

AUDIT OVERSIGHT COMMITTEE MEETING FOR THE  
METROPOLITAN TRANSIT SYSTEM (MTS),  
SAN DIEGO TRANSIT CORPORATION (SDTC),  
AND SAN DIEGO TROLLEY, INC. (SDTI)  
1255 Imperial Avenue, Suite 1000  
San Diego, CA 92101

October 21, 2010

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 9:00 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Selby moved for approval of the minutes of the June 17, 2010, Audit Oversight Committee meeting. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Draft Comprehensive Annual Financial Report (CAFR) for 2010

Linda Musengo, Finance Manager, provided a draft of the Comprehensive Annual Financial Report (CAFR) to the Committee. She briefly discussed the significant financial changes from the 2009 CAFR. She explained that there was an increase in cash balance due to the liquidation of roughly \$35 million in pension obligation funds, outlined on page A-24 of the report. She also explained data on page A-25, a decrease in liabilities due to settlement of contract liabilities, time of normal operating and payroll disbursements, and significant principal payment on pension obligation bonds. Ms. Musengo then discussed page A-26, which outlines an increase in operating expense due to the adjustment of noncash depreciation expenses related to the procurement of new trolleys and their life span. She explained that there has been a significant increase in subsidy revenue related to TransNet receipts for capital asset acquisitions from roughly \$19 million in 2009 to approximately \$84 million related to the acquisition of new trolley cars.

Tom Lynch, Controller, stated that the Finance Department had made a voluntary disclosure to the external auditors upon discovery of a contract discrepancy for spare parts for the purchase of S70 trolley cars procured for the Mission Valley East Project. He explained that the spare parts issue details were unknown, or not understood, by the Finance Department and mistakenly thought spare parts were to be included in the contract for procurement of the vehicles as usual. During the fiscal close for 2010, upon reviewing the closeout of the contract, Finance checked on why parts had not been received. It was discovered at that time that the parts had been received, and half of them were not into the storeroom inventory system. An inventory audit was performed, and the trolley storeroom worked to get the inventory aligned. Mr. Lynch stated that measures have been put in place to ensure that this will not happen again. He also stated that there will not be a restatement of fixed-assets inventory, and that

this was a onetime event related to the procurement of vehicles for Mission Valley East.

Mr. Mathis was concerned that the storeroom had not entered the parts into the inventory system when they were received. Mr. Jablonski explained that the trolley storeroom has undergone some management changes and new procedures have been implemented improving operations. He stated that this was an anomaly related to the delivery of S70 parts. He stated that the consolidation of bus and trolley storeroom management is occurring right now, and that the management structure now in place would not have allowed the incident to occur.

Ms. Lightner wanted to know how many parts were recorded in the inventory and when this discovery was made. Ms. Musengo responded that \$1.1 million in parts, or approximately 350 parts had been recorded in the inventory system. She explained that we did receive every part on the original parts listing from Siemens. Mr. Lynch explained that the error was discovered roughly two months ago while reviewing liquidations.

Chairman Ewin mentioned that in the past, the CAFR listed the members of the Audit Oversight Committee, and he feels it would be prudent to list them again. Mr. Ewin would like the CAFR to be reviewed by the full Board on November 18.

#### Action Taken

Mr. Selby moved to receive a report on the Draft FY 2010 CAFR for review and discussion. Mr. Mathis seconded the motion, and the vote was 6 to 0 in favor.

#### 2. MTS: Auditing Standards Issued During 2010

Gary Caporicci of Caporicci & Larson (C&L) presented to the Committee a brief overview of the Statements on Auditing Standards No. 115 to No. 120, which was issued by the American Institute of Certified Public Accountants Auditing Standards Board (ASB). He introduced Kenneth Pun with C&L located in San Diego whom explained that the ASB issued six new auditing standards and explained their significance.

- SAS No. 115, Communicating Internal Control-Related Matters identified in an audit is an important identification of fraud, whether or not material, on the part of senior management. It includes a restatement of previously issued financial statements reflect the correction of a material misstatement due to error or fraud.
- SAS No. 116, Interim Financial Information is effective for reviews of interim financial information for interim periods beginning after December 15, 2009.
- SAS No. 117, Compliance Audits for the periods ending on or after June 15, 2010, but earlier implementation is encouraged. It is applicable when the auditor is engaged to perform compliance audit in accordance with generally accepted auditing standards, government auditing standards, and express an opinion on compliance. This new standard indicated that two separate audits

must be performed for financial statements and compliance and, overall, creates a great deal of additional work for auditors.

- SAS No. 118, Other Information in Documents Containing Audited Financial Statements relates to financial and nonfinancial information and refers to annual reports of governments.
- SAS No. 119, Supplementary Information in Relation to the Financial Statements as a Whole defined as information presented outside the basic financial statements.
- SAS No. 120, Required Supplementary Information is information that a designated accounting standard-setter requires to accompany an entity's basic financial statements. An example of this would be pages A-62 to A-81 of the CAFR.

Mr. Pun predicts that an exposure sheet will be presented in May 2011. Mr. Caporicci stated that he will provide staff with an update and any necessary training. Mr. Ewin would like the information to be given to the full Board.

Action Taken

Mr. Selby moved to receive a report from Caporicci & Larson presenting new auditing standards issued during FY 2010. Mr. Mathis seconded the motion, and the vote was 6 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 9:43 a.m.



Chairman

Attachment: Roll Call Sheet

**AUDIT OVERSIGHT COMMITTEE  
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) October 21, 2010

CALL TO ORDER (TIME) 9:00 AM

RECESS \_\_\_\_\_

RECONVENE \_\_\_\_\_

CLOSED SESSION \_\_\_\_\_

RECONVENE \_\_\_\_\_

ADJOURN 9:43 AM

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>		
LIGHTNER <input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
Rotated to Chula Vista		
RINDONE (VC) <input checked="" type="checkbox"/> (Young) (CPT) <input type="checkbox"/>	9:04 AM	
ROBERTS <input type="checkbox"/> (Cox) <input checked="" type="checkbox"/>		
SELBY <input checked="" type="checkbox"/> (Ryan) <input type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD: Valerie VizKaleti

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: [Signature]