



1255 Imperial Avenue, Suite 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.

February 14, 2008

Executive Conference Room
(Immediately following Executive Committee Meeting)

ACTION RECOMMENDED

A. 1. ROLL CALL

2. APPROVAL OF MINUTES - November 29, 2007

Approve

B. COMMITTEE DISCUSSION ITEMS

1. MTS: Audit Oversight Committee Update

Possible Action

Action would review the Audit Oversight Committee's role and establish a date for its next meeting (either on March 6 or March 20, 2008).

2. MTS: Status of 2007/2008 Internal Audit Projects and Final San Diego Transit Corporation (SDTC) Quality Assurance Audit Report

Receive

Action would receive a status report on the 2007/2008 internal audit projects and the final San Diego Transit Corporation (SDTC) Quality Assurance Audit Report.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

D. PUBLIC COMMENTS

E. NEXT MEETING DATE: to be determined.

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 29, 2007

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 9:06 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Mathis moved approval of the minutes of the November 1, 2007, Audit Oversight Committee meeting. Mr. Rindone seconded the motion, and the vote was 3 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Fiscal Year 2007 Comprehensive Annual Financial Report (CAFR)
(ADM 110.12)

Chairman Ewin stated that he appreciated all 94 pages of the CAFR including the supplemental material showing year-to-year comparisons. He stated that the new format is a lot easier to follow. Mr. Cliff Telfer, MTS Chief Financial Officer, stated that the new format is possible because MTS has transitioned from a planning and development agency to an operating agency.

Mr. Ken Pun, of Caporicci & Larson, reviewed the structure of the report as outlined in the Table of Contents. Mr. Pun confirmed for Chairman Ewin that the auditors were issuing an unqualified opinion. He also reported that the exit meeting has not been scheduled because there is a single audit left to be completed. He anticipated that everything would be completed on schedule by December 15, 2007, which is within the six-week mandatory period. He stated that information that SANDAG is providing is required before the single audit can be completed, and SANDAG is aware of MTS's deadline. Mr. Rindone suggested that the CAFR be reviewed at the Board meeting prior to the Board meeting that occurs just before the deadline.

Ms. Linda Musengo, MTS Finance Manager, reported that the Fairfield project does not appear in the report because there has been very little MTS activity with regard to this project and because no revenue stream has started yet. Chairman Ewin requested that any information added to the report be provided to Committee members prior to the December 13, 2007, Board meeting, when the CAFR will be presented to the full Board.

In response to a question from Mr. Roberts, the Committee was referred to page A-58, and staff confirmed that the SDTI fund through CalPers is funded at 88.6 percent, and the SDTC fund is funded at 90.6 percent. Mr. Telfer reported that the actuarial valuation for FY 2007 should be ready for presentation at the Board's January 17, 2007, meeting and added that the numbers included in the CAFR represent FY 2006. In response to a question from Mr. Ewin, staff reported that MTS's contribution may be higher if the CalPers plan is underperforming. Mr. Roberts stated that he would like to see both plans funded at over 90 percent.

Mr. Telfer reported, in response to a comment by Mr. Roberts, that part of SDTC's plan is on a 40-year amortization schedule, as specified by the Transportation Development Act at the time the plan was implemented, while the newer benefits are on a 30-year amortization schedule. Mr. Roberts stated that he would like to see statistics on how the plan would be positioned if all benefits were amortized for 30 years. Mr. Ewin directed staff to present that information. Mr. Telfer stated that he would have the actuary make these calculations and present the results at the January 17, 2008, Board meeting. Mr. Roberts requested that the second paragraph on page A-54, which discusses actuarial assumptions, be rewritten to clarify the information provided there. Mr. Telfer informed Mr. Ewin that there is no MTS committee that monitors the SDTC pension plan but that there is an SDTC committee that reviews pension-related issues.

Action Taken

Mr. Mathis moved to receive the Fiscal Year 2007 Comprehensive Annual Financial Report and forward the report to the Board for it to take action to receive the report. Mr. Rindone seconded the motion, and the vote was 4 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 9:35 a.m.

Chairman

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

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 11/29/07

CALL TO ORDER (TIME) 9:06 a.m.

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:35 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ATKINS <input type="checkbox"/> (Hueso) <input type="checkbox"/>		<input checked="" type="checkbox"/>
EMERY (Nonvoting) <input checked="" type="checkbox"/> (Cafagna) <input type="checkbox"/>	9:07 a.m. during AI B1	
EWIN <input checked="" type="checkbox"/> (Allan) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
RINDONE <input checked="" type="checkbox"/> (McCann) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:07 a.m. during AI B1	

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

Gail Williams

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.

February 14, 2008

SUBJECT:

MTS: AUDIT OVERSIGHT COMMITTEE UPDATE

RECOMMENDATION:

That the Audit Oversight Committee (AOC) review its role and establish a date for its next meeting (either on March 6 or March 20, 2008).


Budget Impact

None.

DISCUSSION:

Chairman Ewin has requested that the AOC review its role as it proceeds into a new audit cycle. Staff will review the Audit Engagement Letter and the AOC's Policies and Guidelines (these documents are contained in the AOC binders).

The FY 2008 audit will be starting soon with initial field work by the auditors in late March or early April. At the next AOC meeting, MTS's external auditors will review their audit plan for FY 2008 and discuss any new audit requirements that will have an impact on the audit. This meeting will be scheduled to follow either the March 6 or March 20, 2008, Executive Committee meetings.


Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Cliff Telfer, 619.557.4532, cliff.telfer@sdmts.com

FEB14-08.B1.AOC.UPDATE.CTELFER.doc



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Agenda

Item No. **B2**

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE

LEG 492

for the
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

February 14, 2008

SUBJECT:

MTS: STATUS OF 2007/2008 INTERNAL AUDIT PROJECTS AND SAN DIEGO
TRANSIT CORPORATION (SDTC) QUALITY ASSURANCE AUDIT REPORT

RECOMMENDATION:

That the Audit Oversight Committee (AOC) of the Board of Directors receive a status report on 2007/2008 internal audit projects and the final SDTC Quality Assurance Audit Report.

Budget Impact

None.

DISCUSSION:

Attachment A is an updated status report of 2007/2008 internal audit projects and the final SDTC Quality Assurance Audit Report. The SDTC Quality Assurance Audit Report contained two recommendations for improvement. SDTC management is taking action to implement those recommendations. In addition, Chairman Ewin has requested that the AOC be provided with an overview of MTS's internal audit program as well as the internal auditor's role with the AOC. A copy of the previously presented MTS Internal Audit Overview (Attachment C) and the current Internal Auditor job description (Attachment D) are provided for the AOC's review.

Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Mark Abbey, 619.557.4573, mark.abbey@sdmts.com

FEB14-08.B2.AOC.PROJ STATUS & SDTC QA AUDIT.CTELFER.doc

- Attachments: A. Status Report of 2007/2008 Audit Projects
B. SDTC Quality Assurance Audit Report (AOC Only)
C. MTS Internal Audit Overview
D. MTS Internal Auditor Job Description (AOC Only)



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Multimodal Contract Mgt.	High	160	Project Completed, Final Report Under Senior Mgt Review
SDTC - Quality Assurance	Medium	120	Project Completed, Final Report Issued
SDTC - Safety	Medium	120	Project Completed, Final Report Issued
MTS - IT Control Review	Medium	160	In Progress
MTS - Payroll	High	160	Planned for April 2008
MTS Accounts Payable	Medium	160	Planned for Feb/March 2008
SDTI - Revenue Collection	High	120	Project Completed, Final Report Under Senior Mgt Review
SDTC - Revenue Collection	High	120	Planned for May/June 2008
Various Informal Audits	High	80	Completed
Elderly/Disabled Pass Process	Medium	80	Draft Report Issued, Awaiting Management Response
	TOTAL	1,280	

Taxicab Permit Lottery		30	Completed
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MTS INTERNAL AUDIT OVERVIEW

DIFFERENCES BETWEEN INTERNAL AND EXTERNAL AUDITING

Internal and external audits are different in the following respects:

- The MTS Internal Auditor is an employee of MTS, while external auditors are independent of MTS.
- External auditors must be independent both in fact and appearance.
- The MTS Internal Auditor reports administratively to the MTS General Counsel. The annual internal audit work plan is approved by the MTS Board and copies of all finalized internal audit reports are distributed to the Board.
- External audits do NOT alleviate the need for an internal audit function or vice versa.
- The functions are complimentary. Audits by outside auditors are not intended to replace an ongoing management review of operations and may in fact be limited by law to the scope of the examination they may perform.
- For example, the objective of the external financial audit is an expression of an opinion as to whether the financial reports are fairly stated.

MTS Internal Audit has several objectives including:

- Are internal controls adequate to protect MTS assets and funds against fraud, waste, and abuse?
- Are MTS programs operating effectively and efficiently?
- Are programs meeting MTS objectives and goals?
- Are financial and other management data accurate and complete?

OVERVIEW OF THE INTERNAL AUDIT PROCESS

Annual Risk Assessment and Audit Plan

- At the beginning of each fiscal year, an annual risk assessment and audit plan is developed and approved by senior MTS management and the MTS Board. The 2007/2008 plan is attached.
- The MTS internal audit function is carried out by one staff member. The number of audit projects is restricted to the staffing available.
- Higher-risk audits usually take precedence. Risk factors used in the assessment include: financial risks (such as revenue collection dollars or inventory loss), operational factors (such as the number of employees or customer interactions), and compliance risks (such as quality assurance). An individual time budget is allocated to each audit project based on an estimate of time it will take to complete the work.

The Audit Process

- The auditee is notified of the audit by e-mail, and an entrance conference is scheduled. During the entrance conference, the Internal Auditor and the auditee discuss and agree on the purpose, scope, and process of the audit.
- Next, a preliminary survey is performed where the auditor gains an understanding of the auditee's business, procedures, objectives, etc. This enables the Internal Auditor to identify business risks and internal controls that should be in place to control risks.
- Next, audit tests are performed to test controls. Audit findings are developed based on gaps identified between control objectives and actual processes.
- Findings are discussed verbally with the auditee in an exit meeting.

Internal Audit Reports

- As each internal audit project is completed, and a draft internal audit report is prepared and forwarded to the auditee (who is given 30 days to submit their management responses to audit recommendations proposed in the report). After appropriate responses are received, the internal audit report is finalized and copies are distributed to senior management and the MTS Board.

Internal Audit Follow-Ups

- The MTS Internal Auditor performs follow-up reviews on the areas audited in approximately six months to review the progress made by management on implementing the recommendations.