Lines of Defense Model For Effective Enterprise Risk Management

NYSICA Annual Conference
April 2016
MTA’s Three Lines of Defense For Effective Risk and Control Management

AGENDA

• MTA Overview
• MTA’s Three Lines of Defense Model
• External Functions Oversight Responsibilities (MTA Inspector General, External Auditors, and Regulators)
• Board and Senior Management’s Responsibilities
• Recommended Actions
Metropolitan Transportation Authority

Who We Are

• Public Benefit Corporation
• Over 70,000 Employees
• Serving 8.75 Million Customers Daily
• Transportation, Construction, Real Estate, & More
Metropolitan Transportation Authority

Subsidiaries

- The Long Island Rail Road Company
- Metro-North Commuter Railroad Company
- MTA Bus Company
- MTA Capital Construction Company
- First Mutual Transportation Assurance Company
- Staten Island Rapid Transit Operating Authority

Affiliates

- Triborough Bridge and Tunnel Authority
- New York City Transit Authority
  - Its subsidiary, Manhattan and Bronx Surface Transit Operating Authority
Metropolitan Transportation Authority

What it Takes

- Annual Operating Budget: $13.9 Billion
- Capital Plan: $27 Billion

Results

- North America’s Largest Transportation Network
Lines of Defense

The strategy in a nutshell: business units are the **first line** and responsible for **assessing** and **controlling** their own **risks**; the **second line** of risk management and compliance ensures that those **risks are identified and managed**; the **final backstop**, internal audit, **independently assesses** the **effectiveness** of the processes created in the previous lines.
MTA’s Three Lines of Defense for Effective Risk and Control Management

1. The First Line of Defense – Agency Operational Management
2. The Second Line of Defense - Corporate Compliance & MTA Enterprise Risk Management Committee
3. The Third Line of Defense - MTA Audit Services

Senior Management and Board of Directors

External Functions – MTA Inspector General, External Auditors, and Regulators

Corporate Compliance
# First Line

## MTA Business Management

- **Business Process Owners**

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<tr>
<th>Independence Level: No Independence</th>
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<th>Reports to: Senior Management</th>
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<th>Responsibilities:</th>
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<tbody>
<tr>
<td>- Identify Business Key Business Processes with Associated Risks</td>
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<td>- Design and Manage Controls Mitigating Identified Risks</td>
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<td>- Conduct Annual Vulnerability Reviews and Self-Assessments</td>
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<td>- Responsible for Corrective Actions Associated with Any Control Deficiencies</td>
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Corporate Compliance 8
MTA Corporate Compliance & Enterprise Risk Management Committee

• Risk Control and Compliance

Independence Level: Greater Independence

Reports to: CEO and Audit Committee

Responsibilities:

• Provide Managerial Assurance on the Effectiveness of MTA’S Governance, Risk Management, and Compliance Programs

• Monitor and Facilitates the design and operation of controls in the first line of defense, as well as provide advice to Ensure Controls are Properly Designed & Implemented (i.e., Operational, Financial, Compliance, Safety, Regulatory, etc.)

• Develop and Implement with First Line of Defense Policies and Procedures That Are Consistent, Clear and Concise

• Track Enterprise Wide Risks and Controls
MTA Audit Services

• Risk Assurance

Independence Level: Greatest Independence

Reports to: Audit Committee

Responsibilities:

Inspector General

MTA IG

• Risk Assurance

Independence Level: Greatest Independence

Reports to: Governor, State Legislature & Public

Responsibilities:

• **Investigative Unit** conducts investigations of the MTA and its agencies to prevent, detect and combat waste, fraud, misconduct, and corruption on the part of MTA employees and contractors.

• **Audit and Analysis Unit** conducts audits and analysis of the business and service-related activities of the MTA, agencies and its contractors to evaluate whether MTA operations are safe, timely and cost effective.
External Auditors

Deloitte

• Risk Assurance

Independence Level: Greatest Independence

Reports to: Audit Committee

Responsibilities:

• Provide external independent assurance on the MTA’s Financial Reporting and Internal Controls.
Regulators

OSC, FTA, FRA, FEMA, etc.

• Risk Assurance

Independence Level: Greatest Independence

Reports to: Various & Public

Responsibilities:

• May establish requirements intended to strengthen the controls in an organization, and

• May perform an independent and objective assessments on the MTA’s first, second, or third line of defense.
MTA’s Integrated Three Lines Approach

**Assertions / Objectives**
- Senior Management / Board
- Agency Drivers
- Business Strategy
- Objectives

**Risk Category**
- Breach of Security
- Financial Fraud
- Financial Statements
- Ineffectual Operations
- Regulatory Noncompliance
- Reputational Damage
- Safety
- Theft of Assets
- Theft of Services

**Three Lines of Defense**

1. Business / Control Process Owners (Design & Operational Controls)
2. ERM Committee / Internal Control Officers (Monitoring)
3. Internal Audit (independent Assurance)

**Risk Reporting**

**MTA**

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Corporate Compliance
Board and Senior Management’s Responsibilities

• Fostering a culture that has strong governance, risk management and control activities in place to evaluate, develop, select and implement internal controls systems ("tone at the top").

• Ensuring that each line has policies and procedures, or a standard language or methodology for identifying, evaluating, measuring, and reporting risk and a robust governance, risk, and compliance system.
Board and Senior Management’s Responsibilities

• Ensuring that the lines are flexible enough, appropriately working, coordinating and communicating effectively & efficiently to avoid duplication based on the size and complexity of the organization.

• Evaluating the adequacy of Operational and Senior Management (i.e., knowledgeable to create risk definitions and conduct risk assessments).

• Ensuring that there is sufficient stature with leaders and operating management across the organization.
Recommended Actions

• Educate the Audit Committee, Senior Management, Operating and Functional Management.

• Expectations relating to preventing and detecting corruption.

• Apply an integrated approach to internal control addressing operations, reporting, and compliance.

• Board and Senior Management Receive Reporting.

• Use of, and reliance on, evolving technologies.
Resources

• “Leveraging COSO Across the Three Lines of Defense” by Institute of Internal Auditors (Douglas J. Anderson / Gina Eubanks)


• “Defense In Depth” by Jane Seago, Internal Auditor Magazine, Volume LXXII: V, October 2015
Any Questions?
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Lines of Defense Model
Enterprise Risk Management

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