

Minutes

Meeting of the Board of Directors

Audit Committee Meeting

Metropolitan Atlanta Rapid Transit Authority

November 15, 2010

The Board of Directors Audit Committee held a meeting on Monday, November 15, 2010 at 10:04 a.m. in the Board Lounge on the 6th Floor of the MARTA Headquarters Building, 2424 Piedmont Road, Atlanta, Georgia.

Board Members Present

Gloria Leonard, Chairwoman
Harold Buckley, Sr.
Jim Durrett
Barbara Babbitt Kaufman
Walter L. Kimbrough
JoAnn Godfrey McClinton
Jannine Miller
Michael Tyler
Michael Walls

MARTA officials in attendance were General Manager/CEO Dwight Ferrell (Acting), Chief of Business Support Services Ted Basta; AGMs Deborah Dawson, Ben Graham, Georgetta Gregory, Jonnie Keith, Rich Krisak, Elizabeth O'Neill and Gary Pritchett; Senior Director Johnny Dunning, Jr.; Directors Tara Balakrishnan, Cynthia Moss-Beasley, Miriam Lancaster, Lavoise Magee and BK Trivedi; Managers Rod Hembree, Kevin Hurley, Susan Elakatt, Curtis Johnson 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 General Counsel Charles Pursley, Jr. of Pursley, Lowery & Meeks; Patricia Pryor and John Montoro of Cherry, Bekaert & Holland; Matt Pollack of MATC.

Minutes of the August 2, 2010 Audit Committee Meeting

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

* * *

Presentation of External Auditors Annual Financial Report for FY'10

Patricia Pryor of Cherry, Bekaert & Holland (CB&H), informed the Audit Committee that the audit of the Financial Statements for year ending June 30, 2010 is not complete and she would like to make remarks on the reason why.

Ms. Pryor stated that in FY'10, MARTA adopted two major standards; the first deals with Capitalization and the affording of cost related to internal generated software. The second standard deals with investments and derivatives. Ms. Pryor noted that any derivative activity the Authority engages in must be disclosed in the footnotes of the financial statements. Beginning in 2010, MARTA is now required to present that activity on the balance sheet and P&L reports.

Mr. Keith asked Ms. Pryor to explain MARTA's derivatives.

Ms. Pryor stated the purpose of a derivative is to help manage risk. She noted that MARTA has entered into several commodity agreements including fuel and natural gas, rate swaps and bonds with variable interest rates. She explained that in order for MARTA to cap the exposure from variable interest bonds, MARTA entered into some interest rate swaps that lock the interest rate. Historically, MARTA has always been involved in these items and they were only discussed in the footnotes of the financial statements, now they are presented as assets and liabilities on the statement of assets. She noted that depending on the nature of the derivative, MARTA may have to run activity through the P&L statements.

Ms. Pryor indicated the final documentation has been received and they do not anticipate any problems; however, there is one open item in the audit in which CB&H is still awaiting confirmations from MARTA's LILO assets. She stated CB&H is waiting on the external party (specialty partner) to give confirmation of those balances.

Ms. Pryor also noted there were no findings in the Audit of Federal Expenditures. She explained that as part of the audit, CB&H looks at IT controls to identify any significant deficiencies. There were no control deficiencies, only recommendations. The only significant deficiency they see as a concern is the need for better communication between departments regarding LILO's and the information getting to the proper accounting functions. She noted there has been some improvement, but MARTA is not quite there yet. She hopes to have the audit complete by the end of November.

John Montoro of Cherry, Bekaert & Holland (CB&H), presented the Management Audit for FY'09. He explained the audit is an annual performance audit that is performed to

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determine if MARTA processes are in place to ensure the Authority is working efficiently and effectively and complying with the laws and regulations. He stated that CB&H looks at overall management and selects certain functional areas of focus. For this audit, the areas included Human Resources, IT, Procurement, and Finance/Budget. He indicated the results were good overall and there were no significant deficiencies, only observations.

Mr. Montoro briefed the Committee on the observations and noted that a survey of MARTA's management and Board was conducted using 200 employees. One-third of the survey recipients responded. The overall results were good, but there are some issues that reflect lack of training. Additionally, there appears to be a disconnect between management's response and what the survey says.

He also indicated the Executive Management Team has extensive institutional knowledge and there is a need for succession planning.

Mr. Buckley stated that one of the most valuable assets at MARTA is personnel and there needs to be more emphasis on succession planning because it is the future of the Authority.

Dr. Kimbrough noted there is a need to identify staff that can move up and assume the responsibilities; otherwise there will always be employee concern with an outside person becoming a manager over an employee who has several years experience. He also noted there is a need to train individuals to fill positions.

Peer Review Response

Mr. Keith summarized the responses to the Peer Review that was issued on April 9, 2010. He stated that the Internal Audit department received the highest rating of "**Full Compliance.**" He also noted that the individuals doing the review will sometimes base their recommendations on how their audit departments are ran. The summarization is as follows:

Response #1: The recommendation of combining audit functions with the QA department is not necessary. The Director of QA reports directly to the Deputy General Manager, which gives the department independence.

Response #2: The recommendation to waive certain cost/price analysis is agreeable; however the change would not present a big savings. There is a need for more people in this auditing area, not less.

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Response #3: Audit feels their process is adequate in relation to developing a more comprehensive audit universe. Audit determined a change would be a waste of resources.

Response #4: Audit has added a risk matrix for more structure to identify areas of risk.

Response #5: Audit feels their current process of identifying root cause is adequate. Audit has in place an Audit Finding form that lists condition, criteria, effect, cause and recommendation.

Response #6: Audit agrees with follow up dates being reasonable and now submits a monthly follow up report to the GM to address the problem.

Response #7: Audit agrees with adding a step to the audit program to identify cost savings opportunities and has added a form to specifically address this.

Response #8: Audit agrees with recommendation to use automated work papers. However, the cost associated with doing so is \$25K to start and \$5,000-\$10,000 annually. The cost will be analyzed vs. savings and considered at next budget cycle.

Response #9: Audit agrees with encouraging staff to get certifications and provides study material whenever requested.

Dr. Kimbrough asked if MARTA pays for certifications. Mr. Keith responded that MARTA pays a portion of the cost.

Response #10: Audit feels the detailed information on scope and methodology given in the front of audit reports is adequate.

Response #11: Audit agrees with posting the Peer Review on the MARTA website.

Mr. Durrett noted there was a recommendation in the original report that was overlooked and did not receive a response. Mr. Keith apologized for inadvertently leaving it out and stated he will give a response at the next Audit Committee meeting.

Risk Analysis

Mr. Keith stated that at every Audit Committee meeting, Audit has committed to being proactive in looking at the risk analysis to check for changes and whether the Board or management has anything that needs to be addressed.

Mr. Keith indicated there were two items added to the risk analysis under the Operational branch; *Escalator/Elevator and Maintenance – Retired CQ310 Rail Cars* audits. He informed the Committee that MARTOC requested the Elevator/Escalator audit and CB&H, MARTA's external auditors were asked to perform it. He noted that CB&H has tried to contact Rep. Jill Chambers to obtain the objective of the audit. Ms. Chambers instructed CB&H to wait until after the election. Mr. Keith stated that CB&H wants to do the audit based on what Ms. Chambers asks for to ensure the Audit department does not duplicate the effort.

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Mr. Ferrell stated that Mr. Keith was given a recommendation to still perform the audit to verify that MARTA complies with State requirements, the Department of Labor and within MARTA's own SOP's.

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 40; *Purchase Card Irregularities*. Mr. Keith explained that on July 1, 2010, the AGM of Rail Operations requested that Audit investigate possible abuse of MARTA issued Purchase Card (PCard) to Office Administrator II with the Office of Rail Transportations. He indicated the audit objectives were to determine if there were irregularities in the employee's PCard usage and if procedures were followed.

Mr. Keith explained that the Purchase Card Coordinator in the Contracts and Procurement (C&P) department noted some irregularities in the employee's monthly reconciliation packages. The Purchase Card Administrator sent memos to the employee on five different occasions requesting the missing documentation. The employee responded to the questionable items and used an electronic signature of the Director to concur on the responses.

Mr. Keith informed the Committee of the normal use of the PCard. He stated there is a 'cardholder' and 'approver' for each issued PCard. The cardholder makes purchases with the card and prepares a monthly reconciliation package to let the approver know what items have been purchased. The approver looks at the package, signs off on the items using Microsoft WORKS and the information then goes to C&P. He noted that WORKS sends notification to the approver showing a list of purchases to be signed off on.

Mr. Keith stated it appears that the employee did not give the packages to the approver. Instead, an electronic signature was used for approvals, which caught the attention of C&P. The employee claimed that all work was shown to the Director and the Director suggested using the electronic signature. Mr. Keith noted that when questioned, the Director denied the claim.

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Mr. Keith summarized the findings of the audit. He stated there were questionable items totaling \$1,549.11; unsupported items totaling \$1,708.18; split purchases totaling \$23,894.86; and stock items totaling \$4,829.90. He also noted transactions were not timely reconciled/approved, monthly reconciliations were not properly reviewed/authorized by Approving Officer nor were they properly done, and some purchased items were not located. There were 75 items on the list and all but seven items were located. Three (3) of the 75 items were at the employee's home.

Mr. Keith concluded by stating procedures are adequate, but in this case, the procedure was ineffective because the primary control, Approving Officer's review and approval of the monthly reconciliation, were not done. He also noted the purchaser (the employee), was terminated and the approver (the Director) was reprimanded based on the findings.

Mr. Basta stated a final closeout audit on the PCard situation is being conducted by PriceWaterhouse Cooper. They will take a look at the processes the Authority has in place and plans to put in place, as well as, a retraining program as part of the closeout.

Mr. Tyler informed the Committee that a Special Audit Committee meeting will be held on November 29, 2010 to discuss a comprehensive report from staff outlining immediate steps based on the report from PriceWaterhouse Cooper recommendations. This meeting will allow for any specific recommendations the Board may need to vote on at the next regularly scheduled Board meeting.

Mr. Keith summarized the second significant finding referenced on page 51; *Fraud Hotline Call - Inaccurate Approved Timesheet*. He stated that on December 22, 2009, a call was received on the fraud hotline alleging a Budget Analyst had been out for six weeks and was being paid as if at work. A second call was received also alleging the employee had been on vacation in the past and was paid as if at work.

Mr. Keith indicated a review of the employees timesheets and entrance/exit reports for a two-year period showed that no PTO days were taken, except for regular holidays, and the employee was absent from Headquarters a total of 88 days within the time frame.

As part of the investigation, the employee was asked to provide an explanation for another 22 questionable days. Within the employee's explanation, was a claim to have worked but evidence shows this did occur. Mr. Keith stated the evidence shows there was clear deception, which led to an expanded scope of the entire Budget Office. Audit reviewed a total of 249 questionable days for the two-year period and found that the

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employee and the employee's Managers' absences made up over half (54%) of the days. There were no specific explanations provided for the questioned days. The expanded scope also revealed an IT employee to have 93 questionable days.

Mr. Keith noted that Audit took a look at the procedure to see if it is adequate or if changes need to be made. The procedure is set up as such that when the timesheet is submitted, the approver should validate the time worked. In this case, the control was there but it was not effective because the approver did not check to see if the persons were actually there.

Mr. Basta noted that at the time, the Authority did not have a time compensation or telecommuting policy, but there is one now in the final draft stage.

Ms. Leonard asked what happened to the approver in this case.

Mr. Basta stated the approver was reprimanded.

Ms. Leonard asked is it always the case that management is reprimanded and the employee is fired?

Mr. Basta stated that when the interviews were conducted, the CFO and the Director of Budget both believed the employees had accrued the time and they did not keep record. Since the Finance Department reports to Mr. Basta, he insisted that whatever disciplinary action management receives, he should receive the same. Therefore, he wrote up his own disciplinary action and Dr. Scott signed it. The three employees were terminated.

Operational Audit Section

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

Information Technology Audit Section

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

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Contract Audit Section

The Contract Audit Branch issued no audits with significant findings, 17 audits with no findings, nine audits with minor findings and had 40 audits in progress since the last meeting.

Other Matters

Briefing – Contract Close-Out With Continental/Trapeze ITS

Mrs. Lancaster briefed the Committee on the contract close-out with Continental. Mrs. Lancaster stated that MARTA has finally received a Bus Radio/AVL system that is up and working completely. She indicated the contract was scheduled to be complete in March, 2007. The project was complete in April, 2009. The contract was originally awarded to Siemens, but there was a major challenge due to a demand in MARTA's spec for the Oracle database, which Siemens said they were able to handle, but had never done before. She noted that Siemens was taken over by Continental and when Continental came on board, MARTA took drastic measures to get the project back on track.

Mrs. Lancaster indicated that MARTA assessed \$457,500 in liquidated damages for the two-year delay. She noted there were additional claims for radios not working, along with a credit for design changes, resulting in a total claim against Continental for \$842,000. She also noted that Continental will provide the following items; an upgrade of software (Transit Master) and hardware, a benchmark for dual radio replacement system, installation of 24 radios in Mobility vehicles with no cost and an additional 25 radios at cost with no profit to Continental. The value of all these concessions is \$1,068,542 against MARTA's claims of \$842,000.

Mrs. Lancaster informed the Committee that MARTA has entered into discussions with Continental to finalize the final change order. She also indicated that the FTA concurred in this settlement and released MARTA from acquiring liquidated damages to be paid back to the FTA. She noted that \$2 million will be put back into the capital program. Final acceptance will be submitted to the Board under normal procedures.

Next Audit Committee Meeting

Ms. Leonard announced that the next regular Audit Committee Meeting will be determined at a later date.

Adjournment

The Audit Committee meeting adjourned at 11:23 a.m.