.

SEPTEMBER 2017

Quarterly Financial Statements - 2nd Quarter 2017

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 2017.

Staff Summary

Subject Enterprise Risk Management and Internal Control Guidelines
Department Corporate Compliance
Department Head Name Lamond W. Kearse
Department Head Signature 
Project Manager Name Lamond W. Kearse

Date November 16, 2016
Vendor Name N/A
Contract Number N/A
Contract Manager Name N/A
Table of Contents Ref #

Board Action					
Order	To	Date	Approval	Info	Other
1	Audit	11/14/16			
2	Board	11/16/16			

Internal Approvals			
Order	Approval	Order	Approval
1	Legal 		
2	Corporate Compliance 		
3	Chief of Staff 		

Purpose:

To seek Board approval of revisions to the MTA's Enterprise Risk Management and Internal Control Guidelines.

Discussion:

The purpose of these guidelines is to establish an effective system of internal controls for the Authority which complies with the requirements of the New York State Government Accountability, Audit and Internal Control Act of 1999 amending Public Authorities Law Sections 2930 through 2932, the Standards for Internal Control in New York State published by the Office of the State Comptroller (OSC), Guidelines issued by the Independent Authority Budget Office, standards established by the U.S. Government Accountability Office (GAO) and the Commission of Sponsoring Organizations of the Treadway Commission (COSO) standards.

GAO, OSC and COSO have all amended their respective standards. The updated standards emphasizes the important role of the board in creating an effective control environment and having a comprehensive risk assessment process, including identifying and addressing IT and fraud risks. The updated standards provided additional structure by defining 17 principles of internal control which must be identified. The proposed revisions ensure the MTA's guidelines are in compliance with the above referenced standards.

Recommendation:

It is recommended that the Board approve the revised Enterprise Risk Management and Internal Control Guidelines.



METROPOLITAN TRANSPORTATION AUTHORITY

ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL GUIDELINES

Pursuant to Public Authorities Law Section 2931

Adopted by the Board on November 16, 201~~6~~

These guidelines apply to the Metropolitan Transportation Authority (“MTA”), the New York City Transit Authority, the Long Island Rail Road Company, The Metro-North Commuter Railroad Company, Staten Island Rapid Transit Operating Authority, ~~Metropolitan Suburban Bus Authority~~, Manhattan and Bronx Surface Transit Operating Authority, MTA Capital Construction, MTA Bus Company, Triborough Bridge and Tunnel Authority, and to all future affiliated or subsidiary agencies of the MTA (each of which is referred to severally and together, as the “Authority”).

Article I. Purpose of Guidelines

The purpose of these guidelines is to establish an effective system of internal controls for the Authority which complies with the requirements of the New York State Government Accountability, Audit and Internal Control Act of 1999 (“the Act”) amending Public Authorities Law (“PAL”) Sections 2930 through 2932, and is consistent with the Standards for Internal Control in New York State published by the Office of the State Comptroller (“Comptroller Standards”), Guidelines issued by the Independent Authority Budget Office (“IABO”), [standards established by the U.S. Government Accountability Office \(GAO\)](#), and the Commission of Sponsoring Organizations of the Treadway Commission (“COSO”) standards.

Article II. Requirements of the Act

In compliance with the requirements of PAL Section 2931 the MTA Board is required to:

1. Establish and maintain for the Authority guidelines for a system of internal control that are in accordance with the Act and internal control standards;
2. Establish and maintain for the MTA a system of internal controls and a program of internal control review. The program of internal review shall be designated to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of the necessary corrective actions and periodically assess the adequacy of the Authority’s ongoing internal controls;
3. Make available to each member, officer and employee a clear and concise statement of the generally applicable managerial policies and standards with which he or she is expected to comply. Such statement shall emphasize the importance of effective internal controls to the Authority and

the responsibility of each member, officer and employee for effective internal control;

4. Designate an internal control officer who shall report to the head of the Authority to implement and review the internal control responsibilities established pursuant to this section; and
5. Implement education and training efforts to ensure that Board Members, officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Article III. Guidelines Maintenance

These guidelines replace MTA All Agency Policy Directive 11-008 Accountability & Internal Control issued June 8, 1990.

These guidelines are subject to annual review by the Audit Committee. In advance of submission of these guidelines for such review, the Enterprise Risk Management Committee (“the Committee” defined in Article IV(B)) shall be responsible for preparing any proposed revisions to the guidelines necessary to ensure that they continue to be in compliance with the Act and consistent with the Comptroller standards, IABO guidelines and COSO standards.

Article IV. System of Internal Controls and Program of Internal Control Review

Section A. Enterprise Risk Management/Internal Controls

Enterprise Risk Management (“ERM”)/Internal Controls is defined as a process conducted by [the Authority’s Board](#), management and other personnel, applied [in a strategic setting and](#) across the Authority, designed [to identify potential events that may affect the entity, and manage risk to be within risk appetite](#), to provide reasonable assurance regarding the achievement of objectives in the following categories:

[Strategic](#) - high-level goals, aligned with and supporting Authority’s mission
[Operations](#) - effective and efficient use of the Authority’s resources
[Reporting](#) — reliability, [timeliness](#), [transparency](#) of [financial and non-financial](#) reporting
[Compliance](#) - compliance with applicable laws, regulations, [contracts](#) and policies

The definition reflects certain fundamental concepts regarding ERM/Internal Control management. ERM/Internal Control management is:

- An ongoing and flowing process throughout the Authority
- Effected by people at every level within the Authority

METROPOLITAN TRANSPORTATION AUTHORITY

ENTERPRISE RISK MANAGEMENT/INTERNAL CONTROL GUIDELINES

Internal Control Number GRC002187

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- Applied in developing and implementing strategy
- Applied across the Authority, at every level and in all areas of responsibility
- Designed to identify potential risks that, if they occur, will affect the Authority

ERM/Internal Controls consists of eight interrelated components. These components are:

1. **Control Environment** – The internal environment encompasses the tone of the Authority, and sets the basis for how risk is viewed and addressed by employees, including risk management philosophy, integrity and ethical values, and the environment in which they operate.
2. **Objective Setting** – Objectives must exist before management can identify potential events affecting their achievement. Internal control management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the Authority's' mission.
3. **Event Identification** – Internal and external events affecting achievement of Authority's objectives must be identified, distinguishing between risks and opportunities.
4. **Risk Assessment** – Risks are analyzed by, considering likelihood and impact, as the basis for computing the overall risk rating. The vulnerability of the Authority to various risks determines how they should be managed.
5. **Risk Response** – Management evaluates the available risk response options (avoiding, accepting, reducing or sharing) and selects the strategy that optimizes the cost-benefit goals of the Authority.
6. **Control Activities** – Policies and procedures are established and implemented to ensure that the risk responses strategy is established and effectively executed.
7. **Information and Communication** – Relevant information is identified, analyzed, and communicated in a form and timeframe that enable employees to effectively carry out their responsibilities.
8. **Monitoring** – Internal Controls are monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate periodic evaluations, or both.

Internal Control Principles

All components and principles are relevant in establishing an effective internal control system for the Authority. In order for the authority to have an effective internal control system, the components of internal control must be successfully designed, implemented, and functioning sufficiently. The principles represent the fundamental concepts which are associated with particular components within the system and apply to strategic, operating, reporting and compliance objectives. The principles supporting the components of internal controls are listed below.

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Manages risk during change

Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys controls through policies and procedures

Information and Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

In the event that management determines that a principle is not relevant, such determination should be at a minimum be supported with documentation and a rational of how, in the absence of that principle, the control is operating effectively.

Section B. Enterprise Risk Management Committee

The Enterprise Risk Management Committee (“the Committee”) has the authority and responsibility for ensuring compliance by the Authority with the Act, Comptroller Standards, IABO guidelines and COSO standards. In addition, the Committee has authority to oversee the ERM program as it relates to those Business Processes and their associated risks and controls that occur between multiple Agencies and may also:

- Advise on risk strategy.
- Assist with identifying risk appetite and tolerance
- Oversee risk exposures

- [Review crisis management plans, and](#)
- [Support the internal control program-](#)

Authority Internal Control Officers or their designees serve on the Committee, which is chaired by the MTA Chief Compliance Officer. The Committee will meet as needed but generally not less than every six months to review and suggest improvements to the ERM program.

Section C. Vulnerability Assessments

Part 1. Components

Vulnerability (Risk) Assessments (“VA”) is an analysis of the potential exposure to a thing going wrong, what can happen if it does, and what controls, if any, are or should be in place to manage risk. The VA also defines how often and when controls are to be tested. Each VA must at a minimum contain the following:

- Identification of key business processes
- Objectives of each business process
- Risks to those objectives
- Effect and likelihood (in the absence of controls) of risks occurring and an overall vulnerability rating
- Controls in place to manage each risk to an acceptable level
- Testing frequency (based on vulnerability rating)
- Testing schedule (approximately when each control will be tested during a particular cycle)

Part 2. Controls

Controls will be classified as key, subordinate, secondary, or monitoring.

Key Controls -an internal control that is assessed by management that provides reasonable assurance that material errors will be prevented or detected in a timely manner and that without which the business process will break down.

Subordinate Controls- those internal controls that are utilized to supplement key controls. Subordinate controls can be compensating, mitigating or redundant as it relates to the key control.

Secondary Controls – those controls which are not key or subordinate controls.

Monitoring Controls - those controls that are not designed to mitigate risk but are designed to monitor non-critical business process risks.

Part 3. Assessing Risk Effect, Probability, and Overall Risk Rating

Risk within a business process is the inherent potential for events to occur that will negatively impact that business process, its objectives, and/or related activities. Vulnerability within a business process can be assessed by defining what negative event can reasonably occur (risk), evaluating their significance (effects) and estimating the likelihood that they can happen (probability). When assessing the effect if the risk occurs the following categories should be used in determining level of significance.

Significance Rating	Evaluation Criteria
<i>High (5)</i>	Will cause a failure of the business process to meet its objectives, or cause objective failure in other activities, which will, in turn, cause or expose the Authority to significant financial losses, interruptions in operations, failure to comply with laws and regulations, major waste of resources, failure to achieve stated goals, etc.
<i>Med High (4)</i>	May cause a failure of the business process to meet a significant part of its objectives, or impact the objectives of other activities, which may, in turn, expose the Authority to unacceptable financial losses, reductions to or ineffectiveness of operations, non-compliance with laws and regulations, sizable waste of resources, etc.
<i>Medium (3)</i>	May cause a failure of the business process to meet part of its objectives, which may, in turn, expose the Authority to unacceptable financial losses, inefficient operations, non-compliance with laws and regulations, waste of resources, etc.
<i>Medium Low (2)</i>	May cause the business process, or other activities, not to meet part of its objectives which, may, in turn, expose the Authority to potentially unacceptable financial losses, less effective or efficient operations, some non-compliance with laws and regulations, waste of resources, etc.
<i>Low (1)</i>	Unlikely to cause the activity not to meet part of its objectives. If the activity does not meet part of its objective, this, in turn, may cause or expose the Authority to potentially unacceptable financial losses, less efficient operations, some non-compliance with laws and regulations, less efficient use of resources, etc.

When assessing the likelihood the risk will occur the following categories should be used in determining level of likelihood.

Likelihood Rating	Evaluation Criteria (Assumes No Controls in Place)
<i>Extreme (5)</i>	Reasonable assumption that this risk will almost certainly occur
<i>High (4)</i>	Reasonable assumption that this risk will likely, but not certainly, occur
<i>Medium (3)</i>	Reasonable assumption that this risk may occur
<i>Low (2)</i>	Reasonable assumption that this risk will likely not occur
<i>Negligible (1)</i>	Reasonable assumption that this risk will not occur

The overall risk rating is used to identify the relative importance and required testing of each control. For ease of assessing, the impact of each risk multiply the numeric values associated with the significance rating and the likelihood rating to determine a relative overall risk rating to each risk: Effect x Probability = Vulnerability

Overall Risk Rating				
Very High (25-20)	High (19-16)	Medium (15-9)	Low (8-4)	Very Low (3-1)

Section D. Control Testing

The frequency of performing an internal control test is determined by the overall risk rating. Risks with very high or high overall risk rating are considered to be more critical than those in lower categories given that controls are used to manage risks to acceptable levels. Therefore controls over high risk activities must be tested more frequently. The Authority's testing cycle is classified as follows:

Vulnerability	Control Test Cycle
<i>Very High</i>	Annually (Minimum)
<i>High</i>	Not less than Every 2 years
<i>Moderate</i>	Not less than Every 3 years
<i>Low</i>	Not less than Every 4 years
<i>Very Low</i>	Not less than Every 5 years

Each Business Process Owner along with their Authority Internal Control Officer is responsible for creating test instructions. Test instructions should contain at a minimum the standard which will be used to judge the control, the methods which will be utilized to test the control, the sample size and test period. In addition the test instructions should include criteria for what constitutes passing versus failing of any given test.

Business Process Owners must maintain records, both electronic and paper, for each test. The records must include when the test was performed, by whom, what was tested, how it was done, scope (period of time covered), number of records reviewed, personnel involved, personnel interviewed, actions observed, errors found, conclusions and corrective action plans to be implemented. Records must be maintained at a minimum through at least one internal control review cycle (1-5 years) or as required by Authority's records retention policy.

The Committee shall establish standards for testing for the ERM business processes.

The Business Process Owners must provide proof of testing, including copies of all testing records at the request of the MTA Chief Compliance Officer, the Authority ICO for their respective Agency, MTA Audit Services, or the MTA Inspector General Office. Failure to provide testing documentation must be reported to the Chief Compliance Officer and the Agency President.

Section E. Internal Control Review and Assessment

The Authority shall conduct an annual Internal Control Review and Assessment ("ICRA") which is an examination and evaluation of the Authority's system of internal controls to ascertain whether adequate controls exist to:

- Encourage adherence to Authority's policies and procedures
- Promote operational efficiency and effectiveness
- Safeguard assets
- Create and maintain a safe environment for employees and customers
- Ensure reliability of accounting data

The results of the ICRA, at a minimum, reaffirms that there is reasonable assurance that controls are functioning as intended.

Based upon the result of the ICRA, the Authority's shall complete, as part of its Annual Report, an annual assessment of the effectiveness of internal control structures and procedures. The assessment is a written statement from the MTA Chief Compliance Officer setting forth the Authority has conducted a formal, documented process to assess the effectiveness of its internal control structure and procedures, and indicating whether or not the internal controls are adequate.

Section F. Certification and Summary Reports

The Chairman/Chief Executive Officer on behalf of the Authority shall complete a signed certification and summary report that the Authority's internal control program is compliant with the Act. In support of this certification each Agency President shall also sign a certification and summary report that their Agency is compliant with the Act.

Section G. Corrective Action Plans

If any control should fail the Control Testing or ICRA process, described in Section D and E above, a corrective action plan must be initiated. The corrective action plans will at a minimum list the severity of the issue as either:

- Material Weakness
- Significant Deficiency
- Deficiency
- Documentation Only

This corrective action plan shall also include:

- Actions to be undertaken
- Persons responsible for those actions
- Resources required to complete the corrective action
- Date corrective actions were completed or date by which they are expected to be achieved

Article V. Generally Applicable Managerial Policies and Standards

The Chairman/Chief Executive Officer ~~or Executive Director of~~ the Authority, together with Agency Presidents shall prepare and disseminate annually a statement emphasizing the tone at the top, the importance of effective internal controls and the responsibility of each officer and employee for effective internal controls. This statement should list the name and contact number of the Authority Internal Control Officer for their respective Agency and any other individuals who can be contacted for further information on internal controls.

Managerial policies and procedures for the performance of specific functions shall be articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

Each Agency shall establish procedures for policy lifecycle management, including but not limited to the creation, approval, maintenance, storage, monitoring and review of Agency specific policies and procedures. MTA Corporate Compliance shall establish

procedures for all agency policy lifecycle management, including but not limited to the creation, approval, maintenance, storage, monitoring and review of All Agency Policy Directives and Guidelines.

Article VI. Designation of an Internal Control Officer

The MTA Chief Compliance Officer shall serve as Internal Control Officer for the Authority and shall report to the Chairman and Chief Executive Officer of the Authority or his/her designee. The Chief Compliance Officer shall implement and review the internal control responsibilities established by these guidelines to ensure compliance by the Authority.

Each MTA Agency President shall appoint an Authority Internal Control Officer, who shall report to the Agency President or to his/her designee within the executive office

Article VII. Implementation of Education and Training Programs

Senior management and employees responsible for specific functions relating to the Authority's internal control program must attend recurring internal control training.

The training will utilize ~~the~~ standardized ~~Training-material Manual for on~~ Internal Controls developed by the Committee as well as the Office of the New York State Comptroller's Internal Control Guide-Compliance Road Map. Agencies may augment this guide, if necessary, to provide specialized instruction.

The Committee shall determine at a minimum which classification of employees should attend internal control training, including the method, content and frequency of such training.

Article VIII. MTA Audit Services

In order to maintain independence, MTA's Auditor General and MTA Audit Services shall not directly or indirectly manage the Authority's ERM/Internal Control program. MTA Audit Services shall evaluate the Authority's internal controls and operations, identify internal control weaknesses that have not been corrected and make recommendations to correct those weaknesses.

Enterprise Risk Management Committee Status Report

Audit Committee
November 2016



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

All Agencies Working on Closing Open Material Weakness / Significant Deficiencies

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

Strategy/Internal Driven Risk Change

Procurement Consolidation

IT Transformation

Treasury Transformation

GRC Migration

Summary of Control Activities

1,910 Total Business Processes

882 Total Significant Business Processes of which 508 Were Reviewed

Approximately 4,784 Total Risks (all business processes)

Approximately 6,145 Total Controls (all business processes)

23 Total Material Weakness / Significant Deficiencies Reported of which 20 Are Still Open

External Driven Risk Change

New Standards for Internal Controls in New York State Government – Office of the State Comptroller

COSO 2013

NYS Comptroller Guidelines



ERM Personnel by Agency

Agency	Number of ERM Personnel*	Number of Agency Coordinators	Activities / Business Process	Total Risks	Total Controls
B&T	2	14	264	377	373
MTA HQ	3	29	198	1,339	529
LIRR	4	34	430	984	1,422
MNR	3	40	224	705	715
MTA Bus	3	25	38	125	159
MTA CC	1	15	147	202	519
NYCT	6	65	609	1,052	2,428
TOTAL	22	222	1,910	4,784	6,145

* Note that while these employees have ERM responsibilities for their agencies, they also have a number of other responsibilities.



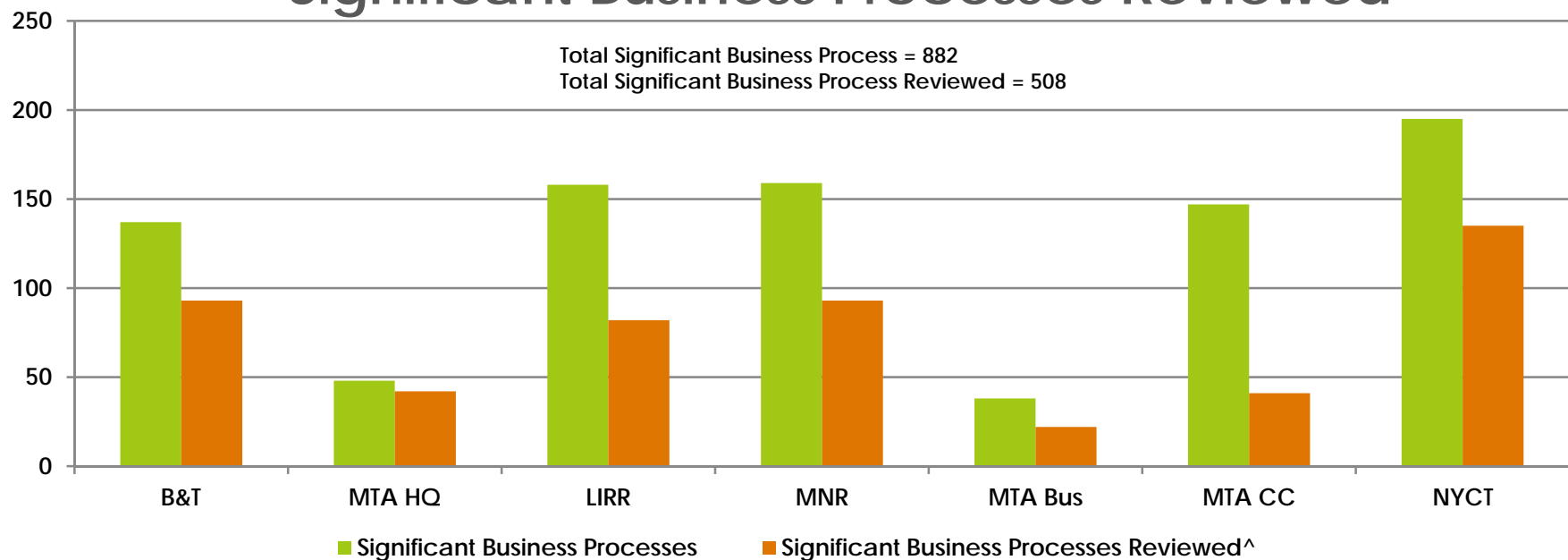
Year to Year Comparison

	November 2016	November 2015	Change (+/-)	Change (+/-)
Significant Business Processes	882	756	126	16.7%
Total Activities / Business Process	1,910	1837	73	4.0%
Total Risks	4,784	4,012	772	19.2%
Total Controls	6,145	6,207	-62	-1.0%



Review of Internal Controls Performance

Significant Business Processes Reviewed



Corporate Compliance

Material Weakness/Significant Deficiencies

Overall Risk Ranking	MTACC	LIRR	MNR	NYCT	Total
Low	-	1	-	1	2
Medium	4	2	-	2	8
High	-	2	-	4	6
Very High	-	1	5	1	7
TOTAL	4	6	5	8	23



Open Corrective Action Plans Status

	November 2015 Reported	Closed	New	November 2016 Open
TOTAL	16	12	16	20



Open Corrective Action Plans Status

Total Controls Vs. % of Material Weakness / Significant Deficiencies

Agency	Total Controls	Open Material Weakness / Significant Deficiencies November 2016	% Total Material Weakness / Significant Deficiencies to Total Controls
B&T	373	-	0.00%
MTA HQ	529	-	0.00%
LIRR	1,422	5	0.35%
MNR	715	4	0.56%
MTA Bus	159	-	0.00%
MTA CC	519	4	0.77%
NYCT	2,428	7	0.29%
Enterprise	6,145	20	0.33%



Open Corrective Action Plans

ERM Risk Category	Very High	High	Medium	Low	Total
Breach of Security	-	-	2	-	2
Financial Fraud	-	-	-	1	1
Ineffectual Operations	0	3	4	-	7
Regulatory Noncompliance	0	1	-	-	1
Safety	6	1	-	1	8
Theft of Services	-	1	-	-	1
Total	6	6	6	2	20



November 2016

Top Agency Risks

Risk Process

Safety - Employee and Customer

Security

Infrastructure and Equipment Maintenance

Succession Planning

Cyber Security

Enterprise-Wide Risks

Risk Process

Safety

Succession Planning

Institutional Transformation

Cyber Security



Memorandum



Metropolitan Transportation Authority

State of New York

To: Audit Committee

From: Lamond W. Kearse, Chief Compliance Officer

A handwritten signature in black ink, appearing to be "LW Kearse", written over a horizontal line.

Date: November 2, 2016

Re: Management Assessment: Effectiveness of its Internal Controls FY2015

The Metropolitan Transportation Authority's Chief Compliance Officer is responsible for overseeing the establishment and operation of the MTA's internal control program, which includes each of its subsidiary and affiliated entities ("MTA").

This statement certifies that management has documented and assessed the internal control structure and procedures of the MTA for the year ending December 31, 2015. In making this assessment, management used criteria set forth by MTA's Enterprise Risk Management/Internal Control Guidelines, Standards for Internal Control in New York State published by the Office of the State Comptroller, Guidelines issued by the Independent Authority Budget Office, and the Guidelines of the Commission of Sponsoring Organizations of the Treadway Commission.

This assessment found the MTA's internal controls to be adequate, and to the extent that deficiencies were identified, the MTA has developed corrective action plans to reduce any corresponding risk.

Therefore based upon the above I believe that as of December 31, 2015, the MTA's internal control structure and procedures are effective.

c: Michael Fucilli, Auditor General
Enterprise Risk Management Committee

Memorandum



Metropolitan Transportation Authority

State of New York

Date November 2, 2016

To All MTA Employees

From Thomas F. Prendergast, Chairman and CEO

Re Annual Commitment to Efficient and Effective Internal Controls

The Metropolitan Transportation Authority ("MTA") is committed to maintaining a system of efficient and effective internal controls. Internal controls is the integration of the activities, plans, attitudes, policies, and efforts of all MTA employees working together to provide reasonable assurance that we will achieve our objectives and mission.

The overall purpose of our internal controls system is to help the MTA: (1) promote orderly, economical, efficient and effective operations, (2) provide quality services for our stake holders consistent with our mission; (3) safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; (4) promote compliance with our Code of Ethics, laws, regulations, contracts and management directives and; (5) develop and maintain reliable financial/management data which is accurately presented in timely reports.

Each employee is responsible for ensuring that we comply with our system of internal controls. For our internal controls to be most effective, each employee must be responsible for becoming familiar with our policies, operating procedures, and the legal requirements that apply to his or her job, and must abide by these requirements at all times.

If you want additional information about our internal controls program you can contact your Agency Internal Control Staff (list attached) or MTA Chief Compliance Officer, Lamond W. Kears at 646-252-1329.

METROPOLITAN TRANSPORTATION AUTHORITY

INTERNAL CONTROL CERTIFICATION 2015-16

METROPOLITAN TRANSPORTATION AUTHORITY

Authority Name

THOMAS F. PRENDERGAST, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Chairperson Governing Board

2 Broadway, New York, NY 10017

Authority Address

212-878-7200

Telephone Number

Lamond W. Kears, Chief Compliance Officer

Name of Internal Control Officer

646-252-1330

Telephone Number

lkearse@mtahq.org

Email Address of Internal Control Officer

I hereby certify to the best of my knowledge and belief that the Metropolitan Transportation Authority is:

- ☒ Fully Compliant (Full compliance with all provisions)
- ☐ Partially Compliant (Partial compliance with some or all provisions)
- ☐ Not Compliant (Noncompliance with all provisions)

With the New York State Governmental Accountability, Audit and Internal Control Act.



Thomas F. Prendergast, Chairman and Chief Executive Officer

11/14/16

Date

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 Board 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"), as amended on June 22, 2016.

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 at least three 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. At least one member shall have accounting or financial management expertise. 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.

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, the 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. review and discuss with the Auditor General and outside auditor significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements;
3. inquire as to the 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;
4. review and discuss with the Auditor General, the relevant MTA employees, and the outside auditor and 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);
5. review and discuss with the Auditor General and the 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);
6. 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 controls and the appropriateness of the accounting principles used, and the judgments made, in the preparation of such periodic financial statements;
7. 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:

8. 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;
9. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant employees of the MTA, and the outside auditor: (i) any significant deficiencies in the design or operation of the internal controls of the MTA, including information technology security and system controls (ii) any fraud, whether or not material, involving MTA and (iii) related findings and recommendations of the outside auditors together with management's responses;
10. review the scope of the external auditors' assessment of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses;
11. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant MTA employees, and the outside auditor the MTA's risk assessment and risk management systems, and oversee the underlying policies with respect to risk assessment and risk management;
12. 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;
13. 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:

14. 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
15. 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 pre-approving all auditing and non-auditing services provided by the outside auditor to the MTA;
3. provide guidance to the Board with respect to, and approve, the annual audit plan and any subsequent major changes to it and the risk assessment as proposed by the Auditor General in consultation with the MTA Chairman/CEO and the President of each subsidiary and affiliated corporation;
4. review and discuss with the Auditor General, relevant MTA employees, and the outside auditor: (i) any significant audit findings during the year, including the status of previous audit recommendations; (ii) internal audit's activity's performance relative to its plan; (iii) any changes required in the scope of the audit plan; (iv) the audit budget and staffing; and (v) the coordination of audit efforts, status of the internal audit plan and the adequacy of internal audit resources (both numbers and capabilities);
5. on a regular basis, meet with the external auditors to discuss any matters that the committee or internal audit believes should be discussed;
6. review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit;
7. review and discuss with the Auditor General, relevant MTA employees, and the outside auditor accounting policies that may be viewed as critical, all matters required to be communicated to the committee under generally accepted auditing standards, 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;
8. monitor the consistency and comparability of the financial reporting processes of the MTA;

9. 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;
10. review and provide guidance to the Board with respect to the appointment, compensation, and (if necessary) dismissal of the Auditor General.
11. at least annually, review with the Auditor General a report by the 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);
12. on an annual basis, in each case together with the Auditor General: (i) review a formal written statement from the outside auditor delineating all relationships between such outside auditor and the MTA; (ii) actively engage in a dialogue with the 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 the 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:

13. review and discuss with the Auditor General, the Chief Compliance Officer, the relevant MTA employees, and the outside auditor the adequacy of the MTA's internal and disclosure controls and procedures;
14. together with the Chief Compliance Officer, review and discuss with the relevant MTA employees, and the outside auditor any significant risks or exposures and assess the steps such employees have taken to minimize such risks;
15. 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:

16. together with the Chief Compliance Officer, review periodically with the relevant MTA employees (i) the process for communicating the code of conduct to company personnel; (ii) the level of compliance with all applicable ethics codes, guidelines, and regulations; and, (iii) the performance of the MTA Ethics and Compliance programs.

Miscellaneous:

17. conduct an annual self-evaluation of the performance of the Committee, including its effectiveness and compliance with this Charter;
18. review and reassess the adequacy of this Charter annually;
19. approve the internal audit charter;
20. consider any matter referred to the entire Committee by the Committee Chair and/or Vice-Chair; and
21. 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.

Metropolitan Transportation Authority
Department of Diversity and Civil Rights

Report to the Audit Committee
November 14, 2016



MTA Headquarters

DDCR Update

Status of the MTA IG Recommendations

The MTA Office of the Inspector General assessed DDCR's performance in completing monitoring tasks that have the potential to detect and deter contractor fraud and other serious compliance violations. Their recommendations are related to the topics listed below.

1. Establish Performance Metrics – Implemented	6. Establish Protocols for Contract Close Outs – Implemented
2. Revise Standard Operating Procedures (“SOPs”) – Implemented	7. Report to the Audit Committee – Implemented
3. Increase Site Visits – Implemented	8. Improve Record Management – Implemented
4. Adjust Payment Verification Procedures – Implemented	9. Monitor Goal Compliance – Implemented
5. Establish List of Contracts to be Closed Out and Plan to Address Backlog - Implemented	10. Improve Contract Compliance System - Implemented



MTA Headquarters DDCR Update

Inactive Contracts – Status as of September 30, 2016

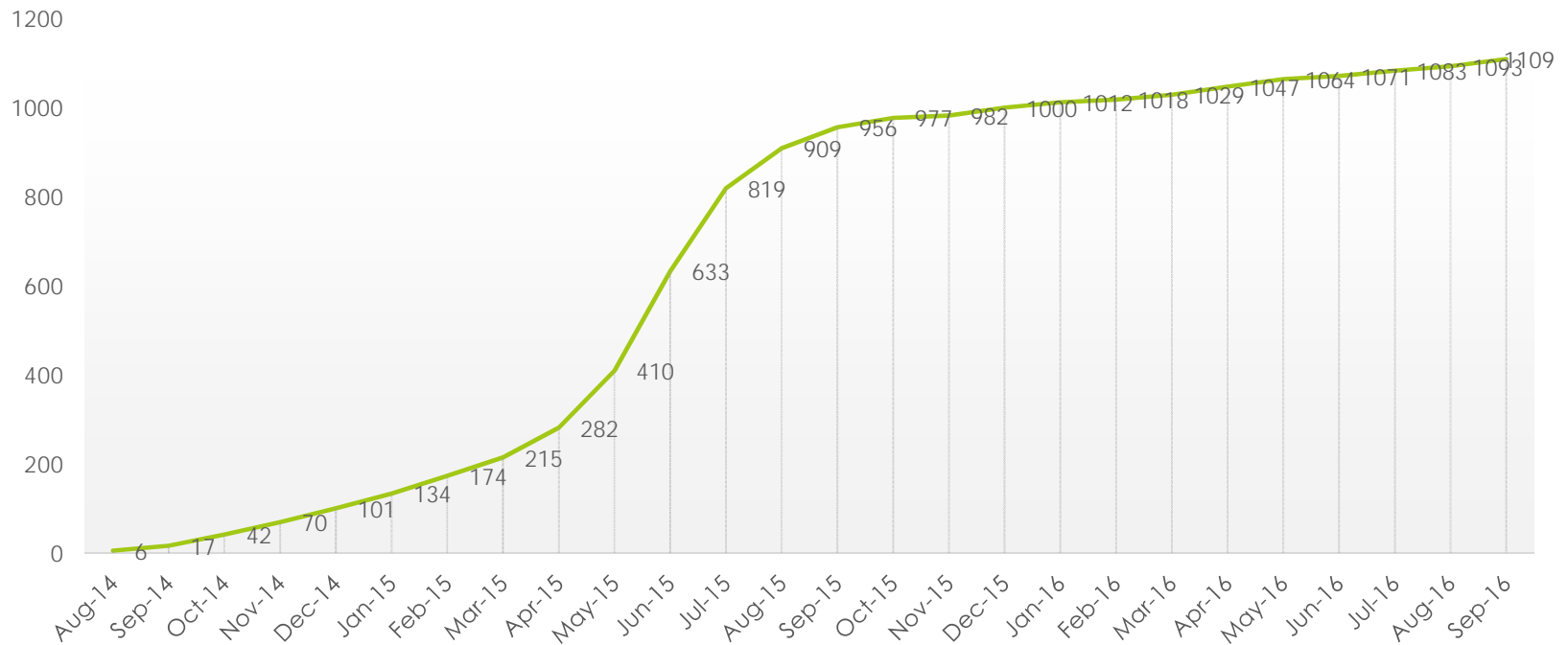
Inactive Contracts with Goals	#	
1. Total Contracts Reviewed and Closed	826	
2. Contracts Administratively Closed	283	(a)
Sub-Total	1109 (92%)	
3. Closeouts in Progress	57	
4. Contracts Pending Agency Action	39	
Total	1,205 (100%)	(b)

- a. Contracts administratively closed because of the age of the contract (beyond the established seven-year record retention period).
- b. Total number of inactive & closed contracts as of September 30, 2016.



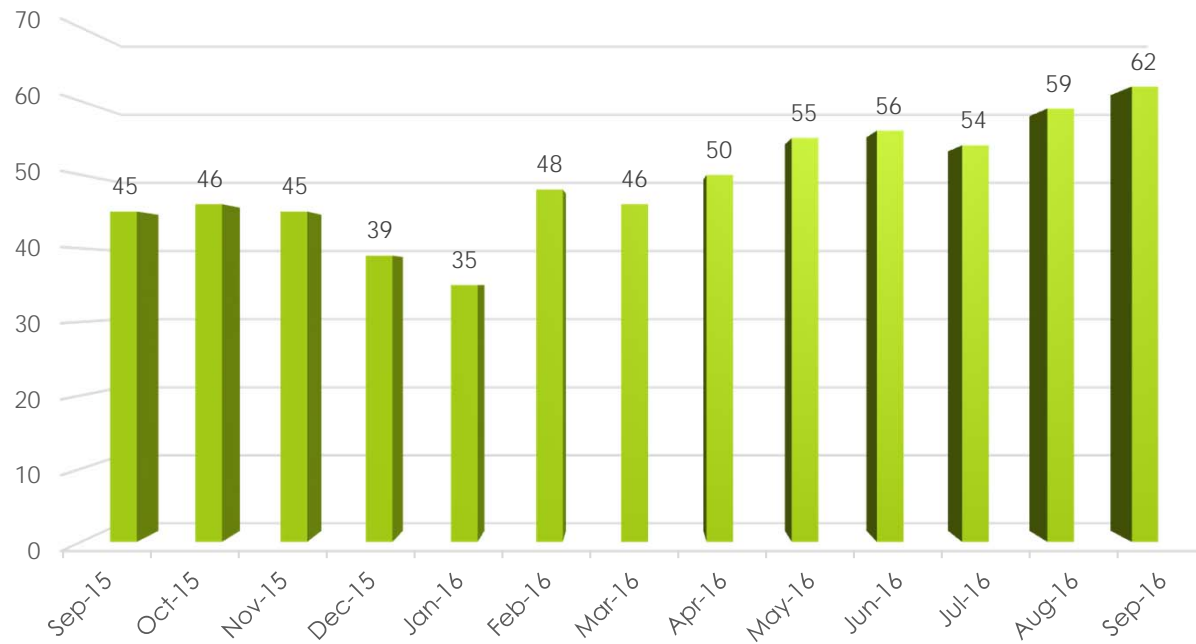
MTA Headquarters DDCR Update

DDCR Contract Closeout Progression
August 2014 to September 30, 2016



MTA Headquarters DDCR Project Site Visits

September 1, 2015 to September 30, 2016
Total Site Visits Performed = 640



MTA Headquarters DDCR Update

- **New Contract Compliance System**
 - MTA went live with the New York State Contract System (B2GNow) in September, 2016
 - It is New York State's goal to have all State Agencies & Authorities utilize B2G
 - As a result, the system now allows the following:
 - Improved tracking and monitoring of M/W/DBE contract goal compliance
 - Input of M/W/DBE subcontractor payments directly into the system by prime contractors
 - In-system confirmation of receipt of payments by M/W/DBE subcontractors
 - Verification of prompt payment status

