

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

November 1, 2007

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 10:23 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 September 20, 2007, Audit Oversight Committee meeting. Mr. Mathis seconded the motion, and the vote was 3 to 0 in favor, with Mr. Ridone abstaining.

In response to a question from Mr. Ewin, Mr. Jablonski, MTS CEO, reported that the Nominating Committee has not yet met. Mr. Ewin reiterated assignments that were outlined in the minutes. He also requested that the minutes, which detail discussions and assignments from the September 20, 2007, Committee meeting, be forwarded to all Board members.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Status of 2007/2008 Internal Audit Projects and SDTC Safety Review Audit Report (LEG 492)

Mr. Mark Abbey, MTS Internal Auditor, reviewed his internal audit projects for 2007/2008 as outlined in Attachment A of the agenda item. He stated that he is currently auditing the multimodal contract area and, as part of that audit, is making site visits to Veolia Transportation and paratransit operations. He stated that one of the things he is auditing is how cash is being handled. He also pointed out that he will be the custodian of the lottery tickets for the taxicab permit lottery until the December Board meeting when the permit distribution is approved.

In response to a comment from Mr. Ewin, Mr. Abbey stated that, from this point forward, he will be involved in the exit interview with the external auditor. He stated that he was briefed after the exit interview for the FY 2007 audit. He stated that he will be doing follow-up on any control weaknesses that are identified by the external auditors during this audit. Mr. Ewin asked Mr. Abbey if he saw anything in the external audit that would cause him to change the scope of his internal audits. Mr. Abbey stated that he would expand his internal audits to cover any materials weaknesses identified by the external auditors.

Mr. Abbey briefly discussed the results of the recently completed SDTC safety audit. He stated that he made a recommendation that SDTC formalize an internal safety audit process. Ms. Claire Spielberg, Chief Operating Officer – Transit Services, reported that the development of such a process has already begun. Mr. Abbey pointed out that the safety program currently in place at SDTC conforms to OSHA regulations. He added that he will do his typical follow-up in six months and will issue a report to the Audit Oversight Committee.

Action Taken

Ms. Atkins moved to receive a status report on 2007/2008 internal audit projects (Attachment A of the agenda item) and the SDTC Safety Review Audit Report (Attachment B of the agenda item). Mr. Mathis seconded the motion, and the vote was 4 to 0 in favor.

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

Mr. Ken Pun, of Caporicci & Larson, distributed a Year-End Progress Report for the FY 2007 audit. He reviewed the procedures performed and the open items. He reported that Caporicci & Larson has completed its field work but is still waiting for some items, including attorney letters that must be returned to them before the audit can be completed. Mr. Jablonski, MTS CEO, requested that Mr. Pun provide him with the names of the attorneys that have not returned their letters and stated that staff will contact them. Mr. Pun then reviewed their year-end observations. He stated that because detailed listings for capital assets were not updated in a timely manner, they reclassified this item to a higher risk level. He stated that, because of that reclassification, they tested at a 50 percent level. He added that this caused a one-week delay but resulted in no findings. Mr. Jablonski pointed out that capital assets presented a particular challenge when Accounting functions between the three agencies were combined because the records that were being maintained did not have sufficient detail. He added that MTS has now allocated staff to keep the detailed records that are needed for capital assets.

Mr. Pun reported that the audit report must be presented to the Board within six weeks after completion of the audit or additional work must be done. He stated that additional work would consist of getting an update from MTS's General Counsel and sending a few additional inquiries via e-mail to MTS's major attorneys. It was pointed out that the audit is not ready for the November 8 Board meeting, and the December 13 Board meeting would fall outside the six-week period. Mr. Jablonski pointed out that the additional work that the auditors would have to do is not extensive. It was therefore decided to hold an Audit Oversight Committee meeting on Thursday, November 29, 2007, at 9:00 a.m., to review the final audit and place the audit on the agenda for the December 13, 2007, Board meeting. Mr. Ewin requested that the auditors provide materials for the November 29 Committee meeting ahead of time so that Committee members have an opportunity to review the material before the meeting.

In response to a question from Mr. Rindone, Mr. Jablonski explained that MTS and SDTI employees are in the CalPers Pension Plan, while SDTC employees are in a

private pension plan. Mr. Rindone requested that a formal notation from the Audit Oversight Committee be included in the Board agenda item on the audit.

Action Taken

Mr. Mathis moved to receive a presentation by Caporicci and Larson. 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 on Thursday, November 29, 2007.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 11:05 a.m.

Chairman

Attachment: A. Roll Call Sheet

gail.williams/minutes