

Minutes

Meeting of the Board of Directors

Audit Committee Meeting

Metropolitan Atlanta Rapid Transit Authority

July 28, 2011

The Board of Directors Audit Committee held a meeting on Thursday, July 28, 2011 at 12:09 p.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

MARTA officials in attendance were Deputy General Manager/COO Dwight Ferrell; Chief of Business Support Services Theodore Basta, Jr.; AGMs Deborah Dawson, Wanda Dunham, Georgetta Gregory, Jonnie Keith, Ryland McClendon, Elizabeth O'Neill and Gary Pritchett; Directors Joe Erves and BK Trivedi; Manager K. C. Worku; Executive Manager to Board of Directors Rebbie Ellisor-Taylor; and Executive Administrator Renee Willis.

Also in attendance was Charles Pursley, Jr. of Pursley, Lowery & Meeks; Matt Pollack of MATC; Tiffney Rayford.

Minutes of the March 23, 2011 Audit Committee Meeting and Minutes of the April 19, 2011 Special Audit Committee Meeting

On motion by Ms. Ellison-Southhall seconded by Mr. Durrett, the minutes were unanimously approved by a vote of 4 to 0, with 4 members present.

* * *

Internal Auditors' Risk Assessment

Mr. Keith noted that there had not been any changes to the Risk Assessment since the last Audit Committee meeting.

Mr. Durrett mentioned that at the APTA meeting, there was a section on Safety in Transit Systems. One of the points that were made from going over the lessons learned was about open audits on previous safety issues that the WMATA Board was aware of

Audit Committee

07/28/11

Page 2

and did not follow up to see it resolved. He asked whether there were some safety issues the Board should be aware of.

Mrs. Gregory, AGM of Safety, stated there is a program of internal safety audits MARTA conducts throughout the year and a specific internal safety person in their department tracks those recommendations. She informed the Board that someone from her department would give a presentation regarding the recommendations at the next Operations and Safety Committee meeting in September.

Mr. Daniels asked about the difference between incident and accident, and awareness of what those incidents are. He also questioned whether MARTA has put changes in place to make sure that when incidents occur, those incidents do not become accidents?

Mr. Ferrell said all the incidents related to a MARTA accident are brought to the attention of the Safety and the Audit Committees. The directives, findings and step-by-step of what needed to be done for light transit systems, have been complied with. He also noted that part of MARTA's vision in the monthly report for KPI's as it relates to safety, will address some of the incident/accident issues. He stated that the Board will notice, in the monthly report, an overall increase in incidents as it relates to bus, but most of them were not lost-time injuries. He said he asked that staff report everything since there is increased focus on safety. This will help determine if there is a trend and prevent future incidents.

Mrs. Ellison-Southhall asked if there is a precise format in which these incidents are reported to the Board.

Mr. Ferrell stated that as part of paperless process, staff first focused on changing the format of items coming to the Board and are trying to come up with a more concise way of reporting KPIs and those things that are important to the Board. He noted that the Board will be asked for their input on how things should be recorded and reported to them.

Ms. Gregory stated she received notice from the National Transportation Safety Board (NTSB) that the one recommendation made to transit following the WMATA accident (including MARTA), has been closed out. The NTSB was pleased with the actions that MARTA took.

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 was one audits with significant findings.

Significant Findings

The first significant finding was referenced on page 30. Mr. Keith gave a summary of the audit on Review of Diesel Fuel. He indicated that in one location (Hamilton Garage), the diesel fuel was causing parts failure. At the MOW location, staff was using a gasoline additive that mitigated this kind of wear and tear. He stated that recommending the use of the additive, would result in a savings of \$27,000.

Operational Audit Section

Mr. Keith summarized the Operational Audit Branch activities for this period. The operational audit section issued one audit with significant findings, one audit with minor findings and five audits with no findings since the last meeting. Operational audit also has five audits in-progress.

Information Technology Audit Section

Information Technology issued no audits with significant findings, zero audits with no findings, three audits with minor findings, and has nine audits in-progress since the last meeting

Contract Audit Section

The Contract Audit Branch issued no audits with significant findings, 17 audits with no findings, seven audits with minor findings and has 28 audits in progress since the last meeting.

Mrs. Ellison-Southhall asked why the Audit department conducts certain audits; i.e. 'Abuse of Power and Falsifying Employee's Time' and 'Braves Shuttle Cost Analysis.'

Mr. Keith responded that audits are selected as a result of their annual risk analysis. He also explained that the Abuse of Power and Falsifying Employee's Time audit was a result of a message from the Fraud & Abuse Hotline. The Braves Shuttle Cost Analysis was a request by the AGM of Bus, due to some inconsistencies in the cost.

Mr. Daniels asked what the exceptions were in the minor findings for IT Audit reports.

Mr. Trivedi replied that for the Network Security Review, it was observed that vulnerability testing was not performed in the last two years. This is the test performed by experts to hack the system and to test the security of the system. He noted it helps to find weaknesses in order to strengthen security. For Oracle Database, the software licensing agreement was not transferred from Cubic to MARTA on time.

Mr. Basta informed the Committee that appropriate follow up actions are being taken.

Mr. Daniels expressed his concern over security, as MARTA is going to accept credit cards from the customers to add value to their Breeze cards.

Mr. Basta and Mr. Trivedi explained that every effort is being made to test the system before it goes live. Also, Payment Card Industry (PCI) Standards requires certain securities in place and is being tested regularly.

Resolution Authorizing Award of a Contract for Annual Management Audits for Fiscal Years 2011, 2012, and 2013; Request for Proposal Number P22915

Mr. Keith stated seven proposals were sent out and all seven responded. The top three were Crowe Horwath, KPMG and McKinsey & Company. KPMG scored the highest. A BAFO was received from all three companies and KPMG proposed an amount of \$649,000, which was reduced by \$97,000 from their original BAFO. Mr. Keith indicated that after going through the process, staff recommends KPMG perform the Management Audit.

Mr. Daniels said the concern he has is that it looks like an "audit" and not necessarily a management assessment in terms of best practices.

Mr. Ferrell stated that during the presentations, some of the presenters said they would use the Audit Standards. Additionally, they were willing to do a different kind of process along the lines of an Assessment Standard. He also noted that there is a piece that is required by the MARTA Act that is an audit, and there is the piece in terms of Best Practices of what other entities are doing, that would be done by this contract, but not necessarily be a part of what we do as the Management Audit.

Mrs. Ellison-Southhall asked if the other is operational Best Practices, not just financial Best Practices.

Mr. Keith stated it could be both.

Mr. Ferrell asked Mr. Daniels if he wants part of this reported through the Audit Committee and another part reported through the Business Management Committee.

Mr. Daniels and Mr. Buckley indicated yes.

Mr. Keith stated that the internal reporting process can be worked out at a later time. The external reporting process will be discussed at the kickoff meeting with the external auditor.

Mrs. Ellison-Southhall questioned the scoring process. She asked what was used in evaluating each of the components and scoring them.

Mr. Keith referred her to the section that detailed the scoring.

Mrs. Ellison-Southhall asked if KPMG understands what MARTA is looking for.

Mr. Ferrell stated that of the top three proposals, KPMG brought forward people who understand the issues by looking at the Authority's supply chain and the potential for that. KPMG has the business expertise to look at MARTA and apply how other transportation company business practices can be applied, both operationally and on the administrative side. He noted if there are ways MARTA can do the same things in a more efficient way; KPMG will bring those things to management's attention.

On motion by Mr. Durrett seconded by Mr. Daniels, the resolution was unanimously approved by a vote of 4 to 0, with 4 members present.

* * *

Other Matters

Revision to Board Policy

Mr. Keith proposed a change in the Board Reimbursable Travel and Other Expenses Policy. He indicated that the only change is the three new paragraphs that deal strictly with credit cards. He mentioned that the credit card is being looked at by the Board Chair on a monthly basis and this change adds another level of control and review that sends it through the Internal Audit Department.

Mr. Keith noted that the last paragraph talks about looking at the monthly dollars being spent so the Board, on an annual basis, can assess the credit cards limits. He also noted the proposed changes make the Board credit process similar to the General Manager's.

Mr. Daniels suggested doing away with provision F in the Board Policy, related to Board members being issued with 60 minute phone cards.

Mr. Keith stated he will do another revision and will work with the Board Secretary to present the revision to the Board.

On motion by Mr. Durrett seconded by Mr. Daniels, the Revision to Board Policy was unanimously approved by a vote of 4 to 0, with 4 members present.

* * *

Evaluation (Replacement) of the AGM of Internal Audit

Mr. Buckley stated that Mr. Keith will be retiring December 31, 2011 and the Board will go through a search to find a replacement. He stated the first step in finding a new AGM is to select a Search Committee. He indicated an RFP was issued and there were three respondents the Board would like to take a closer look at. The agencies were Krauthamer & Associates, Inc., Gilbert Tweed & Associates and RHI - Robert Half International. He asked Mrs. Dawson, AGM of HR, to give a brief background on each.

Mrs. Dawson stated that one point she wanted to make was that the agencies Krauthamer & Associates and Gilbert Tweed & Associates are well known in transit and handle an extensive amount of executive searches, but they did not want to box themselves in by only looking at the transit industry. She indicated a recommendation was made to Dr. Scott and RHI has been retained for the executive search. She noted that RHI has done work for the Chicago Transit Authority; therefore, they have experience in the transit industry but have a wider range that includes the financial side of the industry.

Mrs. Dawson stated the next step is to identify a Search Committee of the Board of Directors and MARTA executives. She indicated the Search Committee will meet with executives from the recruitment firm to discuss the characteristics of the candidate, review the resumes and identify candidates they wish to interview. The Committee will screen and make recommendations for the best two to be interviewed by the full Board and the Board will then review the two recommended interviewees. She stated the search will kick off by August 1, 2011 and the goal is to have the Board identify the candidate by November 1, 2011 in hopes of the individual starting December 1, 2011, to bridge the 30 day overlap.

Mr. Buckley requested a motion to reconfirm the recommendation by the staff for the selection of RHI.

On motion by Mr. Durrett seconded by Mr. Daniels, the reconfirmation of the recommendation for the selection of RHI was unanimously approved by a vote of 4 to 0, with 4 members present.

Audit Committee

07/28/11

Page 7

Mr. Buckley requested the motion to approve the Search Committee in addition to the General Manager, Deputy General Manager, Chief of Business Support Services and Chief Financial Officer.

On motion by Mr. Daniels seconded by Mr. Durrett, the selection of the seven members for the Search Committee was unanimously approved by a vote of 4 to 0, with 4 members present.

. . .

Mr. Daniels asked if RHI can perform the search for a CFO to replace Mr. Allen at the same time they are doing the search for the AGM of Audit.

Mrs. Dawson stated MARTA may be looking at as much as 6 months overlap time with Mr. Allen and his successor.

Mr. Buckley suggested that management look at the CFO position, in terms of time line, i.e., the time needed to get someone in to follow the budget process and make the recommendation to the appropriate committee.

Next Audit Committee Meeting

Mr. Buckley announced that the next regular Audit Committee Meeting is scheduled for November 28, 2011.

Adjournment

The Audit Committee meeting adjourned at 1:00 p.m.