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Agenda

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE

for the

Metropolitan Transit System
San Diego Transit Corporation, and
San Diego Trolley, Inc.

March 4, 2010

Executive Conference Room
9:00 a.m.

ACTION RECOMMENDED

- | | | |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| A. | 1. ROLL CALL | |
| | 2. APPROVAL OF MINUTES - November 5, 2009 | Approve |
| B. | COMMITTEE DISCUSSION ITEMS | |
| | 1. <u>MTS: Appointment of Chairperson (Tiffany Lorenzen)</u>
Action would appoint a chairperson. | Appoint |
| | 2. <u>MTS: Statement of Auditing Standards (SAS) 114 Letter from Independent Auditors Caporicci & Larson (Tom Lynch)</u>
Action would receive a report on the Statement of Auditing Standards (SAS) 114 letter issued by MTS's independent auditor, Caporicci & Larson. | Receive |
| | 3. <u>MTS: Exercise of Options on Independent Auditor's Contract (Tom Lynch)</u>
Action would forward a recommendation to the Board of Directors to authorize exercising three option years in the contract with MTS's independent auditor, Caporicci & Larson. | Possible
Action |
| | 4. <u>MTS: Auditor Schedule for FY 2010 (Linda Musengo)</u>
Action would receive a report on scheduling for the FY 2010 audit. | Receive |
| C. | COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS | |
| D. | PUBLIC COMMENTS | |
| E. | NEXT MEETING DATE: March 18, 2010 | |
| F. | ADJOURNMENT | |

Please turn off cell phones and pagers
during the meeting

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Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc., San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations), and San Diego Vintage Trolley, Inc., a 501(c)(3) nonprofit corporation, in cooperation with Chula Vista Transit. MTS is the taxicab administrator for seven cities. MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego.

DRAFT

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

NOVEMBER 5, 2009

MTS
1255 Imperial Avenue, Suite 1000, San Diego

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. Mathis moved to approve of the minutes of the October 15, 2009, Audit Oversight Committee meeting. Mr. Selby seconded the motion, and the vote was 4 to 0 in favor (Mr. Rindone abstained).

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Fiscal Year 2009 Comprehensive Annual Financial Report (Cliff Telfer)

Mr. Ewin noted that the review of the 2009 Comprehensive Annual Financial Report (CAFR) is on schedule. Ms. Linda Musengo gave a brief review of the items in the CAFR that have changed since the last meeting. She added that production of the CAFR is on schedule, and it is expected that the final version will be presented next week to the Board.

Ms. Musengo stated that the management representation letter is not included in this draft, but it will be included in the final CAFR going to the Board. Mr. Ewin noted that there will be language in the motion that the letter will be incorporated.

In response to Mr. Ewin, Ms. Musengo clarified subsequent events and contingencies, and members discussed the process to create the 2009 CAFR.

Mr. Kenneth Pun, CPA with Caporicci & Larson (C&L), gave a PowerPoint presentation on the scope of work for the audit performed by C&L that included the audit of MTS's financial statements and the review of internal control policies and procedures.

Mr. Pun gave an overview of MTS's management responsibilities, C&L's responsibilities, and a summary of C&L's audit approach, which included year-to-year comparisons of specific account balances. He stated that the assessment determined that MTS is a low-risk auditee, which means that there is no need to test a high number of transactions in order to determine that the numbers and disclosures are accurate.

Mr. Pun reviewed C&L's unqualified audit opinion stating that financial statements are fairly presented in all material respects, significant accounting policies have been consistently applied, estimates are reasonable, and disclosures are properly reflected in the financial statements.

Mr. Pun stated that the audit resulted in no disagreements with management, no material errors or irregularities were discovered, and no significant deficiencies or material weaknesses were determined. He provided a brief overview of the financial statement sections of the audit that included the introductory, financial, and statistical sections.

Mr. Pun stated that compared to last year, the balance sheet is consistent. As of June 30, 2009, MTS has approximately \$1.9 billion in total assets and \$2.74 billion in total liabilities with a net result of \$1.2 billion in net assets. He added that the total revenue is \$278 million and total operating expenses are \$296 million. He noted that there is an increase in the net assets of \$15 million. Mr. Telfer pointed out that operating expenses were lower in 2009 than in 2008.

Mr. Pun summarized statements of cash flow from operating activities, which were consistent with 2008. He reviewed cash flows from operating activities, noncapital financing activities, capital, related-financing activities, and investing activities.

Mr. Pun reviewed the state financial and budget shortfall and subsequent events, including the stabilization of fuel prices, refinancing the variable rate pension obligation bonds (POBs), the State of California's budget, and evaluation of the fare and route structures. He stated that the state and financial budget shortfall has reduced or eliminated State Transit Assistance (STA) significantly, which could affect ongoing operations.

Mr. Pun reported on the pension plan schedule of funding progress for San Diego Trolley, Inc (SDTI) and San Diego Transit Corporation (SDTC) and concluded his report with a review of the new Governmental Accounting Standards Board (GASB) pronouncements. He noted that next year, GASB Statement No. 53 (Accounting and Financial Reporting for Derivative Instruments) will be required, which may have an impact on the MTS financial statement and will require more disclosure related to the CNG swap agreement.

Action Taken

Mr. Selby moved to forward this item with the management letter to the MTS Board of Directors for consideration of the Fiscal Year 2009 Comprehensive Annual Financial Report (CAFR). Mr. Roberts seconded the motion, and the vote was 5 to 0 in favor.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

Mr. Ewin thanked staff, C&L for its assistance, and members for their diligence in reviewing the materials.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE:

To be determined.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:25 a.m.

Chairman

vicki.rogers.minutes

Attachment: Roll Call Sheet

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 11-5-09

CALL TO ORDER (TIME) 9:00 a.m.

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:25 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>		
LIGHTNER <input 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"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:20 a.m.	
SELBY <input checked="" type="checkbox"/> (Ryan) <input type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

W. Rogers

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL

[Signature]



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Agenda

Item No. B1

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE
for the
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

ADM 110.12

March 4, 2010

SUBJECT:

MTS: APPOINTMENT OF CHAIRPERSON (TIFFANY LORENZEN)

RECOMMENDATION:

That the MTS Audit Oversight Committee appoint a chairperson.

Budget Impact

None at this time.

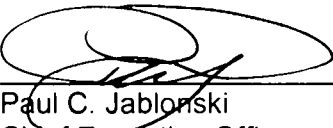
DISCUSSION:

Appointment of Chairperson of the MTS Audit Oversight Committee

MTS Policy No. 22.9.1 states: *The Audit Oversight Committee shall be comprised of the same members that make up the Executive Committee. The Chairman of the Audit Oversight Committee shall be appointed from amongst its members at the first meeting held during each calendar year. The Chairman of the Audit Oversight Committee shall be another member other than the member who serves as the Executive Committee Chairman. Additional members of the MTS Board may be appointed on an annual basis at the first MTS Board meeting in January at the discretion of the MTS Board. The Board may appoint individuals who are not members of the Board to serve as nonvoting advisory members to the Audit Oversight Committee.*

The nomination and election procedures pursuant to Robert's Rules of Order are as follows:

1. The Chairperson of the Committee opens the agenda item.
2. The Chairperson requests nominations from the floor. Nominations do not require a second.
3. The Chairperson closes the nominations.
4. The Chairperson invites the candidate(s) to address the Board for 3 minutes.
5. The Chairperson asks for any Board discussion.
6. The Chairperson calls for the vote on each motion for each candidate.
7. The vote is taken on the motion(s) for each candidate based upon the order in which they were nominated. The vote continues until a candidate is elected.



Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Tiffany Lorenzen, 619.557.4512, Tiffany.Lorenzen@sdmts.com

MAR4-10.B1.AOC CHAIR APPOINTMENT.TLOREN.doc



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Agenda

Item No. B2

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE
for the
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

ADM 110.12

March 4, 2010

SUBJECT:

MTS: STATEMENT OF AUDITING STANDARDS (SAS) 114 LETTER FROM
INDEPENDENT AUDITORS CAPORICCI & LARSON (TOM LYNCH)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report on the Statement of Auditing Standards (SAS) 114 letter (Attachment A) issued by MTS's independent auditor, Caporicci & Larson.

Budget Impact

None at this time.

DISCUSSION:

SAS No. 114 was adopted for fiscal years 2006 and forward. This standard provides guidance to those charged with governance in relation to auditing financial statements. SAS No. 114 replaces the old "Management Letter" issued prior to 2006. Caporicci & Larson, MTS's independent auditor, has prepared its SAS 114 letter (Attachment A).

In the letter, the auditors communicate to those charged with governance:

1. The auditor's responsibilities under generally accepted auditing standards.
2. An overview of the planned scope and timing of the audit.

3. Significant findings from the audit.
- a. The auditor's views about qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures.
 - b. Significant difficulties, if any, encountered during the audit.
 - c. Uncorrected misstatements, other than those that the auditor believes are trivial, if any.
 - d. Disagreements with management, if any.
 - e. Management representations.
 - f. Other findings or issues, if any, arising from the audit that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process.

Point No. 3 is generally considered the most relevant, and the letter states that there were no findings in this regard.



Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Tom Lynch, 619.557.4538, tom.lynch@sdmts.com

MAR4-10.B2.STATEMT AUDITING STANDARDS.CAPORICCI & LARSON.TLYNCH.doc

Attachment: A. SAS Letter from Caporicci & Larson

October 30, 2009

To the Board of Directors
of the San Diego Metropolitan Transit System
San Diego, California

We have audited the basic financial statements of the San Diego Metropolitan Transit System (MTS) for the year ended June 30, 2009, and have issued our report therein dated October 30, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

Our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with the governing board oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the basic financial statements does not relieve the governing board and management of the financial statements responsibilities.

In planning and performing our audit, we considered MTS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures of the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether MTS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about MTS' compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on MTS' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on MTS' compliance with those requirements.

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Sacramento
777 Campus Commons Rd., Suite 200
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San Diego
4858 Mercury, Suite 106
San Diego, California 92111

Other Information in Documents Containing Audited Financial Statements

Our responsibility of “other information in documents containing audited financial statements” includes:

- The Firm’s responsibility for other information in documents containing the MTS’ basic financial statements and report does not extend beyond the financial information identified in the report.
- The Firm does not have an obligation to perform any procedures to corroborate other information contained in these documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MTS are described in Notes to the Basic Financial Statements including new accounting policies adopted, if any. We noted no transactions entered into by the MTS during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Investments Valuation
- Depreciation on Capital Assets
- Accrued Damage, Injury and Employee Claims
- Accrued Other Post Employment Benefits

The disclosures in the financial statements are transparent, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

- Summary of Significant Accounting Policies
- Risk Management
- Contingencies
- Employee Retirement Systems
- Post Employment Health Care Benefits
- Subsequent Events

To the Board of Directors
of The San Diego Metropolitan Transit System
San Diego, California

Audit Oversight Committee
Att. A, AI B2, 3/4/10

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter. A signed copy is attached for your information.

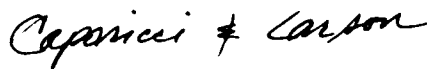
Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the MTS' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

* * * * *

This information is intended solely for the use of the Board of Directors and management of MTS and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Caporicci & Larson
October 30, 2009



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Agenda

Item No. B3

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE
for the
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

ADM 110.12

March 4, 2010

SUBJECT:

MTS: EXERCISE OF OPTIONS ON INDEPENDENT AUDITOR'S CONTRACT
(TOM LYNCH)

RECOMMENDATION:

That the MTS Audit Oversight Committee forward a recommendation to the Board of Directors to authorize exercising three option years in the contract with MTS's independent auditor, Caporicci & Larson.

Budget Impact

Caporicci & Larson has unilaterally reduced its contract price, which would result in a savings of \$235,000 in FY 2011–FY 2013 compared to the original contract if the options are exercised.

DISCUSSION:

MTS currently has a contract with Caporicci & Larson to provide audit services of financial statements for five years (FY 2006 – FY 2010). In addition, MTS has options for three 1-year terms, which would cover the FY 2011–FY 2013 audits.

The services for the base-year contract will conclude on approximately December 31, 2010, upon completion of the FY 2010 audit. A Request for Proposals (RFP) and contract award process would take approximately 9 to 12 months; as this would go beyond the conclusion of the base contract, staff seeks direction on whether the options should be exercised or staff should begin the RFP process.

The contract for audit services started in FY 2006 at \$295,000 per year with a 4% per year escalation throughout the contract years and for the option years if exercised. In FY 2009, Caporicci & Larson unilaterally reduced the contract for FY 2009 and forward to the first year amount of \$295,000.

The table below shows the effect of this cost reduction by Caporicci & Larson:

	Fiscal Year	Original Contract	Reduced Amount	Change
	2006	295,000	295,000	0
	2007	306,800	306,800	0
	2008	319,072	319,072	0
	2009	331,835	295,000	36,835
	2010	<u>345,108</u>	<u>295,000</u>	<u>50,108</u>
Base Contract		<u>1,597,815</u>	<u>1,510,872</u>	<u>86,943</u>
Option year	2011	358,913	295,000	63,913
Option year	2012	373,269	295,000	78,269
Option year	2013	<u>388,200</u>	<u>295,000</u>	<u>93,200</u>
Option Years		<u>1,120,382</u>	<u>885,000</u>	<u>235,382</u>
Grand Total		<u>2,718,197</u>	<u>2,395,872</u>	<u>322,325</u>

As this table shows, MTS will save \$87,000 over the base contract and has the potential to save an additional \$235,000 if the option years are exercised.

Based upon the cost savings projected and the service level provided by Caporicci & Larson, staff recommends that the Audit Oversight Committee forward a recommendation to the Board of Directors exercising the three option years in the contract.



Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Tom Lynch, 619.557.4538, tom.lynch@sdmts.com

MAR4-10.B3.CAPORICCI & LARSON AUDITING CONTRACT OPTIONS.TLYNCH.doc



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Agenda

Item No. B4

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE
for the
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

ADM 110.12

March 4, 2010

SUBJECT:

MTS: AUDIT SCHEDULE FOR FY 2010 (LINDA MUSENGO)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report on scheduling for the FY 2010 audit.

Budget Impact

None at this time.

DISCUSSION:

Audit Status

Staff will discuss the audit schedule during the meeting.

A handwritten signature in black ink, appearing to read 'Paul C. Jablonski', is written over a horizontal line.

Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Linda Musengo, 619.557.4531, linda.musengo@sdmts.com

MAR4-10.B4.AUDIT SCHEDULE FOR 2010.LMUSENGO.doc