



1255 Imperial Avenue, #1000
San Diego, CA 92101-7490
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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.

June 2, 2011

Executive Conference Room
9:00 a.m.

ACTION
RECOMMENDED

- | | | |
|----|---|---------|
| A. | 1. ROLL CALL | |
| | 2. APPROVAL OF MINUTES - October 21, 2010 | Approve |
| B. | COMMITTEE DISCUSSION ITEMS | |
| | 1. <u>MTS: Appointment of Chairperson (Karen Landers)</u>
Action would appoint a chairperson. | Appoint |
| | 2. <u>MTS: Caporicci & Larson Engagement Letter for the FY 2011 Audit (Tom Lynch)</u>
Action would receive a report on the Caporicci & Larson engagement letter. | Receive |
| | 3. <u>MTS: New Audit Standards and FY 2011 Auditing Plan (Ken Pun of Caporicci & Larson)</u>
Action would receive a report for information. | Receive |
| | 4. <u>MTS: Important Dates for the FY 2011 Audit (Linda Musengo)</u>
Action would receive a report for information. | Receive |
| | 5. <u>MTS: Review of Internal Audit Plan Development (Dan Madzellan)</u>
Action would receive a report on internal audit plan development. | Receive |

Please SILENCE electronics
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.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

D. PUBLIC COMMENTS

E. NEXT MEETING DATE: To be determined

F. ADJOURNMENT

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) June 2, 2011

CALL TO ORDER (TIME) 9:00 AM

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:35 AM

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair)	<input checked="" type="checkbox"/>		
YOUNG	<input type="checkbox"/> (Lightner) <input type="checkbox"/>		
MATHIS	<input checked="" type="checkbox"/>		
OVROM	<input checked="" type="checkbox"/> (Janney) <input type="checkbox"/>		
ROBERTS	<input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>		
MINTO	<input type="checkbox"/> (Cunningham) <input checked="" type="checkbox"/>		

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

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: [Signature]

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

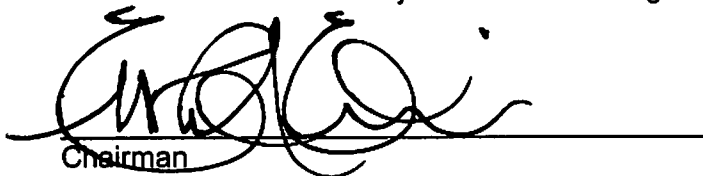
There were no public comments.

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 Vizkeleti

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

June 2, 2011

SUBJECT:

MTS: APPOINTMENT OF CHAIRPERSON (KAREN LANDERS)

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.*

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: Karen Landers, 619.557.4512, Karen.Landers@sdmts.com

JUNE2-11 B1 AOC APPOINT CHAIR TLYNCH

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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

June 2, 2011

SUBJECT:

MTS: CAPORICCI & LARSON ENGAGEMENT LETTER FOR THE FY 2011 AUDIT
(TOM LYNCH)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report on the Caporicci & Larson engagement letter (Attachment A).

Budget Impact

None at this time.

DISCUSSION:

Attachment A is the Caporicci & Larson engagement letter for the FY 2011 audit. Since the previous engagement letter, Caporicci & Larson has been acquired by Marcum LLP. This year's engagement letter differs slightly from last year as roles and responsibilities have been defined in slightly more detail. MTS staff has reviewed the engagement letter carefully—especially in regard to being consistent with the existing contract in place with Caporicci & Larson. The engagement letter has been signed by the Chief Financial Officer.

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

Paul C. Jablonski
Chief Executive Officer

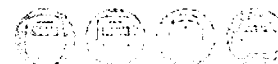
Key Staff Contact: Tom Lynch, 619.557.4538, tom.lynch@sdmts.com

JUNE2-11.B2.CAPORICCI & LARSON ENGAGEMENT LTR.TLYNCH

Attachment: A. Engagement letter

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April 11, 2011

San Diego Metropolitan Transit System
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

Re: Engagement of Caporicci & Larson, Inc. a Subsidiary of Marcum LLP
(the Firm) as MTS' Independent Auditors

We are pleased to confirm our understanding of the services we are to provide to the San Diego Metropolitan Transit System (MTS) for the year ending June 30, 2011. The Firm's services are provided pursuant to MTS Contract No. G1013.0-06, as modified by G1013.1-06 (exercise of extension options)("Contract"). Nothing in this engagement letter is intended to modify or amend the terms and conditions set forth in the Contract. In the event a conflict arises between this letter and the Contract, the terms in the Contract shall prevail.

Fiscal Year 2010/11 Audit Assignment

We will audit the financial statements of the business-type activities which collectively comprise the basic financial statements of MTS as of and for the year ending June 30, 2011. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany MTS' basic financial statements. As part of our engagement, we will apply certain limited procedures to MTS' RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis
- 2) Schedule of Funding Progress – Pensions
- 3) Schedule of Funding Progress - OPEB
- 4) Schedule of Employer Contributions
- 5) Budgetary Comparison Schedules

Supplementary information other than RSI also accompanies MTS' basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements:

- 1) Schedule of Expenditures of Federal Awards
- 2) Combining Financial Statements
- 3) Individual Fund Financial Statements and Schedules

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The following additional information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditors' report will disclaim an opinion:

- 1) Introductory Section
- 2) Statistical Section

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records of MTS, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to MTS or to acts by management or employees acting on

San Diego Metropolitan Transit System
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behalf of MTS. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors. Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from MTS' attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of MTS' compliance with applicable laws and regulations and the

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April 11, 2011
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provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether MTS has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of MTS' major programs. The purpose of these procedures will be to express an opinion on MTS' compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal awards and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and the schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for monitoring ongoing activities, to help ensure that appropriate goals and objectives are met. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, if any, each major fund, and the aggregate remaining fund information of MTS and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include, including identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

San Diego Metropolitan Transit System
April 11, 2011
Page 5

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting MTS received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that MTS complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review when we arrive to perform the review of internal controls.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Communication with Those Charged with Governance

As part of our engagement, we are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process as well as other matters we believe should be communicated to those charged with governance. Generally accepted auditing standards do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance. However, such matters will be communicated to you includes, but not limited to, (1) the initial selection of and changes in significant accounting policies and their application; (2) the process used by management in formulating particularly sensitive accounting estimates and the basis for our conclusions regarding the reasonableness of those estimates; (3) all passed audit adjustments; (4) any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or our report; (5) our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters; (6) major issues that were discussed with management in connection with the retention of our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; (7) serious difficulties that we encountered in dealing with management related to the performance of the audit; and (8) matters relating to our independence as your auditors.

Reproduction of Auditor's Report

The Firm understands that, once final, its audit report and related documents submitted to MTS will

San Diego Metropolitan Transit System
April 11, 2011
Page 6

become public documents subject to dissemination under the California Public Records Act. In order to preserve the integrity of any documents prepared by the Firm as part of this assignment, MTS and the Firm will verify the final version of all documents and maintain any public copies in a read-only format.

Assistance By Your Personnel

We will ask that your personnel, to the extent possible, prepare required schedules and analyses, and make selected invoices and other required documents available to our staff. This assistance by your personnel will serve to facilitate the progress of our work and minimize our time requirements.

Independence

Professional standards require that a firm and its members maintain independence throughout the duration of the professional relationship with a client. In order to preserve the integrity of our relationship, no offer of employment shall be discussed with any Caporicci & Larson, Inc. employees or Marcum LLP professionals assigned to the audit during the one year period prior to the commencement of the year end audit. Should such an offer of employment be made, or employment commences during the indicated time period, we will consider this an indication that our independence has been compromised. As such, we may be required to recall our auditors' report due to our lack of independence.

Access to Working Papers

The working papers prepared in conjunction with our engagement are the property of Caporicci & Larson, Inc., a Subsidiary of Marcum LLP and constitute confidential information. These working papers will be retained by us in accordance with applicable laws and our Firm's policies and procedures. However, we may be required, by law or regulation, to make certain working papers available to regulatory authorities for their review, and upon request, we may be required to provide such authorities with photocopies of selected working papers.

The Firm is required to undergo a "peer review" every three years. During the course of a Peer Review engagement, selected working papers and financial reports, on a sample basis, will be inspected by an outside party on a confidential basis. Consequently, the accounting and/or auditing work we performed for you may be selected. Your signing this letter represents your acknowledgement and permission to allow such access should your engagement be selected for review.

Third-Party Service Providers

The Firm may, from time to time, and depending on the circumstances, use third-party service providers to assist us with the audit of your financial statements. We may share confidential information about you with the third-party service providers, but remain committed to maintaining the confidentiality of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your information. Furthermore, the Firm will remain responsible for the work performed by such third-party service providers.

Data Collection Form

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package

San Diego Metropolitan Transit System
April 11, 2011
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(including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

Other Services

We are always available to meet with you and/or other management personnel at various times throughout the year to discuss current business, operational, accounting and auditing matters affecting your Organization. Whenever you feel such meetings are desirable please let us know; we are prepared to provide services to assist you in any of these areas.

Report Distribution and Other

We will provide copies of our reports to MTS; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any subsequent peer review reports received during the period of the contract. Our 2008 peer review report accompanies this letter.

We appreciate the opportunity to be of service to MTS and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Very truly yours,
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP

Kenneth H. Pun
Engagement Partner

San Diego Metropolitan Transit System
April 11, 2011
Page 8

ACCEPTED

This letter correctly sets forth the management/auditor responsibilities and procedures for the FY 10/11 audit of the San Diego Metropolitan Transit System.

Authorized Signature: 

Title: CFO

Date signed: 5/25/11



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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

June 2, 2011

SUBJECT:

MTS: NEW AUDIT STANDARDS AND FY 2011 AUDITING PLAN (KEN PUN OF
CAPORICCI & LARSON)

RECOMMENDATION:


That the MTS Audit Oversight Committee receive a report for information.

Budget Impact

None at this time.

DISCUSSION:

A representative from Caporicci & Larson will make a presentation on new auditing standards and the FY 2011 audit plan.



Paul C. Jablonski
Chief Executive Officer

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

JUNE2-11.B3.AUDIT STANDARDS & FY 11 PLAN.TLYNCH



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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.



**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
SAN DIEGO, CALIFORNIA**



Presentation to the
Audit Committee
June 2, 2011

C&L
Caporice & Larson
Certified Public Accountants

Presented By:
Kenneth Pun, CPA, Partner

1

①



C&L Background


C&L
Caporice & Larson
Certified Public Accountants

2

②

C&L Background

- As of March 1, 2010 – Operations became a wholly owned subsidiary of Stonefield Josephson, Inc.
- As of October 1, 2010 – Stonefield Josephson merged with Marcum LLP, therefore, C&L's operations became part of Marcum LLP

 3


3

C&L Background

- One of the largest independent public accounting and advisory firms in the nation
- Ranked 14th among the Top 100 Accounting Firms by Accounting Survey
- 150 Partners and 1,100 Professional Staff
- 23 Offices throughout New York, New Jersey, Massachusetts, Connecticut, Pennsylvania, California, Florida, Grand Cayman, China and Hong Kong

 4

4




*Financial Statements
and
Reporting Responsibility*

C&L
Caporicci & Larson
Certified Public Accountants

5

5



Scope of Work Performed

- ◆ Audited the MTS' Financial Statements
- ◆ Review of MTS' internal control policies and procedures

C&L
Caporicci & Larson
Certified Public Accountants

6

6

Management Responsibilities

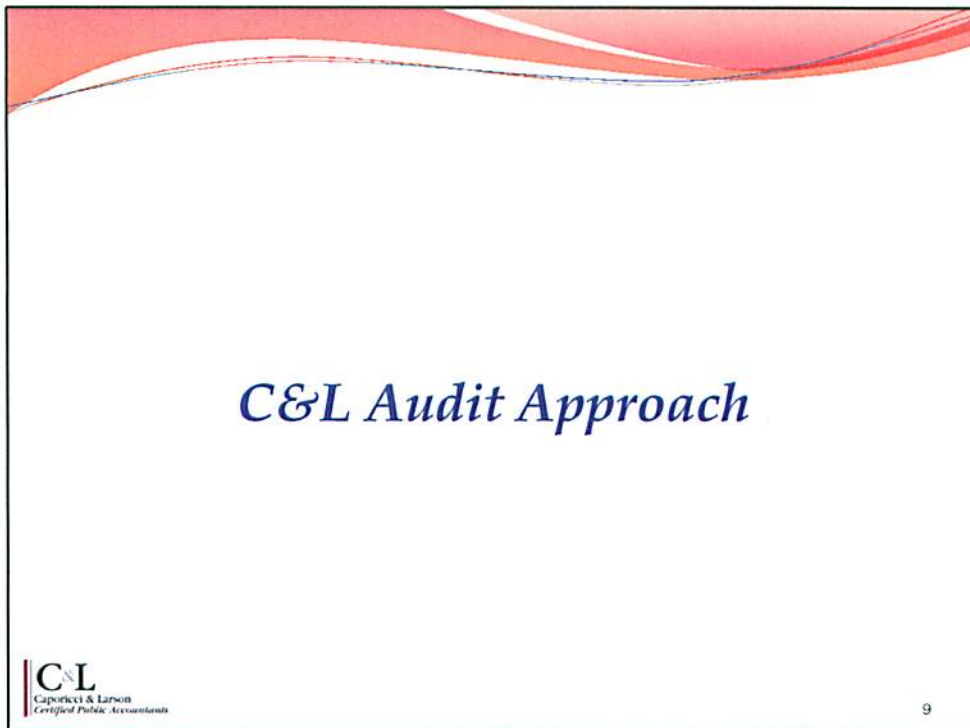
- ◆ Responsible for the Financial Statements
- ◆ Presenting the Financial Statements in conformity with generally accepted accounting principles (GAAP)
- ◆ Adopting sound accounting policies
- ◆ Establishing and maintaining appropriate internal controls over financial reporting and compliance
- ◆ Preventing and detecting fraud

(7)

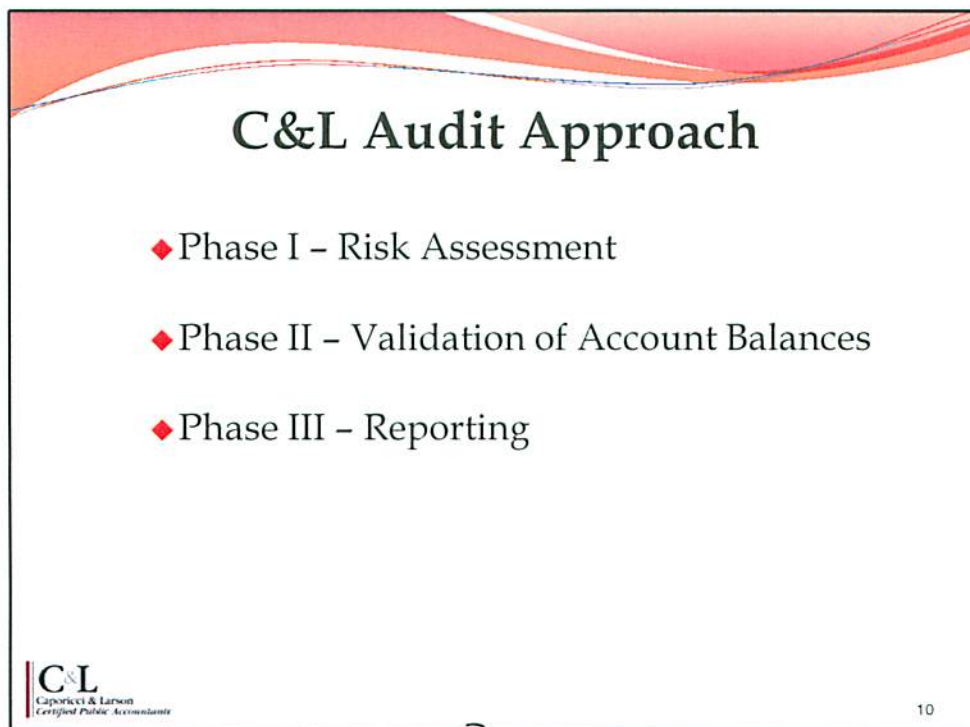
C&L Responsibilities

- ◆ Obtain reasonable assurance that the financial statements are free of material misstatement
- ◆ Examine, on a test basis, evidence supporting amounts and disclosures
- ◆ Assess accounting principles used, estimates made, and evaluate the overall financial statement presentation
- ◆ Review the MTS' internal control policies and procedures
- ◆ Express an opinion on the MTS' financial statements

(8)



9



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Risk Assessments

- ◆ Obtain understanding of MTS and identify risks
- ◆ Identify Significant Transaction Classes
 - ◆ Obtain understanding of the accounting process over these Significant Transaction Classes
 - ◆ Identify Key Internal Controls
 - ◆ Perform Walkthrough
- ◆ Brainstorming
 - ◆ Engagement Team Discussion
- ◆ Assess Risk of Material Misstatement
- ◆ Create Audit Work Plan

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Validation of Account Balances

- Validate account balances and obtain supporting documents
- Receive direct correspondence from 3rd parties including attorneys and banks
- Perform analytical procedures
- Evaluate estimates
- Determine contingencies and commitments
- Determine subsequent events

12

Reporting

- Review financial statements prepared by MTS
- Adherence to US Generally Accepted Accounting Principles
- Complete disclosures checklist
- Express opinion on the financial statements

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Engagement Quality Control

- Quality Control Partner is assigned on each engagement
- Responsible for the Quality of the Audit Report and the Audit Process
 - Audit is performed in accordance with Generally Accepted Auditing Standards and Government Auditing Standards
 - Report is in compliance with Generally Accepted Accounting Principles

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New GASB Pronouncements




15

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New GASB Pronouncements Applicable to MTS

- GASB Statement No. 59, *Financial Instruments Omnibus*
 - Update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools



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Thank You
For Allowing C&L to Provide its Professional Services
to the
SAN DIEGO METROPOLITAN TRANSIT SYSTEM
SAN DIEGO, CALIFORNIA



C&L
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Certified Public Accountants

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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

June 2, 2011

SUBJECT:

MTS: IMPORTANT DATES FOR THE FY 2011 AUDIT (LINDA MUSENGO)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report for information.

Budget Impact

None at this time.

DISCUSSION:

Below are important dates for the FY 2011 audit. The first date is the date that field work is scheduled to begin. It is expected to conclude no later than September 30, 2011. The next three dates are staff's recommendation for the Audit Oversight Committee's (AOC's) and the Board of Directors' review of the Comprehensive Annual Financial Report (CAFR).

- Field work begins August 22, 2011
- AOC's review of draft CAFR October 20, 2011
- AOC's review of revised draft CAFR (if needed) November 3, 2011
- Submittal of CAFR to MTS Board of Directors November 10, 2011
- Completion of remaining compliance audits December 31, 2011


Paul C. Jablonski
Chief Executive Officer

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

JUNE2-11.B4.FY 11 AUDIT DATES.TLYNCH

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Agenda

Item No. B5

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

ADM 110.12

June 2, 2011

SUBJECT:

MTS: REVIEW OF INTERNAL AUDIT PLAN DEVELOPMENT (DAN MADZELAN)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report on internal audit plan development.

Budget Impact

None at this time.

DISCUSSION:

MTS Internal Auditor Daniel Madzelan will review the current audit status and future audit plan development.

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: Daniel Madzelan, 619.595.4920, Daniel.Madzelan@sdmts.com

JUNE2-11.B5.AUDIT PLAN.KLANDERS



Development of Audit Plan

Daniel Madzellan
Internal Auditor
June 2, 2011



1



Development of Audit Plan

- Step #1
 - Review and understand administration of the audit function.
 - Assess and update Internal Audit Charter as necessary.
- Step #2
 - Obtain and review Internal Audit policies and procedures.
- Step #3
 - Interview management throughout the organization to gain understanding of current operations.



2



Development of Audit Plan

- Step #4
 - Assess and restructure the “Audit Universe” as necessary.
 - Audit Universe is a listing of all auditable entities within the organization.
- Step #5
 - Complete a risk assessment.
 - Macro level assessment, will include external and internal risk factors.
- Step #6
 - Establish time budget.
 - Budget based on available hours in fiscal year.



3



Development of Audit Plan

- Step #7
 - Establish formal audit plan for upcoming fiscal year.
 - Plan will be based on risk assessment. Plan should be flexible to properly respond to management requests or unanticipated events.



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