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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.

June 4, 2009

Executive Conference Room
9:00 a.m.

ACTION RECOMMENDED

- | | | | |
|----|----|--|---------|
| A. | 1. | ROLL CALL | |
| | 2. | APPROVAL OF THE MINUTES - March 19, 2009 | Approve |
| B. | | COMMITTEE DISCUSSION ITEMS | |
| | 1. | <u>MTS: Update on Audit Status</u>
Action would receive a report on the current status of the audit. | Receive |
| | 2. | <u>MTS: Proposed 2009/2010 Internal Audit Plan</u>
Action would receive the Proposed 2009/2010 Internal Audit Plan. | Receive |
| C. | | COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS | |
| D. | | PUBLIC COMMENTS | |
| E. | | NEXT MEETING DATE: June 18, 2009 | |
| F. | | ADJOURNMENT | |

Please turn off cell phones and pagers
during the meeting

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DRAFT

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

March 19, 2009

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Acting Chairman Mathis called the meeting to order at 9:02 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. McLean moved approval of the minutes of the November 6, 2008, Audit Oversight Committee meeting. Mr. Roberts seconded the motion, and the vote was 5 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Appointment of Chairperson (ADM 110.12)

The Acting Chairperson requested nominations from the floor for the Chairperson of the Audit Oversight Committee. Mr. Roberts nominated Mr. Ewin. There were no other nominations. The Acting Chairperson closed the nominations.

Action Taken

Mr. Roberts nominated Mr. Ewin as Chairman of the Audit Oversight Committee. The vote was 5 to 0 in favor. Mr. Ewin was not present for the vote.

The meeting was temporarily adjourned at 9:06 a.m. to the Executive Committee pending the arrival of Mr. Ewin.

The meeting was reconvened at 9:36 a.m.

2. MTS: Auditor's Communication with Those Charged with Governance – Statement of Auditing Standards No. 114 (ADM 110.12)

Ms. Linda Musengo, Finance Manager, advised the Committee that Statement of Auditing Standards No. 114 requires that auditing firms now provide this particular Statement instead of the customary management letter. She stated that this particular statement provides an overview of the planned scope and timing of the audit as well as representations that the auditors have requested from management along with significant audit findings. She reported that Caporicci &

Larson, MTS's current auditors had no significant audit findings to report for the FY 2008 audit.

Mr. Gary Caporicci, Caporicci & Larson, referred to Page 2 of the Statement and stated that the only difference between this new reporting process and the management letter is the reporting of particularly sensitive accounting estimates and financial statement disclosures; e.g., investment valuations, postemployment benefits, and risk management.

In response to a question from Ms. Lightner, Mr. Caporicci explained that Item No. 17 on page 3 of the statement should end after the word "statements." He stated that this sentence will be corrected.

Action Taken

Mr. Roberts moved to receive the Auditors Communication with Those Charged with Governance, related to the FY 2008 audit, as prepared by Caporicci & Larson. Mr. Mathis seconded the motion, and the vote was 7 to 0 in favor.

3. MTS: Audit Engagement Letter (ADM 110.12)

Mr. Caporicci asked if MTS had any new process or system that the audit should include. Mr. Jablonski reported that the Compass Card could potentially fall into that category although the administration of this program will primarily be SANDAG's responsibility and will occur in FY 2010.

Ms. Musengo distributed a schedule of future Audit Oversight Committee meetings.

Action Taken

No action was taken on this item as staff's recommendation was for the Committee to review the Audit Engagement Letter.

4. MTS: Report on Audit Plan (ADM 110.12)

Mr. Kenneth Pun, Partner of Caporicci & Larson, reviewed the audit plan including which entities are being audited, what type of audits were being done (financial and compliance), objectives of the audit of financial statements, management's responsibilities for financial statements, the audit approach, and the time line.

In response to a question from Mr. Rindone, Mr. Pun stated that Government Accounting Standards Board (GASB) 49 deals with pollution remediation. He stated that attorneys will be used to see if MTS has been identified as one of the entities that is responsible for any pollution-related clean up. Mr. Caporicci stated that GASB 51 has to do with amortization costs for software development and will have little impact on MTS. He pointed out that this particular pronouncement was originally supposed to deal with right-of-ways and easements. He reported that GASB 53 deals with derivatives. Mr. Caporicci added that GASB is in the process

of reviewing guidelines for accounting practices related to postemployment pension benefits to determine if they should be reported on the balance sheet.

Mr. Ewin stated that it is critical that the Audit Oversight Committee's involvement in the audit process stay on schedule. Mr. Ewin requested assurance that the process for getting attorney letters has been adjusted to ensure it doesn't delay the completion of the Comprehensive Annual Financial Report (CAFR). Ms. Musengo advised Committee members that CAFR reports dating back to 2004 are accessible through MTS's web site.

Action Taken

Mr. Roberts moved to receive a report on the audit plan, scope, and time line. Mr. Mr. Mathis 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 June 4, 2009.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 10:03 a.m.

Chairman

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

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 3/19/09

CALL TO ORDER (TIME) 9:02 a.m.

TEMPORARY ADJOURNMENT 9:06 a.m.

RECONVENE 9:36 a.m.

CLOSED SESSION _____

RECONVENE _____

ADJOURN 10:03 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>		
LIGHTNER <input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
MCLEAN <input checked="" type="checkbox"/> (Rindone) <input type="checkbox"/>		
RINDONE <input checked="" type="checkbox"/> (McLean) <input type="checkbox"/>	9:05 a.m. during Temporary Adjournment	
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>		
SELBY <input checked="" type="checkbox"/> (Ryan) <input type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

Gail Williams

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL:

Jeffrey



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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

June 4, 2009

SUBJECT:

MTS: UPDATE ON AUDIT STATUS

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report on the current status of the audit.


Budget Impact

None at this time.

DISCUSSION:

Audit Status

An update on the status of the audit will be provided by staff during the meeting.



Paul C. Jablonski
Chief Executive Officer

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

JUNE4-09.B1.AOC.AUDIT STATUS.TLYNCH.doc



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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

June 4, 2009

SUBJECT:

MTS: PROPOSED 2009/2010 INTERNAL AUDIT PLAN

RECOMMENDATION:

That the Audit Oversight Committee receive the Proposed 2009/2010 Internal Audit Plan (Attachment A).

Budget Impact

None.

DISCUSSION:

The MTS Internal Auditor has proposed a 2009/2010 work plan consisting of 11 internal audit projects plus an allowance of 280 hours for completion of various management and Board requests. The estimated time required to complete each project is shown on the attached audit plan. Each agency process to be reviewed is listed as well as the estimated business risks associated with each process. It should be noted that the projects were selected based on risk factors as follows:

- Date last audited
- Liquidity of assets; e.g. cash
- Recent changes in processes; e.g. Compass Cards
- Recent changes in key personnel
- Size and materiality of the process
- Previous control findings



Paul C. Jablonski
Chief Executive Officer

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

JUNE4-09.B2.PROPOSED AUDIT PLAN.MABBEY.doc

Attachment: A. Proposed 2009/2010 Internal Audit Plan Summary

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PROPOSED 2009/2010 INTERNAL AUDIT PLAN SUMMARY

Goals, Objectives, and Activities

RISK

GOAL 1 STRENGTHEN BOARD'S (AND ITS SUBSIDIARIES') PERFORMANCE AND ACCOUNTABILITY TO THE PUBLIC IN MANAGING RESOURCES AND ACHIEVING OUTCOMES

<i>Objective 1</i>	<i>Improve performance levels and outcomes for the Board and its subsidiaries</i>	<i>Agency Process</i>	<i>Gross Risk Assmt.</i>	<i>Number of Task Hours</i>
	• Potential misappropriation, waste, or loss (evaluate controls)	MTS Human Resources	Medium	120
	• Potential misappropriation, waste, or loss (evaluate controls)	MTS-Risk Management	High	120
	• Potential misappropriation, waste, or loss (evaluate controls)	MTS Taxicab Admin.	Medium	120
	• Potential misappropriation, waste, or loss (evaluate controls)	MTS Fixed-Asset Review	High	120
	• Bodily harm to customers or employees	SDTC Safety- (Including DMV Pull Notice Review)	High	120
	• Misappropriation, waste, or loss of collected revenue (evaluate controls)	Smart Card Controls	Extreme	160
	• Misappropriation, waste, or loss of collected revenue (evaluate controls)	Contract Services	High	160
	• Misappropriation, waste, or loss of collected revenue (evaluate controls)	Transit Store	High	120
	• Bodily harm to customers or employees	SDTI Safety	Medium	80
	• Bodily harm to customers or employees	SDTC CARB Compliance Review	High	40
	• Misappropriation, waste, or loss of collected revenue (evaluate controls)	SDTC Warranty Mgt	Medium	120
			Total	1,280
<i>Objective 2</i>	<i>Improve the public's ability to hold the Board and its subsidiaries accountable</i>			<i>Number of Task Hours</i>
	• Follow-up on all MTS and subsidiary audit and audit-related projects conducted in FY 2008/09 and evaluate the quality and timeliness of action plans			200

GOAL 2 IMPROVE THE AUDITING AND CONSULTING CAPABILITIES OF THE INTERNAL AUDIT FUNCTION

<i>Objective 1</i>	<i>Improve staff knowledge and skills</i>			<i>Number of Task Hours</i>
	• Identify opportunities for improvement and obtain appropriate training			80
<i>Objective 2</i>	<i>Improve customer satisfaction and internal audit reputation through delivering high-quality and timely services</i>			<i>Number of Task Hours</i>
	• Prioritize special requests and conduct special projects			280
			Total Audit Hours	1,840