

Minutes

Meeting of the Board of Directors

Audit Committee Meeting

Metropolitan Atlanta Rapid Transit Authority

March 23, 2011

The Board of Directors Audit Committee held a meeting on Wednesday, March 23, 2011 at 10:06 a.m. in the Board Lounge on the 6th Floor of the MARTA Headquarters Building, 2424 Piedmont Road, Atlanta, Georgia.

Board Members Present

Harold Buckley, Sr., Chairman
Frederick Daniels, Jr.
Jim Durrett
Noni Ellison-Southhall
Barbara Babbitt Kaufman

MARTA officials in attendance were General Manager/CEO Beverly A. Scott, Ph.D.; Deputy General Manager/COO Dwight Ferrell; Chief of Business Support Services Ted Basta; AGMs Davis Allen, Deborah Dawson, Wanda Dunham, Ben Graham, Georgetta Gregory, Mary Ann Jackson, Jonnie Keith, Rich Krisak, Ryland McClendon, Elizabeth O'Neill and Gary Pritchett; Directors Cynthia Moss-Beasley, Joe Erves, Garry Free and BK Trivedi; Managers Susan Elakatt and K. C. Worku; Executive Manager to Board of Directors Rebbie Ellisor-Taylor; Executive Administrator Kellee Mobley; Administrative Assistants Renee Willis and Kimberly Williams.

Also in attendance was Charles Pursley, Jr. of Pursley, Lowery & Meeks; Patricia Pryor, Kaya Carter and Eric Wilson of Cherry, Bekaert & Holland; Matt Pollack of MATC.

Minutes of the November 15, 2010 Audit Committee Meeting and Minutes of the November 29, 2010 Special Audit Committee

On motion by Mr. Durrett seconded by Mrs. Kaufman, the minutes were unanimously approved by a vote of 4 to 0, with 4 members present.

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Presentation of Financial Reports for FY'10 by External Auditors

Patricia Pryor of Cherry, Bekaert & Holland (CB&H), stated that the financial reports are normally presented in November, but due to new standards being adopted, the reports were delayed. She indicated that the Financial Statements and Single Audit reports were issued with unqualified opinions.

Audit Committee

03/23/11

Page 2

Ms. Pryor indicated that CB&H is required to communicate to the Audit Committee on an annual basis. And as part of their responsibility under General Accepted Auditing Standards (GAAS), they are required to obtain the understanding of MARTA's environment which includes internal controls, processing's, etc. That process is done to ensure that CB&H is properly maintaining adequate procedures to address significant risks.

Ms. Pryor informed the Audit Committee that in 2010 there were two new significant accounting policies that were adopted; *Intangible Assets* and *Derivative Instruments*. She stated the Intangible Assets provision applies to MARTA in regards to what costs the Authority are able to capitalize. She gave an example of system conversion (Oracle) in which the training cost of staff could have previously been capitalized, but under the new provisions, these costs are now recorded as expenses. In relation to Derivative Instruments/Investments, Ms. Pryor noted that historically, MARTA disclosed the fair value of investments in the footnotes of the financial statements but the new standard requires recording those values on the balance sheet. As those assets go up and down, MARTA is required to run unrealized gains and losses through the Profit and Loss statements.

Dr. Scott referred to the acquisition of the Breeze system, in which the required customer service staff was on the Capital side of the budget, and asked, in relation to intangible assets, if future technology costs will not be able to be capitalized.

Ms. Pryor stated that a significant portion of the costs will not be able to be capitalized.

Ms. Pryor indicated that CB&H went through the process of restating MARTA's LILO investments and liabilities on the financial statements. She noted that if MARTA is the holder of the investment, under GAAP principles, MARTA is required to adjust assets for fair value. She stated a group of investments that were swapped out during the year, were not adjusted to market, resulting in \$38,000,000 unrealized gains that was not reflected.

Ms. Pryor notified the Committee of a significant deficiency in internal controls that is now classified as a material weakness. She indicated the audit guidance that is now used to determine significant deficiencies and material weaknesses has gone from very low to very high. And when a finding is repeated, CB&H has to reclassify the finding.

Last year's report had a significant deficiency because there was a need for better communication between Budget and Accounting concerning LILO information. That problem still existed last year; therefore the finding had to be elevated to material weakness.

Ms. Pryor also noted that if your external auditor discovers a significant adjustment, it is by default a significant deficiency because the external auditor is not part of MARTA's internal control process. If a material error occurs and is caught by the external auditor, that means it was not caught by the Authority's internal control process, and therefore becomes a material weakness.

Mr. Buckley, on behalf of the Audit Committee, thanked CB&H for all their exceptional hard work over the duration of their contract, which ends June 30, 2011. Mr. Keith also thanked them.

Ms. Pryor thanked the staff of MARTA for being highly professional and a great organization to work with. She gave a special thanks to Cynthia Moss-Beasley, Director of Accounting, and her team for all their dedication and assistance.

Status of Elevator/Escalator Audit by External Auditors

Mr. Keith stated that MARTOC requested an elevator and escalator audit. He indicated that CB&H was contracted to handle the request and Patricia Pryor would brief the Committee.

Ms. Pryor stated that in the fall of '09, CB&H was contacted by Mr. Keith and informed of the request by MARTOC to review the monitoring of the elevator and escalator contracts. She indicated they developed proposed objectives and began the process of attempting to reach Rep. Jill Chambers of MARTOC to discuss the proposed objectives. They sent a letter in November with the objectives and a request to meet with MARTOC, but received no response. Ms. Pryor stated that she received a package in January from Ms. Chambers indicating she was no longer Chair of the committee. CB&H then attempted to reach Mark Jacobs, the new Chair of MARTOC, but did not receive any response. Ms. Pryor noted they are hesitant to start the audit process without specific directions from MARTOC and will continue to reach out to Mr. Jacobs.

Mr. Durrett recommended not performing the audit until MARTOC has given specific information.

Dr. Scott suggested CB&H send a letter to MARTOC stating they will hold up proceeding with the audit until they hear from Mr. Jacobs.

Ms. Pryor stated she sent Mr. Jacobs a copy of the letter that was sent to Jill Chambers and will follow up with him through email.

Resolution Authorizing the Solicitation of Proposals for RFP P22915 for Annual Management Audit for Fiscal Years 2011, 2012, 2013, 2014 and 2015

Mr. Keith informed the Audit Committee that the MARTA Act requires the Authority to have an annual Management Audit performed. The previous Management Audit for the last two years was done by external auditors Cherry, Bekaert & Holland for an average cost of \$47,500 per year.

Mr. Keith is requesting approval from the Board to solicit proposals for the Management Audit with a contract term of one (1) year with four (4) one year options at an estimated cost of \$275,000 over five (5) years.

Mr. Daniels asked about the scope of the audit.

Mr. Keith responded that the scope will include a look into functional areas such as Operations, Bus, Rail, Administration, as well as management for controls and to ensure that objectives are being met efficiently and effectively.

Dr. Scott noted the Management Audits have been base level audits in the past and this would be an opportunity to have real focus on what the scope may include. She indicated that there could be a higher level of review than previous years.

Mr. Daniels stated this is an opportunity to get MARTA where it needs to be. Therefore, he made a motion to have the scope expanded.

Mr. Keith said he will work with Dr. Scott to expand the scope and will bring it before the Committee at a special Audit Committee meeting to be held in April.

On motion by Mr. Durrett seconded by Mr. Daniels, the Resolution Authorizing the Solicitation of Proposals for Fiscal Years 2011 Through 2015 was tabled by a vote of 5 to 0, with 5 members present.

Audit Activities Report

Mr. Keith presented the Audit Activities Report to the Board covering audits issued since the last Audit Committee meeting. The report highlighted audit reports issued with significant findings, minor findings/suggestions and no findings. Mr. Keith indicated there were two audits with significant findings.

Significant Findings

The first significant finding was referenced on page 30; *Review of Fare Media Sales - Outlets*. Mr. Keith explained an outdated procedure from 1988 that states...*"Discontinue credit to late or non-paying customers"* has not been the practice over the years. He noted 44 accounts consisting of 69 invoices totaling \$115,000 were past due.

Audit Committee

03/23/11

Page 5

He indicated that based on the recommendations in the report, the AGM of Finance will have his staff rewrite the procedure. The AGM reviews the aging report and makes the decision as to whether or not the clients' credit is cut off.

Mr. Allen stated at the time of the audit report, the amount past due was \$115,000, but as of now, only \$23,000 is past due. Of the \$23,000 past due, \$21,000 belongs to Fulton County. The funding has been approved and a check should be received within the next week. He noted that clients eventually pay, but are sometimes slow.

Mr. Daniels asked if the accounts could be charged off.

Mr. Allen responded that this practice may impact the financials, but it is possible to write them off after 120 days and deem them as uncollectable.

The second significant finding was referenced on page 41; *Audio Frequency Track Circuit Modules – Alstom Signaling, Inc.* Mr. Keith explained that Alstom proposed an amount of \$7.4M to perform the work under the contract, and based on the analysis, Audit recommended an amount of \$6.4M, resulting in a savings of \$975,000. He noted that a cost savings of over \$100,000 is considered significant.

Operational Audit Section

Mr. Keith summarized the Operational Audit Branch activities for this period. Operational Audit issued one audit with significant findings, two audits with minor findings and three audits with no findings since the last meeting. Operational Audit also had eight audits in-progress, three audits remaining for the FY'10 Work Program and six audits remaining for the FY'11 Work Program.

Information Technology Audit Section

Information Technology issued no audits with significant findings, one audit with no findings, two audits with minor findings, and nine audits in-progress since the last meeting. Information Technology Audit has four audits remaining for the FY'11 Work Program.

Contract Audit Section

The Contract Audit Branch issued one audit with significant findings, 27 audits with no findings, 14 audits with minor findings and 34 audits in progress since the last meeting.

Other Matters

Next Audit Committee Meeting

Mr. Buckley announced that the next regular Audit Committee Meeting will be held July 21, 2011 and a Special Audit Committee meeting will be determined at a later date. He turned it over to Mr. Keith to give details of the Agenda for the special Committee meeting.

Mr. Keith indicated the items on the Agenda will include a presentation from the new external auditors, Mauldin & Jenkins; a presentation of Internal Auditors' FY12 Work Plans and Risk Assessment; a PCard update; and the RFP request for the Management Audit.

* * *

Mr. Buckley indicated during the November meeting there was a recommendation from the Peer Review report that was not discussed and he would like for Mr. Keith to address it.

Mr. Keith stated the recommendation was to improve more detailed information on the scope and methodology on the front of the audit report. He indicated that Audit does a high level scope on the front pages of the report and gives a detailed scope with emphasis on the specific finding. He feels this process is sufficient.

* * *

Mr. Buckley informed the Committee of a new regulation being looked at with the Dodd Frank Act (Act) and asked General Counsel Mr. Pursley to explain.

Mr. Pursley explained that "municipal advisors" have to register with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board. The SEC came out with proposed regulations to implement the act in which several parts apply to banking entities. He noted the banking registrations would affect banks that MARTA does business with. He indicated appointed Board members must register; however, an elected Board member does not have to. He stated the Legal department is keeping an eye on the progression of the Act. At this juncture, it is only in comment stage and has not been implemented.

Mr. Keith said if the Board is comfortable with the letter asking to be excluded from the Act, he will move forward with submitting it after receiving the appropriate signatures.

On motion by Mr. Durrett seconded by Mr. Daniels, the submission of File Number S7-45-10 letter was approved by a vote of 5 to 0, with 5 members present.

Adjournment

The Audit Committee meeting adjourned at 11:11 a.m.

Respectfully submitted:



Shamara White
Audit Coordinator

Approved as to Form:



Rebbie Ellisor-Taylor
Assistant Secretary to the MARTA Board