



1255 Imperial Avenue, #1000  
San Diego, CA 92101-7490  
619.231.1466 FAX 619.234.3407

## Agenda

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

August 11, 2011

Executive Conference Room  
9:00 a.m.

ACTION  
RECOMMENDED

- A. 1. ROLL CALL
2. APPROVAL OF MINUTES - June 2, 2011 Approve
- B. COMMITTEE DISCUSSION ITEMS
1. Proposed 2011/2012 Internal Audit Plan (Daniel Madzelan) Possible  
Action would receive a report on the proposed 2011/2012 Internal Action  
Audit Plan.
- C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
- D. PUBLIC COMMENTS
- E. NEXT MEETING DATE: To be determined
- F. ADJOURNMENT

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.

**AUDIT OVERSIGHT COMMITTEE  
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) August 11, 2011

CALL TO ORDER (TIME) 9:02 AM

RECESS \_\_\_\_\_

RECONVENE \_\_\_\_\_

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

RECONVENE \_\_\_\_\_

ADJOURN 9:37 AM

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWING (Chair) <input checked="" type="checkbox"/>		
YOUNG <input checked="" 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 checked="" type="checkbox"/> (Cunningham) <input type="checkbox"/>		
Transportation Committee Rep Slot (Mathis)		

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

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: Allen Gaud

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

June 2, 2011

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. Roberts moved for approval of the minutes of the October 21, 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: Appointment of Chairperson

Karen Landers, General Counsel, opened nominations for the chairperson of the Audit Oversight Committee. Mr. Mathis nominated Ernie Ewin. There were no other nominations.

Action Taken

Mr. Mathis nominated Mr. Ewin as Chairman of the Audit Oversight Committee. Mr. Roberts seconded the motion, and the vote was 4 to 0 in favor with Mr. Ewin abstaining.

2. MTS: Caporicci & Larson Engagement Letter for the FY 2011 Audit

Tom Lynch, Controller, explained to the Audit Oversight Committee that the Caporicci & Larson (C&L) engagement letter for the fiscal year 2011 audit had been received. He explained that since the previous engagement letter, C&L has been acquired by Marcum LLP. He explained further that this year's engagement letter differs slightly from last year as roles and responsibilities have been defined in slightly more detail. Mr. Lynch stated that MTS staff has reviewed the engagement letter carefully, and the letter has been signed by the Chief Financial Officer.

Action Taken

Mr. Cunningham moved to receive a report on the Caporicci & Larson engagement letter. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor.

3. MTS: New Audit Standards and FY 2011 Auditing Plan

Kenneth Pun of Caporicci & Larson presented the Committee with the new audit standards and fiscal year 2011 auditing plan. He provided a background of C&L and talked about the financial statements and reporting responsibility including the scope of work to be performed. He discussed management responsibilities as well as C&L responsibilities. Mr. Pun explained the C&L audit approach, audit phases, and risk assessments. He also talked about the validation of account balances and reporting, and then explained the engagement of a quality control partner that will ensure that the audit is performed in accordance with Government Accounting Standards Board (GASB) principles. Mr. Pun then explained a new GASB pronouncement applicable to MTS, GASB Statement No. 59, *Financial Instruments Omnibus*.

Mr. Ewin requested that Mr. Pun supply a summary of GASB pronouncements to the Audit Oversight Committee and the Board of Directors so that members can see what kind of accounting principles MTS staff is responsible for adhering to.

Action Taken

Mr. Ovrom moved to receive a report for information. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor.

4. MTS: Important Dates for the FY 2011 Audit

Linda Musengo, Finance Manager, reviewed the MTS proposed audit schedule for FY 2011.

MTS PROPOSED AUDIT SCHEDULE FY 2011

August 22	Field work begins
October 20	Draft CAFR presented to Audit Oversight Committee
November 3	Revised draft CAFR presented to Audit Oversight Committee
November 10	Final CAFR presented to Audit Oversight Committee
December 31	Final CAFR presented to Board

Action Taken

Mr. Roberts moved to receive a report for information. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor.

5. MTS: Review of Internal Audit Plan Development

Daniel Madzellan, Internal Auditor, gave the Committee a brief overview of the development of the internal audit plan.

Action Taken

Mr. Cunningham moved to receive a report on internal audit plan development. Mr. Mathis 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

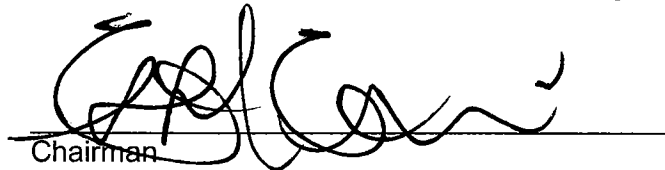
There were no public comments.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:35 a.m.



Chairman

Attachment: Roll Call Sheet

**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 Vizkeleti

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: John Co



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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.

August 11, 2011

SUBJECT:

PROPOSED 2011/2012 INTERNAL AUDIT PLAN (DANIEL MADZELAN)

RECOMMENDATION:

That the Audit Oversight Committee receive a report on the proposed 2011/2012 Internal Audit Plan.

Budget Impact

None.

DISCUSSION:

The MTS Internal Auditor has proposed a 2011/2012 work plan (Attachment A) consisting of 9 internal audits, 3 consulting engagements, 320 hours of audit administration, and 270 hours for management-requested projects. The operations, business unit, type of audit, risk profile, and estimated time to complete are all shown within the audit plan. Projects selected are based on risk profiles as well as:

- changes in operations/changes in control ownership;
- previous audit findings;
- management interviews/recommendations;
- internal audit walk-throughs/observations; and
- audit universe coverage.

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](mailto:daniel.madzelan@sdmts.com)

AUG11-11.B1.2011-12 INT AUDIT PLAN.DMADZELAN

Attachment: A. Proposed 2011/2012 Internal Audit Plan

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**PROPOSED 2011/2012  
INTERNAL AUDIT PLAN**

Audit Oversight Committee  
Att. A, AI B1, 8/11/11

Operation	Primary Business Unit	Audit Type	Risk Impact Profile	Risk Likelihood Profile	Estimated Hours
<b><u>Significant Changes in Operations/Change in Control Ownership</u></b>					
1) Payroll	HR/Finance	Financial, Operational	High	Possible	160.0
2) Transit Store	Finance	Financial, Operational	Medium	Possible	120.0
3) Customer Service Operations	SDTC	Operational	Medium	Possible	80.0
<b><u>Previous Audit Follow Up Review</u></b>					
4) Compass Cards Risks Assessment - Control Evaluation	Finance/SANDAG	Operational	High	Possible	120.0
<b><u>Management Recommended (Assurance Reviews)</u></b>					
5) Procurement - Primary focus on FTA Compliance	Finance	Assurance/Compliance	High	Unlikely	160.0
6) CPUC Triennial Review (SDTI Safety)	SDTI/Security	Assurance/Compliance	High	Unlikely	120.0
<b><u>Farebox Controls - Revenues</u></b>					
7) Revenue Management	SDTI	Financial, Operational	High	Possible	120.0
8) Revenue Management	SDTC	Financial, Operational	High	Possible	80.0
<b><u>IT General Controls</u></b>					
9) System Access/Security Controls	IT (Finance)	IT, Operational	High	Possible	80.0
<b><u>Continuous Auditing/Consulting</u></b>					
Warranty - LRV Maintenance Operations	SDTI	Operational	High	Near Certainty	80.0
Storeroom Ops- Trolley	Finance	Operational	High	Probable	80.0
Fraud Hotline - Governance	HR/Legal	Operational	Medium	Possible	24.0
<b>Total Estimated Hours - Scheduled Audits</b>					<b>1,224.0</b>
<b>Hours - Audit Administration</b>					<b>320.0</b>
<b>Unscheduled Projects/Management Requests</b>					<b>270.0</b>
<b>TOTAL AUDIT HOURS</b>					<b>1,814.0</b>
<b><u>Other Audits (No Mgmt Requests and Time Available)</u></b>					
Workers' Compensation - Third-Party Contract Administration	Finance	Compliance, Financial	High	Possible	120.0
Ghost Rider Program (Process Change)	Plan/GA/Taxicab	Operational	Medium	Possible	80.0
AP - Duplicate Payment Analytical Review	Finance	Operational	Medium	Possible	80.0



# MTS Internal Audit

## Annual Audit Plan Development

Daniel Madzelan  
8/11/2011



1



## Audit Plan Development

1. Define Audit Universe
2. Perform Risk Assessment
3. Establish Time Budget
4. Create Audit Plan



2

## MTS Audit Universe

- **Business Unit Model**

- SDTC
- SDTI
- Finance/Accounting
- Information Technology (IT)
- Planning/Government Affairs/Taxicab
- Security
- Other (Marketing/Human Resources/Legal)

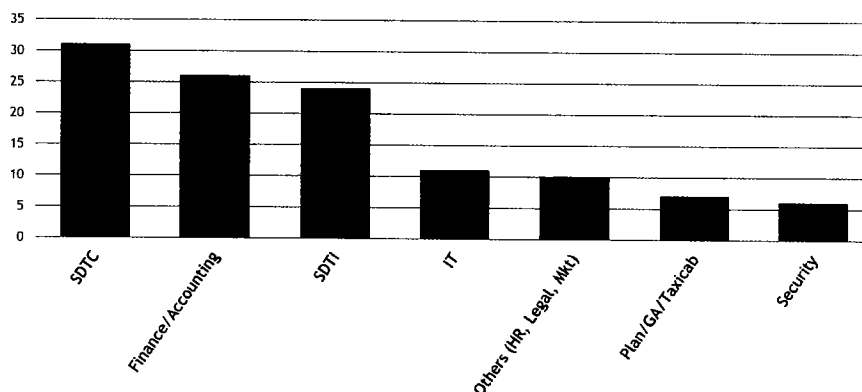


3



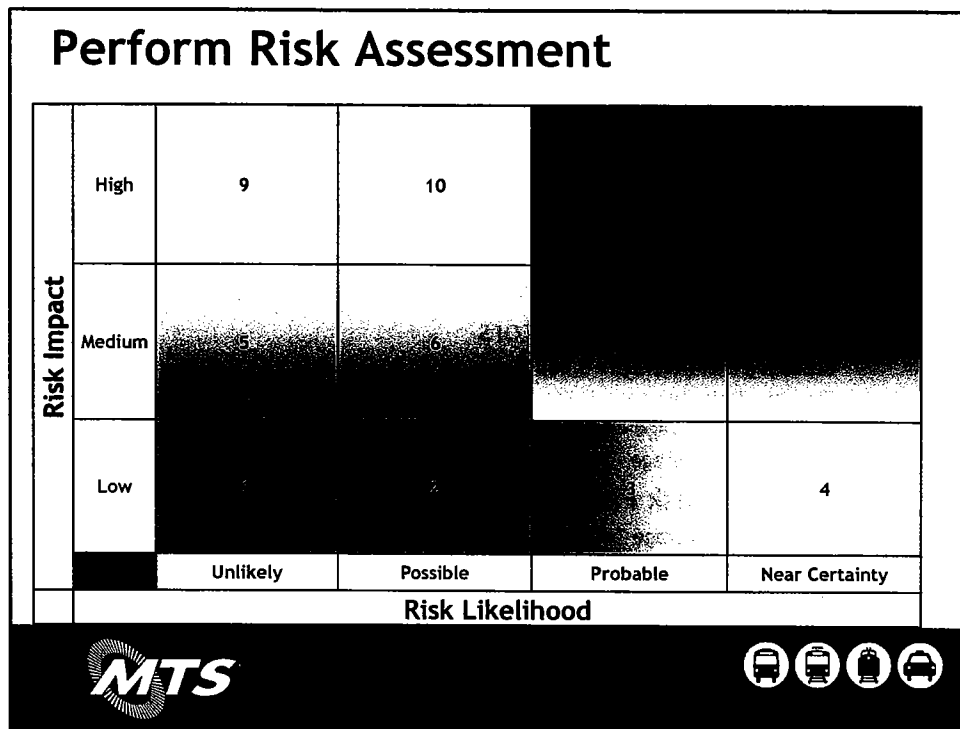
## MTS Audit Universe

### 115 Auditable Entities/Operations



4





5



6

## Impact Risk Factors - Mgmt. Survey

- High Impact Risk Factors
  - Safety Risk (Average - 7.57)
  - Compliance Risk (Average - 6.14)
  - Reputational Risk (Average - 6.00)
- Medium Impact Risk Factors
  - Economic Risk (Average - 5.86)
  - Financial Risk (Average - 5.86)
  - People Risk (Average - 5.71)
  - Project Risk (Average - 5.00)
- Low Impact Risk Factors
  - System Risk (Average - 4.86)
  - Control/Process Risk (Average - 4.57)
  - Fraud Risk (Average - 3.43)



7

## Risk Likelihood

- Risk has occurred or could be occurring.

### Likelihood Categories

- Unlikely
- Possible
- Probable
- Near Certainty



8

## Risk Likelihood Assessment

- Management Interviews
- Review of Operating Procedures
- Review Previous Audit Reports
- Walkthroughs/Observations



(9)

## Establish Time Budget Available Hours Allocation

<b>Total Available Hours – Annual Basis</b>	<b>2,080.0</b>
Less:	
Company Holidays	72.0
Total Annual Leave Available	176.0
Training (Maintain Professional Certification)	40.0
<b>Est. Available Audit Hours</b>	<b>1,792.0</b>
Less	
<b>Audit Administration - 18% (Reduced in subsequent years)</b>	<b>320.0</b>
Audit Scope/Est. Time Budget Modifications	
Redesigning Audit Operations	
Walkthroughs/Process Observations/Meetings	
FY2013 Annual Planning/Risk Assessments	
<b>Unscheduled Projects/Mgmt Requests (15%)</b>	<b>270.0</b>
<b>Est. Available Hours to Perform Scheduled Audits</b>	<b>1,202.0</b>



## Proposed Audit Plan - Scheduled Audits

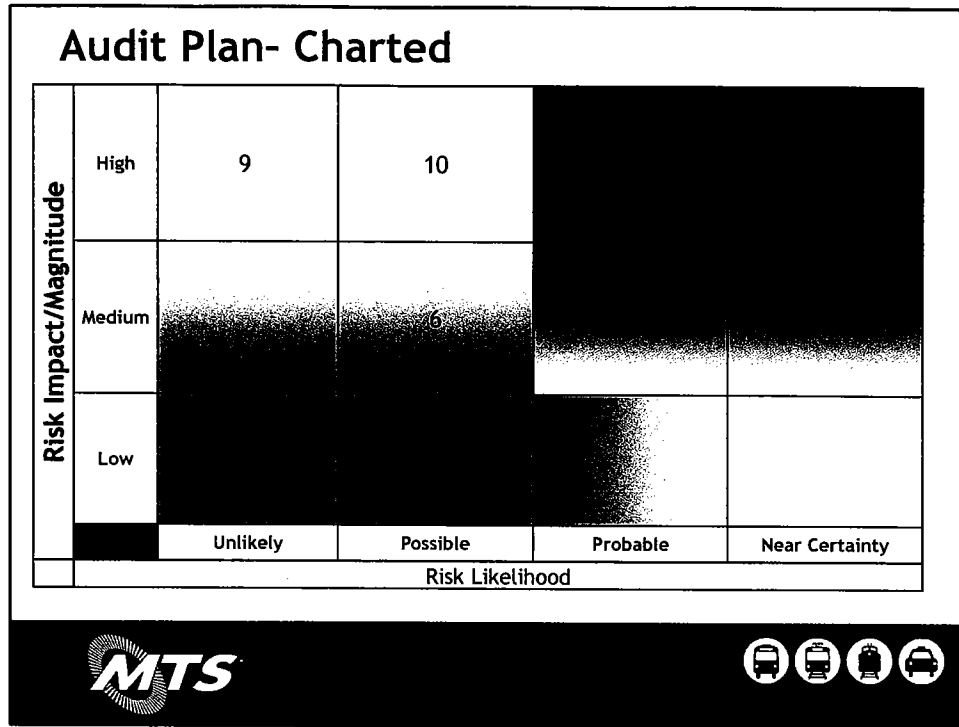
Operation	Primary Business Unit	Audit Type	Risk Impact	Risk Likelihood	Estimated Hours
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Storeroom Ops- Trolley	Finance	Operational	High	Probable	80.0
Fraud Hotline - Governance	HR/Legal	Operational	Medium	Possible	24.0
<b>Total Estimated Hours - Scheduled Audits</b>					<b>1,224.0</b>



## Proposed Audit Plan (continued) - No Mgmt Request and Time Available

Operation	Primary Business Unit	Audit Type	Risk Impact	Risk Likelihood	Estimated Hours
Workers Compensation - Third Party Contract Compliance	Finance	Compliance, Financial	High	Possible	120.0
Ghost Rider Program (Process Change)	Plan/GA & SDTC	Operational	Medium	Possible	80.0
AP - Duplicate Payment Analytical Review	Finance	Operational	Medium	Possible	80.0
<b>Additional Audits to Perform – Time Available</b>					<b>280.0</b>





13