

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

June 17, 2010

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. Rindone moved for approval of the minutes of the March 4, 2010, Audit Oversight Committee meeting. Mr. Selby seconded the motion, and the vote was 4 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Interim Audit

Mr. Gary Caporicci of Caporicci & Larson (C&L) announced that the company has merged with Stonefield Josephson, Inc. (certified public accountant business advisors), but there will be no differences in service to clients. Mr. Kenneth Pun, C&L, presented an interim exit conference wherein they discussed the finding from the financial audit performed by C&L for the fiscal year ending June 30, 2010. The overall audit risk assessment is deemed "low-risk." Mr. Pun explained that this outcome reflects sufficient internal controls are in place, and controls are in compliance with government code. The only "moderate risk" finding from the C&L audit relates to the Compass Card.

Ms. Roma Layosa of C&L discussed briefly the current-year observations. Audit of travel expenses revealed that a Director was not signing log sheets for purchases made with the Copy Center Coordinator's purchasing card. It was also found that approval authorizations for Board member expense reports were not being followed according to the current policy and procedures. Mr. Cliff Telfer, Chief Financial Officer, stated that the Finance Manager routinely approves purchasing card charges that the Copy Center Coordinator incurs. He also explained that MTS policy #44, MTS TRAVEL EXPENSE POLICY, will be presented to the Board with a proposed change that would allow the Chief Executive Officer (CEO) and General Counsel to sign Board of Directors' expense reports.

Ms. Layosa discussed the audit finding related to capital assets. She explained that 8 out of 30 acquisition additions did not have the proper approvals on the acquisition form. In response, Mr. Tom Lynch, Controller, explained the purpose of the acquisition form and stated that the 8 additions referenced in the audit were related to single projects that would have had no benefit to approval on multiple forms. He further

explained the project included 54 forms that would only add work with no additional control value. In light of the finding, the capital asset financial procedures manual will be amended to note this distinction.

Ms. Layosa then reviewed the audit findings for the Compass Card and noted that the initial batch of Compass Cards received from the San Diego Association of Governments (SANDAG) was not in sequential, pre numbered order thus making it difficult to track and reconcile cards issued. Issues with the ticket vending machines were also discussed, such as the inability to distinguish transactions between new cards issued and cards that are reloaded. The audit also noted the lack of visibility of Compass Card ticket-validating stations on the trolley platforms and the inability of ticket validating machines (TVMs) to take more than one form of payment as well as their inability to complete multiple tasks within a single transaction.

Mr. Selby wanted to know if the C&L audit looked at SANDAG's Compass Card procedures and how it relates to MTS. Mr. Jablonski commented in response to Mr. Selby that operationally, MTS can audit SANDAG on any issues related to the Compass Card. Mr. Jablonski mentioned that the Internal Auditor for MTS did work with SANDAG to look at sequential ordering and, as a result, SANDAG is now issuing Compass Cards numerically. Mr. Jablonski also commented to the validation issue and the limited number of validation machines stating that one major goal for the future is to have the TVM act as a validation machine as well. The TVM will provide a way to track how many new Compass Cards are issued. Mr. Telfer further clarified that a \$2 fee that has been instituted to help with the control value of the Compass Card.

Mr. Ewin acknowledged that the Compass Card is a subject that will require follow up from the audit findings. He wanted to make sure that an internal audit of the Compass Card program properly notates similar findings as the external C&L audit findings as the issues were already identified by the organization. Mr. Jablonski stated that a major concern of the Compass Card program is ensuring that the organization is receiving the monies it should from Compass Card sales. He also noted that every Monday morning, meetings with SANDAG staff are held to work out ongoing Compass Card issues, such as software controls, day pass issues, and inspection issues.

Ms. Layosa reviewed the risk management audit observations and the inconsistency between the three divisions (MTS, SDTC and SDTI) when handling claim processing. Specifically, for SDTC claims, the Claim Adjuster has to input information into the TriStar system and the Ellipse system; SDTI and MTS claim information is only entered into the TriStar system. In response, Mr. Telfer explained that the data will now be entered into the TriStar system only, which will delete the duplication.

Mr. Pun reviewed two new pronouncements to be implemented in 2010. The first is GASB 51 – Accounting and Financial Reporting for Intangible Assets. To learn more about intangible assets, Mr. Pun invited the Committee to attend the Intangible Assets Workshop on Thursday, July 29, 2010, at Mesa College. The second pronouncement is GASB 53 – Accounting and Financial Reporting for Derivative Instruments. Mr. Pun explained that this pronouncement will require disclosures, as MTS has one hedging transaction (the CNG program).

Action Taken

Mr. Selby moved to receive a report on: (1) an interim audit conducted by Caporicci and Larson; (2) the exit conference held on May 24, 2010; and (3) related observations coupled with management's responses. Mr. Mathis seconded the motion, and the vote was 6 to 0 in favor.

2. MTS: Audit Schedule for FY 2010

Ms. Linda Musengo, Finance Manager, reviewed the remaining schedule for the fiscal year 2010 audit with the Committee. The schedule is as follows:

August 23 - September 30, 2010	Field Work
October 7, 2010	Draft Comprehensive Annual Financial Report (CAFR) submitted to Audit Oversight Committee
October 21, 2010	Final CAFR submitted to Audit Oversight Committee
October 28, 2010	Final CAFR submitted to Board of Directors

Ms. Musengo said that she would like to be done with the CAFR before the end of October, but the largest variable in achieving this deadline is receiving capital information from SANDAG.

Action Taken

Mr. Selby moved to receive a report on scheduling for the FY 2010 audit. Mr. Rindone seconded the motion, and the vote was 6 to 0 in favor.

3. MTS: Proposed 2010/2011 Internal Audit Plan

Mr. Mark Abbey, Internal Auditor, proposed a 2010/2011 work plan consisting of 9 internal audit projects and 400 allowable hours for special requests. He mentioned that the work plan has been reviewed by the CEO, CFO, and General Counsel. Mr. Abbey explained that he has selected the projects proposed below based on risk factors, such as the last audit date, liquidity of assets, changes in processes or personnel, and previous findings. He is proposing to review the following areas:

- Risk Management – TPA Disbursements
- SDTI – Storeroom
- SDTC – Training
- California Air Resources Board Follow-up Review
- Compass Card Controls
- Transit Store Controls
- SDTI – Revenue Collection
- SDTC – Revenue Collection
- Absenteeism – Sick Leave Review

Mr. Abbey commented that his proposed hours for the 2010/2011 work plan are contemporaneous to the hours expended for the previous year internal audits. He

also mentioned that he is looking forward to the audits and to sharing his findings with the Committee.

Action Taken

Mr. Roberts moved to receive the proposed 2010/2011 Internal Audit Plan Summary. Mr. Selby 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

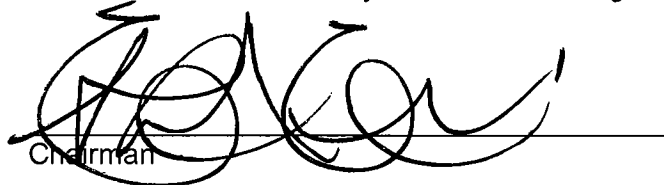
Clive Richard: Mr. Richard asked for clarification as to the change in authorization on signature policies. In response, Mr. Telfer, explained that the policy is too restrictive, which was not the policy's intent. Mr. Richard also commented about the Compass Card validating machines stating that the location of the validating machines on the trolley platform is inadequate and has been inadequate for members of the blind community. He mentioned that he has missed many green trains due to having to tap the ticket validating machine between trolley transfers. In response, Mr. Ewin told Mr. Richard to refer to management's comments on the issue.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:48 a.m.

A handwritten signature in black ink, appearing to be 'Ewin', is written over a horizontal line. The signature is stylized with loops and a long horizontal stroke at the end.

Attachment: Roll Call Sheet

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) June 17, 2010

CALL TO ORDER (TIME) 9:00 AM

TEMPORARY ADJOURNMENT _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:48 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"/>	9:01 AM	
RINDONE (VC) <input checked="" type="checkbox"/> (Young) (CPT) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:01 AM	
SELBY <input checked="" type="checkbox"/> (Ryan) <input type="checkbox"/>		

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

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: 