

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

August 9, 2007

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

Executive Committee Chairman Mathis called the meeting to order at 10:14 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

This was the first meeting of the Audit Oversight Committee, so there were no minutes to be approved.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: First Meeting of the Audit Oversight Committee (ADM 110.12, PC 50101)

Chairman Mathis reported that the first order of business was to elect a chair for this Committee.

Action Taken

Mr. Rindone moved to appoint Mr. Ewin as chairman of the Audit Oversight Committee. Mr. Roberts seconded the motion, and the vote was 3 to 0 in favor.

Chairman Ewin asked Mr. Ken Pun, of Caporicci & Larson, to give his report. Mr. Pun explained the types of audits their team would be conducting (financial and compliance). He then reviewed the objectives of the audit of financial statements, management responsibilities for financial statements, scope of the audit, audit approach, audit hours, and audit timeline. He added that, once the audit report has been completed, it will be sent to MTS, and the Audit Oversight Committee (AOC) will have the first look. He reported that they expect to issue all reports by the end of November 2007.

Mr. Ewin stated that he felt it was critical that the auditors bring any concerns they have during the audit to the AOC, even if they are already presenting these concerns to staff. Mr. Ewin requested that a glossary of terms be developed and that this glossary be retained in the AOC meeting materials binder.

In response to a question from Mr. Ewin, Mr. Pun explained that professional skepticism means not just making an inquiry but also looking at the supporting documentation. In response to a question from Mr. Rindone, Mr. Pun explained that the engagement letter is a summary of the scope of the audit, the standards

the auditors follow, and a detailing of the fees charged. Mr. Cliff Telfer, Chief Financial Officer (CFO), pointed out that the current engagement letter is included in the binder. In response to a question from Mr. Ewin, Mr. Pun reported that the AOC can participate in the formal exit conferences with MTS management if it desires to do so. Mr. Pun reported that part of the reporting process toward the end of the audit involves submitting a report to an independent reviewer who will subject the report to a Government Finance Officer's Association checklist. He added that this individual is not part of the audit process.

In response to a question from Ms. Atkins, Mr. Pun reported that they have already submitted a written recommendation to staff that the Capitol Asset Policy be expanded. Ms. Atkins stated that the AOC should have a copy of this recommendation.

Chairman Ewin advised Committee members that the Committee's responsibilities are detailed behind the Policies & Guidelines Tab of the meeting binder. He added that the Committee should receive regular updates on the audit as it proceeds, not just at the end of the audit. He also stated that all recommendations made by the auditors to staff should be presented to the Committee as well.

Mr. Ewin requested that Committee members review the materials in the meeting binder before the next meeting and that they retain all meeting materials as the process goes forward. He stated that Committee members should forward any questions they have to him and he will disseminate that information back to each Committee member. Mr. Ewin also stated that he would like to provide an update at the first Board meeting after each AOC meeting.

He also requested that Committee members retain their binders rather than turn them in after each meeting and that meeting materials provided by staff to the Committee be three-hole punched.

Mr. Telfer advised the Committee that they will also receive reports from the MTS's internal auditor, Mr. Mark Abbey. Staff reporting relationships were clarified as follows: The Internal Auditor has a reporting relationship to the Board and a reporting relationship to the CEO on fraud issues. The Internal Auditor reports to the General Counsel. The General Counsel has direct reporting relationship to the Board.

Ms. Atkins stated that she wanted to ensure that MTS's outside auditors understand that, if they feel any undue pressure from management, they have the responsibility to make those concerns known to the AOC.

Mr. Pun advised Ms. Atkins that the management letter is signed by the CEO and the CFO. Ms. Tiffany Lorenzen, MTS General Counsel, stated that she reviews the letter. Mr. Pun stated that these letters are typically not signed by legal counsel. Ms. Lorenzen clarified that, if she had any concerns, she is obligated to share them with the Board.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There was no discussion of this item.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE:

The next meeting is scheduled for Thursday, September 6, 2007, in the Executive Conference Room. Mr. Ewin and Mr. Rindone both reported that they will be unable to attend because of a League of Cities function.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 10:58 a.m.

Chairman

Attachment: A. Roll Call Sheet

gail.williams/minutes