



1255 Imperial Avenue, Suite 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.

March 19, 2009

Executive Conference Room
9:00 a.m.

(Executive Committee Meeting Will Follow Immediately)

ACTION RECOMMENDED

- A. 1. ROLL CALL
2. APPROVAL OF THE MINUTES OF NOVEMBER 6, 2008 Approve
- B. COMMITTEE DISCUSSION ITEMS
1. MTS: Appointment of Chairperson Appoint
Action would appoint a chairperson.
2. MTS: Auditor's Communication with Those Charged with Governance - Statement of Auditing Standards No. 114 Receive
Action would receive the Auditor's Communication with Those Charged with Governance, related to the FY 2008 audit, as prepared by Caporicci & Larson (C&L).
3. MTS: Audit Engagement Letter Review
Action would review the audit engagement letter.
4. MTS: Report on Audit Plan Receive
Action would receive a report on the audit plan, scope, and time line.
- C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
- D. PUBLIC COMMENTS
- E. NEXT MEETING DATE: June 4, 2009
- F. ADJOURNMENT

Please turn off cell phones and pagers
during the meeting



Metropolitan Transit System (MTS) is a California public agency and is comprised of San Diego Transit Corporation and San Diego Trolley, Inc. nonprofit public benefit corporations, in cooperation with Chula Vista Transit and National City Transit. MTS is the taxicab administrator for eight cities and the owner of the San Diego and Arizona Eastern Railway Company. MTS member agencies include: City of Chula Vista, City of Coronado, City of El Cajon, City of Imperial Beach, City of La Mesa, City of Lemon Grove, City of National City, City of Poway, City of San Diego, City of 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 6, 2008

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 11:00 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Monroe moved approval of the minutes of the October 23, 2008, Audit Oversight Committee meeting. Ms. Atkins seconded the motion, and the vote was 7 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Draft Fiscal Year 2008 Comprehensive Annual Financial Report (ADM 110.12)

Ms. Linda Musengo, Finance Manager, presented a handout and provided an overview of the changes made to the Comprehensive Annual Financial Report (CAFR) since it was last presented to the Committee. She reviewed the specific changes that were made to the Introductory Section. Ms. Musengo was advised that the organization chart required updating, and it was agreed that she would consult with Mr. Paul Jablonski, CEO, regarding the needed changes.

Ms. Musengo then reviewed the specific changes that were made to the Management Discussion and Analysis section, which included the addition of a column for 2006 figures for comparative purposes. She also reviewed the specific changes that were made to the Basic Financial Statements section, which included adding a noncash disclosure to the Statement of Cash Flows to reflect the fair market value of U. S. Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS). She stated that this has no financial impact on MTS because these bonds will be held by MTS to maturity.

Ms. Musengo then reviewed the specific changes that were made to the Notes to Financial Statements section. It was agreed that Note No. 2 on page A-54 of this section be reworded to clarify that "fare" revenue is one of the elements that will offset reduced TDA funding. Ms. Musengo then reviewed the Supplementary Information section.

Mr. Rindone noted that Ms. Rosalie Zarate is listed on page A-12 on the Board of Directors list and pointed out that National City has not been sending a representative to meetings for some time. Mr. Emery pointed out that they have a seat on the Board and retain the option to use it; therefore, it should be shown on the list. It was agreed that Audit Oversight Committee members should not be listed on page A-6 where the establishment of the Committee is noted.

In response to a question from Mr. Mathis, Ms. Musengo reported that there is one attorney letter outstanding. She further reported that only one change was made as a result of the information contained in attorney letters that have been submitted to MTS. Ms. Tiffany Lorenzen, General Counsel, reported that the one remaining attorney has been notified that their letter must be received by November 6, 2008, or they will be removed from MTS's approved list of attorneys. Chairman Ewin stated that this provision should be included in each attorney contract MTS enters into.

Chairman Ewin requested that Ms. Musengo provide him with updates of schedules.

Action Taken

Mr. Monroe moved to receive the Draft Fiscal Year 2008 Comprehensive Annual Financial Report and forward it to the Board of Directors. Ms. Atkins seconded the motion, and the vote was 7 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 needed.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 11:25 a.m.

Chairman

Attachment: A. Roll Call Sheet
gail.williams/minutes

ROLL CALL

ADJOURN 11:25 a.m.

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL:



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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 19, 2009

SUBJECT:

MTS: APPOINTMENT OF CHAIRPERSON

RECOMMENDATION:

That the MTS Audit Oversight Committee appoint a chairperson.

Budget Impact

None at this time.

DISCUSSION:

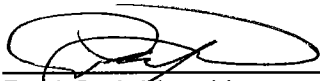
Appointment of Chairperson of the MTS Audit Oversight Committee

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 Vice Chair and Chair Pro Tem 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

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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 19, 2009

SUBJECT:

**MTS: AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH
GOVERNANCE – STATEMENT OF AUDITING STANDARDS NO. 114**

RECOMMENDATION:

That the MTS Audit Oversight Committee receive the Auditor's Communication with Those Charged with Governance, related to the FY 2008 audit, as prepared by Caporicci & Larson (C&L).

Budget Impact

None at this time.

DISCUSSION:

FY 2008 Auditor's Communication with Those Charged with Governance

Pursuant to the provisions of Statement of Auditing Standards No. 114, Caporicci & Larson has prepared the attached (Attachment A) communication, which provides an overview of the planned scope and timing of the audit as well as representations that C&L has requested from management and significant audit findings (of which there were none).

Paul C. Jablonski
Chief Executive Officer

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

MAR19-09.B2.SAS 114.LMUSENGO.doc

Attachment: A. Letter from C&L dated 11/11/08



November 11, 2008

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, 2008, and have issued our report therein dated November 11, 2008. 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.

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

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Oakland, California 94612

Orange County
9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego
4858 Mercury, Suite 106
San Diego, California 92111

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

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
- Allowance for Doubtful Accounts
- Accumulated Depreciation
- 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
- Post Employment Health Care Benefits
- Subsequent Events
- Employee Retirement Systems

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

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.

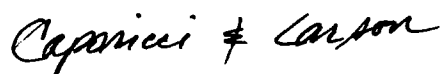
Other Audit Findings or Issues

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 governmental unit's 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
November 11, 2008



Metropolitan Transit System

1255 Imperial Avenue, Suite 1000
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(619) 231-1466 • FAX (619) 234-3407

November 11, 2008

FIN 300

Caporicci and Larson
4858 Mercury Street, Suite 106
San Diego, CA 92111

To Whom It May Concern,

We are providing this letter in connection with your audit(s) of the financial statements of Metropolitan Transit System (MTS) as of June 30, 2008, and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of November 11, 2008, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of MTS or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
12. MTS has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
13. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which MTS is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

15. There are no—

- a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
- d. Reservations or designation of fund equity that was not properly authorized and approved.

16. MTS has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

17. MTS has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of

18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

19. The financial statements properly classify all funds and activities.

20. All funds that meet the quantitative criteria for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

22. Provisions for uncollectible receivables have been properly identified and recorded.

23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

28. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

29. With respect to federal award programs:

- a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
- c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions (including material weaknesses) reported in the schedule of findings and questioned costs.
- e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
- f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*,

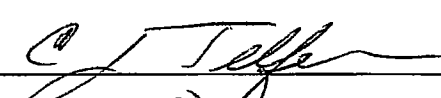
and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- l. We have charged costs to federal awards in accordance with applicable cost principles.
- m. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- n. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- o. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- p. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- q. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- r. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
- s. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.


No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements [or in the schedule of findings and questioned costs.

Signed: 


Title: CEO

Signed: 

Title: CFO

Signed: 

Title: CONTROLLER

Signed: 

Title: FINANCE MANAGER

**Metropolitan Transit System
Summary of Audit Differences
For the Fiscal Year Ended June 30, 2008**

Uncorrected Audit Differences:

See Attached.

Corrected Audit Adjusting Journal Entries:

See Attached.

Caporicci & Larson, CPAs
Management Representation Letter
Page 8 of 16

San Diego Metropolitan Transit System
Uncorrected Adjusting Journal Entries
June 30, 2008

UNCORRECTED ADJUSTING JOURNAL ENTRIES

AJE	Fund	Accounts	Description	Dr	Cr
1	10	20200001	Retentions Payable	79,461	
	10	58110000	Expense		79,461
				<u>79,461</u>	<u>79,461</u>

Amount is to adjust the Retention liability balance. Since amount is immaterial, client decided to make the adjustment in the next fiscal year.

Caporicci & Larson, CPAs
Management Representation Letter
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San Diego Metropolitan Transit System
 Adjusting Journal Entries
 June 30, 2008

CORRECTED ADJUSTING JOURNAL ENTRIES

AJE	Fund	Accounts	Description	Dr	Cr
1	10	20250000	Deferred Revenue	250,000	
	10	10170000	Long term note receivable		250,000
				<u>250,000</u>	<u>250,000</u>
<i>To eliminate long-term note receivable and deferred revenue for financial statement purposes.</i>					
2	10	24010000	Other Long Term Debt	7,506,240	
	10		Accounts Payable		7,506,240
				<u>7,506,240</u>	<u>7,506,240</u>
<i>To reverse amount recorded in Other Long Term Debt and record as Revenue in STA fund (same as prior year).</i>					
3	10	10150003	A/R Non- Control	60,000	
	10	41010000	Revenue (advertising)		60,000
				<u>60,000</u>	<u>60,000</u>
<i>To accrue additional accounts receivable for MTS Advertising Contract.</i>					
4	SDTC	225100	Accrued Damage, Injury, and Employees Claims (workers' comp ST)	337,776	
	SDTC	241100	Accrued Damage, Injury, and Employees Claims (workers' comp LT)	638,224	
	SDTC	52590	Expense (risk management)		976,000
				<u>976,000</u>	<u>976,000</u>
	SDTC	56190	Expense (risk management)	484,000	
	SDTC	225300	Accrued Damage, Injury, and Employees Claims (liability comp ST)	139,844	
	SDTC	241200	Accrued Damage, Injury, and Employees Claims (liability comp LT)		623,844
				<u>623,844</u>	<u>623,844</u>
<i>To adjust the amount for current year for SDTC based on the actuarial study and loss run report.</i>					
5	SDTC	52418	Expense (general admin)	393,304	
	SDTC	240100	Compensated absences (sick payable LT)		393,304
				<u>393,304</u>	<u>393,304</u>
<i>To accrue additional compensated absences found while performing analytical review.</i>					
6	SDTI	52590	Expense (risk management)	126,000	
	SDTI	225100	Accrued Damage, Injury, and Employees Claims (workers' comp LT)		82,797
	SDTI	241100	Accrued Damage, Injury, and Employees Claims (workers' comp ST)		43,203
				<u>126,000</u>	<u>126,000</u>
	SDTI	241200	Accrued Damage, Injury, and Employees Claims (liability comp LT)	490,000	
	SDTI	56190	Expense (risk management)		490,000
				<u>490,000</u>	<u>490,000</u>
<i>To adjust the amount for current year for SDTI based on the actuarial study and loss run report.</i>					

Caporicci & Larson, CPAs
Management Representation Letter
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San Diego Metropolitan Transit System
Adjusting Journal Entries
June 30, 2008

CORRECTED ADJUSTING JOURNAL ENTRIES

AJE	Fund	Accounts	Description	Dr	Cr
7	SDTC		Cash	82,706	
	SDTC	116030	Prepaid		82,706
				<u>82,706</u>	<u>82,706</u>
	SDTI		Cash	2,924	
	SDTI	116030	Prepaid		2,924
				<u>2,924</u>	<u>2,924</u>

To reclass EBA Trust account to cash for consistency. In prior year, account is clasified as prepaid for SDTC and SDTI, and cash for MTS.

8	10	30600000	FB - Contributed capital delivere	1,211,051	
	10	10500008	Capital Assets - Work in progress		1,211,051
				<u>1,211,051</u>	<u>1,211,051</u>

To record capital assets contributed to SDTC by MTS (Transfers from MTS - SANDAG project).

9	10	30600000	FB - Contributed capital delivere	27,913,113	
	10	10500008	Capital Assets - Work in progress		27,913,113
				<u>27,913,113</u>	<u>27,913,113</u>

To record capital assets contributed to SDTI by MTS (Transfers from MTS).

10	10	30600000	FB - Contributed capital delivere	850,825	
	10	10500008	Capital Assets - Work in progress		850,825
				<u>850,825</u>	<u>850,825</u>

To record capital assets contributed to SDTI by MTS (Transfers from MTS). Was put in service in 06, but was not capitalized. AJE to remove from WIP.

11	10	59990000	Expenditures - General Admin	2,989	
	10	10500008	Capital Assets - Work in progress		2,989
				<u>2,989</u>	<u>2,989</u>

To write off immaterial WIP balance in SANDAG.

12	SDTC	130140	Capital Assets - Non revenue vehicle	16,402	
	SDTC	130140	Capital Assets - Non revenue vehicle	51,397	
	SDTC	301010	FB - current year contributed capital		16,402
	SDTC	301010	FB - current year contributed capital		51,397
				<u>67,799</u>	<u>67,799</u>

To record SDTC capital assets for FY 08.

13	SDTC	130120	Capital Assets - Buildings and grounds	2,189,217	
	SDTC	130210	Capital Assets - Computer equipment	34,800	
	SDTC	130120	Capital Assets - Buildings and grounds	50,994	
	SDTC	301010	FB - current year contributed capital		2,224,017
	SDTC	301010	FB - current year contributed capital		50,994
				<u>2,275,011</u>	<u>2,275,011</u>

To record SDTC capital assets for FY 08.

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AJE	Fund	Accounts	Description	Dr	Cr
14	SDTC	130140	Capital Assets - Non revenue vehicle	92,447	
	SDTC	130190	Capital Assets - Office furniture and equipment	10,244	
	SDTC	135180	A/D - maintenance equipment	92,447	
	SDTC	135200	A/D - miscellaneous	10,244	
	SDTC	135140	A/D - non revenue vehicle		92,447
	SDTC	135190	A/D - office furniture & equipment		10,244
	SDTC	130180	Capital Assets - maintenace equipment		92,447
	SDTC	130200	Capital Assets - miscellaneous		10,244
				<u>205,382</u>	<u>205,382</u>
<i>FA Disposal posted in August 2008 went to wrong G/L. AJE to reclass JE#4688 to correct G/L.</i>					
15	10	10150003	A/R noncontrolled	22,898	
	10	45160000	Revenue - Federal FTA CMAQ		22,898
				<u>22,898</u>	<u>22,898</u>
<i>To nccrue additional CMAQ revenue.</i>					
16	10	30600000	FB - Contributed capital delivere	50,994	
	10	10500008	Capital Assets - Work in progress		50,994
				<u>50,994</u>	<u>50,994</u>
<i>To record capital assets contributed to SDTC by MTS (Transfers from MTS).</i>					
	10	30600000	FB - Contributed capital delivere	36,081	
	10	10500008	Capital Assets - Work in progress		36,081
				<u>36,081</u>	<u>36,081</u>
<i>To record capital assets contributed to SDTI by MTS (Transfers from MTS).</i>					
	10	30600000	FB - Contributed capital delivere	3,553,194	
	10	30600000	FB - Contributed capital delivere	3,268,184	
	10	10500008	Capital Assets - Work in progress		3,553,194
	10	10500008	Capital Assets - Work in progress		3,268,184
				<u>6,821,378</u>	<u>6,821,378</u>
<i>To transfer CIP to Fund 50 capital assets by MTS Fund 10 (Transfers from MTS).</i>					
	50	10500002	Capital Assets - Building & Structure	3,553,194	
	50	10500002	Capital Assets - Building & Structure	3,268,184	
	50	30500000	FB - Insurance Reserve		6,821,378
				<u>6,821,378</u>	<u>6,821,378</u>
<i>To record capital assets received by Fund 50 in FY 08 from Fund 10.</i>					
	50	10500002	Capital Assets - Building & Structure	2,497,673	
	50	10500002	Capital Assets - Building & Structure	5,944,761	
	50	10500002	Capital Assets - Building & Structure	224,074	
	50	10500002	Capital Assets - Building & Structure	417,175	
	50	30500000	FB - Insurance Reserve		9,083,683
				<u>9,083,683</u>	<u>9,083,683</u>
<i>To record capital assets received by Fund 50 in FY 08 from SANDAG.</i>					

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AJE	Fund	Accounts	Description	Dr	Cr
17	10	30600000	FB - Contributed capital delivered	51,397	
	10	10500008	Capital Assets - Work in progress		51,397
				<u>51,397</u>	<u>51,397</u>
<i>To record capital assets contributed to SDTI by MTS (Transfers from MTS).</i>					
18	SDTC	130170	Capital Assets - Radios and consoles	1,211,051	
	SDTC	301010	FB - current year contributed capital		1,211,051
				<u>1,211,051</u>	<u>1,211,051</u>
<i>To record capital assets contributed to SDTC by MTS.</i>					
19	SDTI	130120	Capital Assets - Building and grounds	27,913,113	
	SDTI	130120	Capital Assets - Building and grounds	850,825	
	SDTI	301010	FB - current year contributed capital		27,913,113
	SDTI	301010	FB - current year contributed capital		850,825
				<u>28,763,938</u>	<u>28,763,938</u>
<i>To record capital assets contributed to SDTI by MTS.</i>					
20	SDTI	130120	Capital Assets - Building and grounds	7,282,884	
	SDTI	130120	Capital Assets - Building and grounds	36,081	
	SDTI	301010	FB - current year contributed capital		7,282,884
	SDTI	301010	FB - current year contributed capital		36,081
				<u>7,318,965</u>	<u>7,318,965</u>
<i>To record capital assets contributed to SDTI by SANDAG and MTS.</i>					
21	SDTI	201200	Due to Other Funds - Interco AP over/under	23,758	
	SDTI	46110	Revenue - TDA Article 4.0		23,758
				<u>23,758</u>	<u>23,758</u>
<i>To adjust FY08 YE Budget over Under for double booked invoice accruals.</i>					
22	SDTI	46110	Revenue - TDA Article 4.0	47,516	
	SDTI	201200	Due to Other Funds - Interco AP over/under		47,516
				<u>47,516</u>	<u>47,516</u>
<i>To correct JE-4291.</i>					
23	SDTI	65120	Depreciation Expense - Building & Grounds	37,567,326	
	SDTI	65135	Depreciation Expense - LRV Vehicles	8,226,445	
	SDTI	65140	Depreciation Expense - Non revenue Vehicles	220,590	
	SDTI	65170	Depreciation Expense - Radios and Consoles	266,531	
	SDTI	65180	Depreciation Expense - Maintenance Equip	543,619	
	SDTI	65190	Depreciation Expense - Office furniture & Equip	4,743	
	SDTI	65210	Depreciation Expense - Computer Equipment	604	
	SDTI	135120	A/D - Building & Grounds		37,567,326
	SDTI	135135	A/D - LRV Vehicles		8,226,445
	SDTI	135140	A/D - Non revenue Vehicles		220,590
	SDTI	135170	A/D - Radios and Consoles		266,531
	SDTI	135180	A/D - Maintenance Equip		543,619
	SDTI	135190	A/D - Office furniture & Equip		4,743
	SDTI	135210	A/D - Computer Equipment		604
				<u>46,829,858</u>	<u>46,829,858</u>
<i>To record FY08 depreciation.</i>					

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AJE	Fund	Accounts	Description	Dr	Cr
24	SDTI	65120	Depreciation Expense - Building & Grounds	6,240,572	
	SDTI	65135	Depreciation Expense - LRV Vehicles	2,143,950	
	SDTI	65140	Depreciation Expense - Non revenue Vehicles	3,060	
	SDTI	65180	Depreciation Expense - Maintenance Equip	120,242	
	SDTI	65190	Depreciation Expense - Office furniture & Equip	4,743	
	SDTI	135170	A/D - Radios and Consoles	3,001	
	SDTI	135120	A/D - Building & Grounds		6,240,572
	SDTI	135135	A/D - LRV Vehicles		2,143,950
	SDTI	135140	A/D - Non revenue Vehicles		3,060
	SDTI	135180	A/D - Maintenance Equip		120,242
	SDTI	135190	A/D - Office furniture & Equip		4,743
	SDTI	65170	Depreciation Expense - Radios and Consoles		3,001
				<u>8,515,568</u>	<u>8,515,568</u>
<i>To record FY08 depreciation.</i>					
25	SDTI	135010	Capital Assets - Parts Adjust S70	623,705	
	SDTI	130135	A/D - LRV Vehicles		623,705
				<u>623,705</u>	<u>623,705</u>
<i>To reclass S70 parts and adjustments.</i>					
26	SDTI	135135	A/D - LRV Vehicles	124,741	
	SDTI	65135	Depreciation Expense - LRV Vehicles		124,741
				<u>124,741</u>	<u>124,741</u>
<i>To record FY 08 Depreciation.</i>					
27	SDTI	301010	FB - current year contributed capital	17,856,064	
	SDTI	130110	Capital Assets - Land		17,856,064
				<u>17,856,064</u>	<u>17,856,064</u>
<i>To record land transfer to SD&AE.</i>					
28	10	61110000	Expense - Transit SDTC operating contracts	253,722	
	10	11120000	Due from Other Funds - A/R SDTC		253,722
				<u>253,722</u>	<u>253,722</u>
<i>To adjust SDTC over/under.</i>					
29	10	24120000	Accrued Damage, Injury, and Employees Claims	1,225,201	
	10	11701000	Prepays & Other Assets - Deposit probable compensation		1,225,201
				<u>1,225,201</u>	<u>1,225,201</u>
<i>To record RV Communities payout of funds at court.</i>					
30	50	65000000	Depreciation Expense	13,718,776	
	50	10700000	A/D		13,718,776
				<u>13,718,776</u>	<u>13,718,776</u>
<i>To record depreciation expense in Fy 08 for Fund 50.</i>					
31	10	65000000	Depreciation Expense	2,069,757	
	10	10700000	A/D		2,069,757
				<u>2,069,757</u>	<u>2,069,757</u>
<i>To record depreciation expense in Fy 08 for Fund 10 (Admin).</i>					
32	10	65000000	Depreciation Expense	24,950	
	10	10700000	A/D		24,950
				<u>24,950</u>	<u>24,950</u>
<i>To record depreciation expense in Fy 08 for Fund 10 (Taxi).</i>					

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AJE	Fund	Accounts	Description	Dr	Cr
33	10	65000000	Depreciation Expense	19,496	
	10	10700000	A/D		19,496
				<u>19,496</u>	<u>19,496</u>
<i>To record depreciation expense in Fy 08 for Fund 10 (SD&AE).</i>					
34	10	10500001	Capital Assets - Land	17,856,064	
	10	30500000	FB - contributed capital received		17,856,064
				<u>17,856,064</u>	<u>17,856,064</u>
<i>To record transfer of property from SDTI.</i>					
35	10	10500008	Capital Assets - WIP	3,100,000	
	10	24120000	Accrued Damage, Injury, and Employees Claims		3,100,000
				<u>3,100,000</u>	<u>3,100,000</u>
<i>To record gateway liability accrual.</i>					
36	10	42520000	Revenue - Misc operating income	293,163	
	10	42610000	Revenue - Gain/Loss on Sale of Assets	4,470	
	10	42610000	Revenue - Gain/Loss on Sale of Assets		293,163
	10	10500001	Capital Assets - Land		4,470
				<u>297,633</u>	<u>297,633</u>
<i>To record basis for property sold.</i>					
37	10	10500008	Capital Assets - WIP	600,000	
	10	10500008	Capital Assets - WIP	717,539	
	10	20100000	Accrued Damage, Injury, and Employees Claims		600,000
	10	20100000	Accrued Damage, Injury, and Employees Claims		717,539
				<u>1,317,539</u>	<u>1,317,539</u>
<i>To record RV communities - final settlement.</i>					
38	10	11140000	Due from Other Funds - A/R SDTC	23,758	
	10	61120000	Expense - Transit SDTC operating contracts		23,758
				<u>23,758</u>	<u>23,758</u>
<i>To adjust SDTI over/under.</i>					
39	SDTC	52418	Expense - Sick Leave Accrual	69,569	
	SDTC	220100	Compensated Absences - Sick Payable ST	539,190	
	SDTC	52428	Expense - Vacation Accrual	714,654	
	SDTC	240100	Compensated Absences - Sick Payable LT		608,759
	SDTC	220200	Compensated Absences - Vacation Payable ST		356,880
	SDTC	240200	Compensated Absences - Vacation Payable LT		357,774
				<u>1,323,413</u>	<u>1,323,413</u>
<i>FY08 revised sick and vacation adjustment.</i>					
40	SDTC	201200	Due to Other Funds - Interco AP MTS over/under	253,722	
	SDTC	46110	Revenue - TDA Article 4.0		253,722
				<u>253,722</u>	<u>253,722</u>
<i>To record FY08 additional YE over/under.</i>					

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AJE	Fund	Accounts	Description	Dr	Cr
41	SDTC	52418	Expense - Sick Leave Accrual	1,188,643	
	SDTC	52428	Expense - Vacation Accrual	303,296	
	SDTC	240100	Compensated Absences - Sick Payable LT	393,304	
	SDTC	220100	Compensated Absences - Sick Payable ST		539,189
	SDTC	240100	Compensated Absences - Sick Payable LT		649,454
	SDTC	220200	Compensated Absences - Vacation Payable ST		303,296
	SDTC	52418	Expense - Sick Leave Accrual		393,304
				<u>1,885,243</u>	<u>1,885,243</u>
To record YE sick and vacation reversal - JE 4607 & 4743.					
42	SDTC	65120	Depreciation Expense - Building & Grounds	2,046,426	
	SDTC	65130	Depreciation Expense - Buses	9,119,869	
	SDTC	65140	Depreciation Expense - Non Revenue Vehicles	118,559	
	SDTC	65170	Depreciation Expense - Radios and Consoles	3,020,681	
	SDTC	65180	Depreciation Expense - Maintenance Equip	119,642	
	SDTC	65190	Depreciation Expense - Office Furniture & Equip	14,249	
	SDTC	42620	Revenue - Loss on Disposal of Assets	2,470	
	SDTC	65210	Depreciation Expense - Computer Equipment	56,336	
	SDTC	135120	A/D - Building & Grounds		2,046,426
	SDTC	135130	A/D - Buses		9,119,869
	SDTC	135140	A/D - Non Revenue Vehicles		118,559
	SDTC	135170	A/D - Radios and Consoles		3,020,681
	SDTC	135180	A/D - Maintenance Equip		119,642
	SDTC	135190	A/D - Office Furniture & Equip		14,249
	SDTC	135200	A/D - Miscellaneous		2,470
	SDTC	135210	A/D - Computer Equipment		56,336
				<u>14,498,232</u>	<u>14,498,232</u>
To record FY08 additional depreciation expense.					
43	10	10500008	Capital Assets - WIP	2,000,000	
	10	24120000	Accrued Damage, Injury, and Employees Claims		2,000,000
				<u>2,000,000</u>	<u>2,000,000</u>
To record BBO liability accrual.					
44	SDTC	52335	Expense	926,926	
	SDTC	213245	OPEB liability		926,926
				<u>926,926</u>	<u>926,926</u>
To record OPEB annual expense.					
45	10	59990000	Expense - other misc.	11,025	
	10	11000000	Due to/from - claim on cash		11,025
	50	11000000	Due to/from - claim on cash	11,025	
	50	30500000	FB - contributed capital received		11,025
				<u>22,050</u>	<u>22,050</u>
To correct JE #09117 - adjustment to contributed capital received.					
46	10	52335000	Expense - disability insurance	893,104	
	10	24030000	OPEB liability		893,104
				<u>893,104</u>	<u>893,104</u>
To record OPEB accrual for FY 08.					

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AJE	Fund	Accounts	Description	Dr	Cr
47	10	56190000	Expense	14,000	
	10	20100000	Accrued Damage, Injury, and Employees Claims		14,000
				<u>14,000</u>	<u>14,000</u>
<i>To record additional claims per Bickmore Risk Services.</i>					
48	SDTI	52335	Expense - OPEB annual expense	2,090,692	
	SDTI	213245	OPEB Liability		2,090,692
				<u>2,090,692</u>	<u>2,090,692</u>
<i>To record OPEB annual expense.</i>					
49	SDTC	114010	Due from Other Governments - pass sales rec	1,853,811	
	SDTC		Accounts Receivable		1,853,811
				<u>1,853,811</u>	<u>1,853,811</u>
<i>For Financial Statements purposes only. To reclass incorrect grouping of accounts.</i>					
50	SDTI	114010	Due from Other Governments - pass sales rec	3,790,425	
	SDTI		Accounts Receivable		3,790,425
				<u>3,790,425</u>	<u>3,790,425</u>

For Financial Statements purposes only. To reclass incorrect grouping of accounts.



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

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 19, 2009

SUBJECT:

MTS: AUDIT ENGAGEMENT LETTER

RECOMMENDATION:

That the MTS Audit Oversight Committee review the audit engagement letter.

Budget Impact

None at this time.

DISCUSSION:

Review and Approval of the Audit Engagement Letter

Auditing standards require the auditor to present a written engagement letter and obtain a signature from an officer of the company. Ken Pun, Engagement Manager for Caporicci & Larson, will present a draft of audit engagement letter for review and acceptance.

Paul C. Jablonski
Chief Executive Officer

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

MAR19-09.AOC.B3.AUDIT ENGAGEMENT LTR.LMUSENGO.doc

Attachment: A. Audit Engagement Letter dated 2/26/09



February 26, 2009

Mr. Cliff Telfer
Chief Financial Officer
San Diego Metropolitan Transit System
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490

Dear Mr. Telfer:

We are pleased to confirm our understanding of the services we are to provide for San Diego Metropolitan Transit System (MTS) for the year ending June 30, 2009.

We will audit the financial statements of MTS as of June 30, 2009. In addition, the audit reports we submit to you will include the Schedule of Expenditures of Federal Awards that will be subjected to the auditing procedures applied in our audit of the financial statements.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your 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 second paragraph when considered in relation to the 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 the 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, "Audit 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 for the information and use of management, 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 generally accepted auditing standards in the United States; 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, 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 an opinion and to render the required reports. If our opinion on the financial statements or the Single Audit compliance opinion is other than unqualified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. We will advise management about appropriate accounting principles and their application and will assist in the preparation of MTS's financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with management. This responsibility includes the establishment and maintenance of adequate records and effective internal controls over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management 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. 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.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on MTS's Internet website, management understands 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.

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 assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to MTS or to acts by management or employees acting on behalf of MTS. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include tests of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and agreements. 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 to 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, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected funding sources, creditors, and financial institutions. We will also request written representations from MTS's attorneys as part of the engagement, and they may bill MTS for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters.

Audit Procedures – Internal Control

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on MTS's financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. 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. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. 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 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 or material weaknesses. However, we will inform the governing body of any matters involving internal control and its operation that we consider to be significant deficiencies or material weaknesses under standards established by the American Institute of Certified Public Accountants. Any matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We will also inform management of any control deficiencies or other matters involving internal control, if any, as required by OMB Circular A-133.

Audit Procedures – Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of MTS's compliance with applicable laws and regulations and the 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 the auditee has complied with applicable laws and regulations and the provisions of contracts and agreements applicable to major programs. Our procedures will consist of the 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's major programs. The purpose of these procedures will be to express an opinion on MTS's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide copies of our reports to MTS; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, 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 auditor's 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 audit. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The workpapers for this engagement are the property of Caporicci & Larson and constitute confidential information. However, we may be requested to make certain workpapers available to a cognizant or grantor agency pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of Caporicci & Larson personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to the cognizant or grantor agency. The cognizant or grantor agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The workpapers for this engagement will be retained for a minimum of seven years after the date the auditor's report is issued or for any additional period requested by the cognizant agencies, oversight agencies for audit, or pass-through entities. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers.

Our fee for these services will be in accordance with the proposal submitted and the contracts signed with MTS. The fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Should MTS records not be in an auditable condition, we will notify you in writing and include suggested alternative procedures. If MTS is unable to provide records necessary to perform the audit or refuses to respond to auditors' request, we will communicate to the Audit Oversight Committee and issue a report to that effect and bill you for the time incurred to date.

Any claim or controversy arising out of the rendering of professional accounting services by Caporicci & Larson, under the terms of this agreement shall be settled by arbitration in accordance with the Rules of Practice and Procedure of Judicial Arbitration and Mediation Services, Inc. ("JAMS"). Any claim for nonpayment of amount due to Caporicci & Larson for services rendered in accordance with this agreement, however, shall be determined by a court

of law, as opposed to arbitration. The agreed place of venue for any proceeding, arbitration or court, shall be San Diego, California.

We will submit our bill for services on a progress basis, and billings are due upon submission. Interest is charged on balances not paid within 30 days at the rate of 1.5 percent per month. We reserve the right to suspend work and withdraw from the engagement if fees are not paid in a timely manner. It is our policy to require the fees be paid to date prior to issuing our report. If the account is not paid in full when due, you agree to pay all expenses of collection, including legal fees.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,
CAPORICCI & LARSON

Gary M. Caporicci
Senior Partner

RESPONSE:

This letter correctly sets forth the understanding of the San Diego Metropolitan Transit System.

Officer Signature: _____

Name: _____

Title: _____

Date: _____



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

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 19, 2009

SUBJECT:

MTS: REPORT ON AUDIT PLAN

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report on the audit plan, scope, and time line.

Budget Impact

None at this time.

DISCUSSION:

Audit Report

An update will be provided during the meeting by Caporicci and Larson, MTS's external auditors, regarding the fiscal year 2009 audit plan, scope, and time line.



Paul C. Jablonski
Chief Executive Officer

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

MAR19-09.B4.AOC.AUDIT PLAN.LMUSENGO.doc



Metropolitan Transit System (MTS) is comprised of the Metropolitan Transit Development Board (MTDB) a California public agency, San Diego Transit Corp., and San Diego Trolley, Inc., in cooperation with Chula Vista Transit and National City Transit. MTS is Taxicab Administrator for eight cities. MTDB is owner of the San Diego and Arizona Eastern Railway Company. MTDB Member Agencies include: City of Chula Vista, City of Coronado, City of El Cajon, City of Imperial Beach, City of La Mesa, City of Lemon Grove, City of National City, City of Poway, City of San Diego, City of Santee, and the County of San Diego.