

AUDIT OVERSIGHT COMMITTEE MEETING FOR THE
METROPOLITAN TRANSIT SYSTEM (MTS),
SAN DIEGO TRANSIT CORPORATION (SDTC),
AND SAN DIEGO TROLLEY, INC. (SDTI)

June 5, 2008

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 10:55 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Mathis moved approval of the minutes of the April 17, 2008, Audit Oversight Committee meeting. Mr. Monroe seconded the motion, and the vote was 5 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Interim Work – Exit Interview (ADM 110.12)

Chairman Ewin stated that he did not attend the interim exit interview for the audit for fiscal year ending June 30, 2008, and won't attend any exit interviews unless the Committee feels it is within his purview to attend them. Mr. Ken Pun of Caporicci & Larson distributed an Interim Exit Conference outline covering audit procedures, 2008 high profile areas, open items, and current year observations. He also introduced Roma Layosa, senior in charge of the audit at MTS. Mr. Pun reported that they are finished with the second phase of the audit, which is the internal control evaluation and is one of the most important phases of the audit. He briefly reviewed the elements of MTS's systems that are audited and stated that internal controls are properly in place and accounting procedures are being followed. He stated that they also review the internal audit function but it is considered to be a low-risk area. He also reported that there is only one open item - the preparation of confirmations - which will be done after June 30.

Mr. Pun then reviewed Current Year Observations. Mr. Monroe expressed concern that 2 of the 15 assets audited were not tagged. Staff explained that the audit was conducted only on assets added since the last audit. Mr. Cliff Telfer, MTS Chief Financial Officer, reported that the items not tagged were on the capital asset list but had just not been tagged yet. Mr. Pun explained that the auditors use a small sample size to determine if internal controls are in place and added that a random sample can be used because this is a low-risk area. Mr. Monroe felt the sample size was too small to be valid. Mr. Pun explained that random sampling is typically used for government entities because the volume of items is too large to use the more traditional statistical sampling methods and because the impact on the financial statement is insignificant. He added that there are also no internal control

issues. He stated that the assets that were being audited are small-value assets and would comprise \$300,000 on the balance sheet and \$500,000 on the income statement. In response to a question from Mr. Ewin, Mr. Pun explained that the tagging of capital assets is audited to ensure that the asset is in place, that there is documentation of the purchase, and to prevent misappropriation of equipment. He stated that the tagging of these items also helps during the inventory process. Mr. Telfer reported that only 48 assets were added this year, and 15 were audited. Mr. Telfer also reported that all of the new assets appear on the capital asset list although some of them were not yet tagged. Mr. Pun confirmed for Mr. Ewin that the auditors are not aware of any missing assets.

In response to a comment from Mr. Monroe, Mr. Pun reported that only 20 personnel records were audited but that, at the end of the year, they will be auditing 200 employee files for testing purposes. In response to a question from Mr. Monroe about the driver pull notice problem, Mr. Jablonski reported that the CHP just did a 100 percent reaudit of the pull notice program and found no problems.

Mr. Pun reviewed New Pronouncements to be implemented in 2008, 2009, and 2010. In connection with that review, Mr. Marinesi stated that MTS is working with an outside consultant to get an actuarial study that would determine the financial impact of providing postemployment medical coverage for retirees. He stated that this study and the report should be completed by the end of the year. Mr. Telfer stated that a decision will have to be made whether or not to fund this item and indicated that it will have a large dollar value.

Mr. Pun pointed out that GASB 48 will require more disclosure of transactions between MTS and SANDAG and confirmed for Mr. Ewin that confirmations will be sent to SANDAG. Mr. Pun identified the pronouncements that would not apply to MTS. Mr. Pun also reported that there will be many footnotes that will be added to the Comprehensive Annual Financial Report (CAFR) this year as a result of these pronouncements.

Mr. Pun reviewed the year-end schedule and, after a brief discussion, it was decided that the CAFR should be presented to the Executive Committee and the Board of Directors on November 6 and November 13, respectively. Mr. Pun confirmed Mr. Ewin's understanding that, if the audit field work is finished by September 26, the CAFR would need to be approved by the MTS Board by November 15. Mr. Telfer confirmed for Mr. Monroe that management approves the CAFR and the Board accepts the report. In response to a question from Mr. Ewin, Mr. Pun reported that the final exit interview should take place the first week of October. In response to Mr. Ewin's concern that all issues may not be resolved in a timely manner prior to the presentation of this item to the Executive Committee, Mr. Pun stated that if all outstanding items are not resolved, a draft report could be presented listing those exceptions. Mr. Pun confirmed for Mr. Jablonski that the auditors have not found anything in the audit that is material. In response to a question from Mr. Ewin, Mr. Pun reported that Cliff Telfer, MTS Finance Manager Linda Musengo, and Internal Auditor Mark Abbey attended the exit interview.

Action Taken

No action was taken on this item.

2. MTS: Proposed 2008/2009 Internal Audit Plan

(ADM 110.12)

Mr. Mark Abbey, MTS Internal Auditor, presented the proposed 2008/2009 Internal Audit Plan, which was developed with input from Mr. Jablonski, Ms. Lorenzen, and Mr. Telfer, and provided a brief overview of the list of projects. He stated that projects were selected based on risk assessment and previous experience with issues. He advised Mr. Ewin that the only project carried over from the previous year was Payroll. He reported that Mr. Telfer requested that this audit project be carried over to 2009 to allow time for the installation of a new payroll system. Mr. Abbey reported that 360 hours have been set aside for special requests and projects as identified and requested. He also reported that revenue collections are being audited again because of the importance of accurate cash-collection accounting. Mr. Abbey reported that procurement processes will be audited because of the recent consolidation of this function between the three agencies and because there is a new procurement manager in place.

In response to a question from Mr. Ewin, it was reported that the Internal Auditor reports to the General Counsel.

Mr. Jablonski reported that an inventory of the SDTI storeroom had just been completed and discrepancies were minimal.

Action Taken

Mr. Atkins moved to approve the Proposed 2008/2009 Internal Audit Plan (Attachment A of the agenda item) and forward it to the Board. Mr. Monroe seconded the motion, and the vote was 5 to 0 in favor.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no Committee communications.

D. PUBLIC COMMENTS

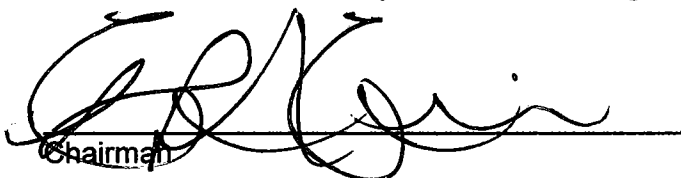
There were no public comments

E. NEXT MEETING DATE:

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 11:42 a.m.



Chairman

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 06/05/08

CALL TO ORDER (TIME) 10:55 a.m.

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 11:42 a.m.

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ATKINS	<input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
EMERY	<input type="checkbox"/> (Cafagna) <input type="checkbox"/>		<input checked="" type="checkbox"/>
EWIN	<input checked="" type="checkbox"/> (Clabby) <input type="checkbox"/>		
MATHIS	<input checked="" type="checkbox"/>		
MONROE	<input checked="" type="checkbox"/> (McLean) <input type="checkbox"/>		
RINDONE	<input type="checkbox"/> (Emery) <input type="checkbox"/>		<input checked="" type="checkbox"/>
ROBERTS	<input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

Gail Williams

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL:

Jeff Blum