

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

September 20, 2007

MTS  
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 10:01 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.
2. APPROVAL OF MINUTES

Ms. Atkins moved approval of the minutes of the August 9, 2007, Audit Oversight Committee meeting. Mr. Mathis seconded the motion, and the vote was 3 to 0 in favor.

Ms. Tiffany Lorenzen, MTS General Counsel, clarified for Mr. Mathis that Mr. Emery, since he is a nonvoting member on the Executive Committee, is therefore a nonvoting member on the Audit Oversight Committee as well. She reminded the Committee that the Board designated the Executive Committee as the Audit Oversight Committee. Mr. Jablonski stated that the Board's Nominating Committee will be convening in October or November, and this issue could be discussed at that time.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Overview of Internal Audit Process (ADM 110.12)

Ms. Lorenzen provided Committee members with an overview of MTS's internal audit process. She reported that Mr. Paul Jablonski, MTS CEO, has significant input into the selection of processes to be audited. In response to a question from Mr. Ewin, Ms. Lorenzen reported that the list of internal audit projects for FY 2007/2008 has already been approved by the Board, but that the list for FY 2008/2009 could be brought to the Audit Oversight Committee prior to the Board if the Committee so desired. Mr. Ewin requested that this be done.

Ms. Lorenzen reviewed the differences between internal and external auditing and provided an overview of the internal audit process. She reported that MTS's internal auditor, Mark Abbey, does an annual risk assessment and uses that information to develop an audit plan with projects ranked according to the level of risk. In response to a question from Mr. Ewin, Ms. Lorenzen stated that Mr. Abbey has gathered information on the audit process of other agencies, including staffing levels. She stated that Mr. Abbey subsequently recommended that a staff member be added to MTS's internal audit function. She stated that the current budget deficit and hiring freeze prevents MTS from moving ahead with his

recommendation. Mr. Jablonski stated that if Mr. Abbey needed temporary assistance for a specific task, that request would be submitted to the CEO's office. In response to a question from Ms. Atkins regarding the relationship of the internal auditor to the Audit Oversight Committee, Mr. Mathis suggested that the CEO report to the Committee any occasions when Mr. Abbey has requested assistance. Ms. Atkins stated that would be acceptable and asked that the report also include how Mr. Abbey's request was handled.

Mr. Ewin requested that internal audit reports be submitted to the Audit Oversight Committee after staff responses but prior to presentation to the Board. In response to a question from Mr. Ewin, Ms. Lorenzen reported that Mr. Abbey does provide her with progress reports that can be forwarded to the Audit Oversight Committee if requested. Mr. Ewin stated that the Committee should be provided with that information.

Ms. Lorenzen then reviewed Mr. Abbey's schedule of internal audits for 2007/2008.

#### Action Taken

Mr. Mathis moved to receive a report on the internal audit process. Ms. Atkins seconded the motion, and the vote was 3 to 0 in favor.

#### 2. MTS: Fiscal Year 2007 Audit (ADM 110.12)

Mr. Ken Pun, of Caporicci & Larson, advised the Committee that they completed the second phase of the external audit in June and conducted the necessary exit conference. He reported that during the initial phases of the audit, Caporicci & Larson evaluated a number of categories of internal controls. He provided a brief description of each of the categories and reported that MTS's overall audit risk assessment was low. He also reported that they have evaluated the internal audit function, have completed fraud and related-parties checklists, and have reviewed the minutes of the Board of Directors to identify all major transactions. He stated that they have no concerns regarding these matters at this point. He added that they will ensure that all major transactions, as identified during the review of Board minutes, are disclosed in MTS's financial reports. He stated that they are now in the third phase of the audit, which entails the year-end validation process. In response to a question from Mr. Ewin, Mr. Pun reported that MTS's internal auditor did not participate in the exit conference. Mr. Tom Lynch, MTS Controller, reported that Mr. Abbey was provided with copies of the materials from this conference. Mr. Pun stated that they would have no problem with allowing Mr. Abbey to participate and dismissing him when discussing matters related to their review of the internal audit process.

The Committee then asked Mr. Pun questions about Caporicci & Larson's observations for the current year as outlined in the agenda item. The following was reported:

- Procedures Manual: Mr. Pun will ensure that the recommended items regarding physical inventory are, in fact, part of the manual under "Stores" as

indicated by staff.

- Staff confirmed that the Capital Assets section of the procedures manual will be updated as changes are implemented or as needed.
- Mr. Pun confirmed that they are comfortable with a capitalization threshold of \$5,000, which is set by the Federal Transit Administration.
- Staff is to inform the Audit Oversight Committee when the recommendations regarding computer controls are implemented.
- Mr. Pun reported that the missing I-9's were located by staff.
- Staff reported that the \$52,369 in the Retention Trust Account has been released. Mr. Pun reported that the auditors will verify this with the third party in this transaction.
- Staff reported that capital assets without tags primarily consist of items that cannot be tagged or were inherited from previous operations without enough detail to tag the items. Staff advised Mr. Ewin that MTS does have a policy for the disposal of items, and Mr. Pun confirmed that the auditors did review that policy. Staff advised Ms. Atkins that MTS does have a checklist to ensure that employees do not remove company-owned items when they leave their employment.
- Staff advised Mr. Ewin that the maximum amount of cash that can be held in the change fund box at The Transit Store is \$3,500, and, on average, consists of about \$2,000 to \$3,000.
- Staff informed Mr. Ewin that purchases under \$500 are approved after the fact or through the sign-off procedure on expense reports or the signing of checks. Mr. Cliff Telfer, MTS Chief Financial Officer, stated that he was comfortable with this procedure for items under \$500. Mr. Jablonski reported that MTS is streamlining its procurement process and is also incorporating recommendations made by the Federal Transit Administration during its recent procurement audit.
- Staff reported that MTS is terminating its contract with its liability claims third-party administrator and bringing this function in house; therefore, the audit recommendation for a reconciliation process between the administrator and MTS's records is no longer valid. Mr. Ewin requested that a statement to this effect be added to the report.
- Mr. Pun stated that the auditors will review MTS's recently adopted fraud policy.

Mr. Ewin stated that he felt a significant amount of progress has been made in the area of bank reconciliations. He requested that staff provide the Committee with a list of acronyms used when discussing these types of matters. Mr. Pun verified for Mr. Ewin that the Reports to be Issued as listed on Page A-11 of the agenda item

are all the reports that the Committee will be receiving. Mr. Ewin requested that a paragraph be added to describe each report.

Mr. Pun advised the Committee that new Statement of Auditing Standards (SAS) became effective this year. He added that an SAS 112 Letter will take the place of the management letter and will discuss significant deficiencies and material weaknesses.

Action Taken

Ms. Atkins moved to receive a presentation by Caporicci and Larson. Mr. Mathis seconded the motion, and the vote was 3 to 0 in favor.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no Committee member communications or other business.

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 10:50 a.m.

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Chairman

Attachment: A. Roll Call Sheet

[gail.williams/minutes](mailto:gail.williams/minutes)