

LAMOND W. KEARSE

Metropolitan Transportation Authority

Chief Compliance Officer

BUILDING AN EFFECTIVE GOVERNANCE RISK AND COMPLIANCE PROGRAM

You Can't Have One without the Other

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, the Manhattan and Bronx Surface Transit Operating Authority

Metropolitan Transportation Authority

Who We Are

Public Benefit Corporation

Over 67,000 Employees

Serving 8.5 Million Customers Daily

Transportation, Construction, Real Estate, and More

What it Takes

Annual Operating Budget nearly \$13 Billion

Capital Plan: \$20+ Billion

Results

North America's Largest Transportation Network



GOVERNANCE, RISK, AND COMPLIANCE (GRC)

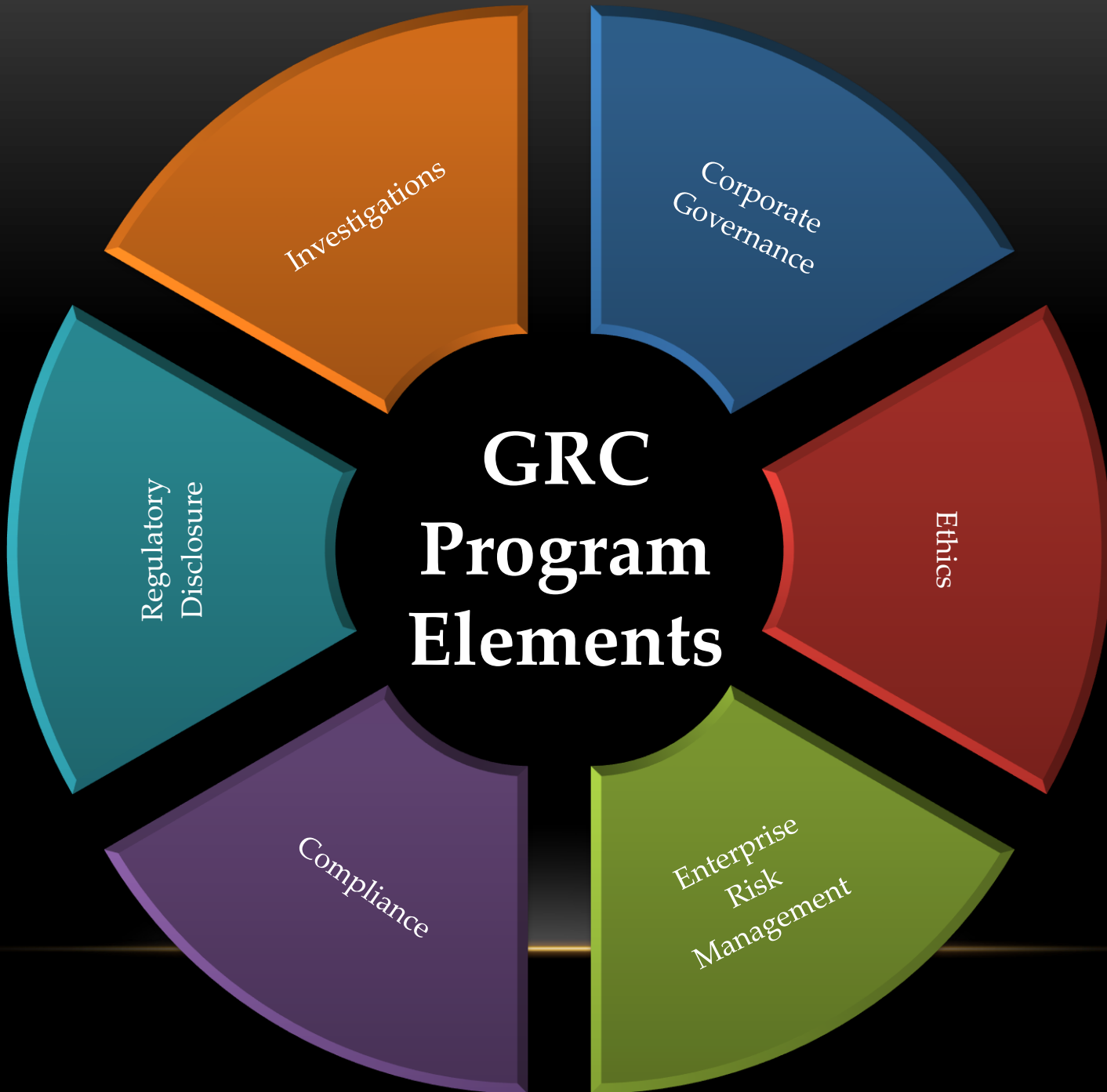
- GRC refers to taking an integrated, enterprise-wide approach to Governance, Risk Management, and Compliance:
 - **Governance** – The Board of Directors' and management's structures, policies, processes, and controls that focus on long-term value through the ethical, equitable, efficient, and effective operation of the business
 - **Risk Management** – An organization's systematic process to identify, assess, manage, and monitor upside and downside risks to the business
 - **Compliance** – An organization's process to demonstrate its employees and agents adherence to policies and procedures, laws, and regulations
- GRC is transformational and addresses the people, process, and technology enhancements required to achieve risk intelligence.

MTA'S GRC JOURNEY

A thin, horizontal line of golden light or glow that spans across the middle of the slide, positioned below the title.

MTA BOARD ADOPTS SOX STANDARDS

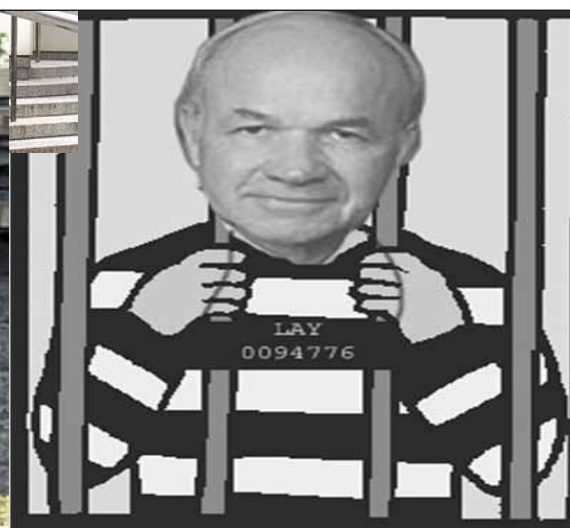
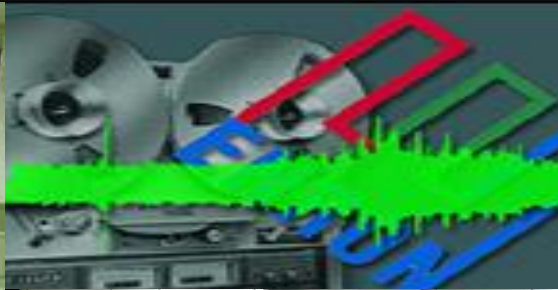
- In 2004 MTA Board Adopts Corporate Governance Reforms Based Upon Sarbanes-Oxley
 - One of the First Entities to Develop a Governance, Risk and Compliance (GRC) Program
-



A large, equilateral triangle with a brown and tan marbled texture, resembling stone or marble. The texture consists of irregular, vein-like patterns. The triangle is centered on a solid black background.

Ethics

WHAT HAPPENS WHEN A BUSINESS DOES NOT HAVE AN ETHICAL CLIMATE



ROAD TO CORPORATE REFORM

- Charles Ponzi



The Security Exchange Company

ROAD TO CORPORATE REFORM

- Eddie Antar



Crazy Eddie's

ROAD TO CORPORATE REFORM

- Charles Keating



- Lincoln Savings and Loan

ROAD TO CORPORATE REFORM

- Ivan Boesky



- CX Partners Limited Partnership and Cambrian & General Securities

ROAD TO CORPORATE REFORM

- Michael Milken



- Drexel Burnham Lambert
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ROAD TO CORPORATE REFORM

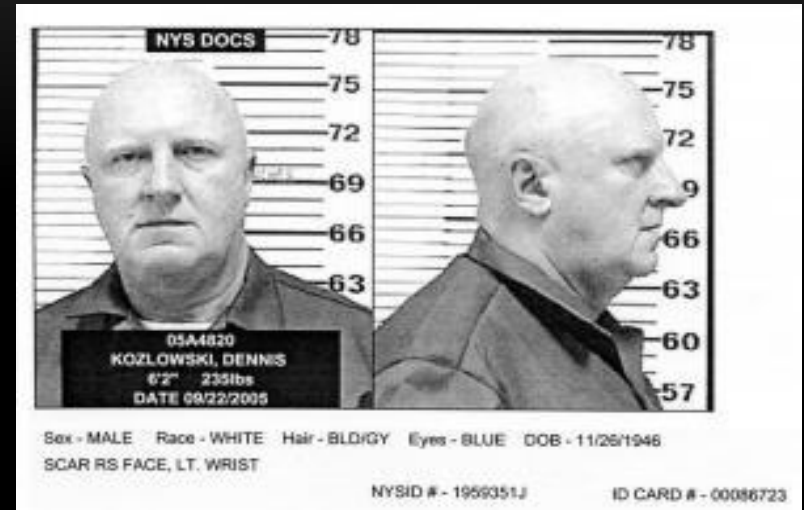
- Bernard J. Ebbers



- WorldCom
-

ROAD TO CORPORATE REFORM

- DENNIS KOZLOWSKI



TYCO

ROAD TO CORPORATE REFORM

- Jeffrey K. Skilling



Enron

ROAD TO CORPORATE REFORM

- Ken Lay



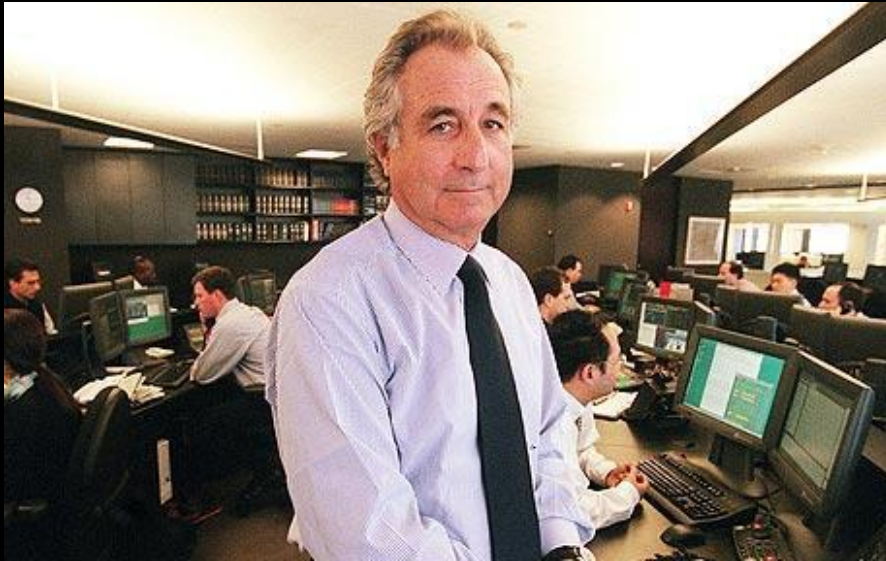
64 Years Old

165 years in prison

- Enron

ROAD TO CORPORATE REFORM

Bernard Madoff



150 years in prison

Bernard L. Madoff Investment Securities LLC

ROAD TO CORPORATE REFORM

Rebekah Brooks



chief executive officer of News International

Acquitted of orchestrating a campaign to hack into phones and bribe officials

ROAD TO CORPORATE REFORM

Who is Next ?



ROAD TO CORPORATE REFORM

THAT WAS THEN...

Ivan Boesky Wall St. financier	Insider trading scandal 1987	3 years (served 22 months)
Ilan Reich New York lawyer	Insider trading scandal 1987	1 year, 1 day
Michael Milken "The Junk Bond King"	Drexel Burnham collapse 1990	10 years (served 22 months)
Charles Keating Banker	Lincoln S&L collapse 1993	12 1/2 years (served 4 1/2 years)

* DATES ARE YEARS OF SENTENCING

...THIS IS NOW

John Rigas Founder, Adelphia	Adelphia collapse June 2005*	15 years
Timothy Rigas Ex-Adelphia CFO	Adelphia collapse June 2005	20 years
Jamie Olis Ex-V.P., finance	Dynegy scandal 2004	24 years, 4 months
Andrew Fastow Ex-CFO	Enron collapse 2004*	10 years
Bernard Ebbers Ex-CEO, WorldCom	WorldCom collapse July 2005	25 years
Dennis Kozlowski Ex-CEO, Tyco	September 2005	8-1/3 years to 25 years
Mark Swartz Ex-CFO, Tyco	September 2005	8-1/3 years to 25 years

* DATES REFLECT SENTENCING FOR ALL BUT FASTOW, WHO NEGOTIATED A PLEA DEAL

SARBANES OXLEY

H. R. 3763

One Hundred Seventh Congress of the United States of America

AT THE SECOND SESSION

*Began and held at the City of Washington on Wednesday,
the twenty-third day of January, two thousand and two*

An Act

To protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.

*Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled,*

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the “Sarbanes-Oxley Act of 2002”.

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Definitions.
- Sec. 3. Commission rules and enforcement.

TITLE I—PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

- Sec. 101. Establishment; administrative provisions.
- Sec. 102. Registration with the Board.
- Sec. 103. Auditing, quality control, and independence standards and rules.
- Sec. 104. Inspections of registered public accounting firms.
- Sec. 105. Investigations and disciplinary proceedings.
- Sec. 106. Foreign public accounting firms.
- Sec. 107. Commission oversight of the Board.
- Sec. 108. Accounting standards.
- Sec. 109. Funding.

TITLE II—AUDITOR INDEPENDENCE

- Sec. 201. Services outside the scope of practice of auditors.
- Sec. 202. Preapproval requirements.
- Sec. 203. Audit partner rotation.
- Sec. 204. Auditor reports to audit committees.
- Sec. 205. Conforming amendments.
- Sec. 206. Conflicts of interest.
- Sec. 207. Study of mandatory rotation of registered public accounting firms.
- Sec. 208. Commission authority.
- Sec. 209. Considerations by appropriate State regulatory authorities.

TITLE III—CORPORATE RESPONSIBILITY

- Sec. 301. Public company audit committees.
- Sec. 302. Corporate responsibility for financial reports.
- Sec. 303. Improper influence on conduct of audits.
- Sec. 304. Forfeiture of certain bonuses and profits.
- Sec. 305. Officer and director bars and penalties.
- Sec. 306. Insider trades during pension fund blackout periods.
- Sec. 307. Rules of professional responsibility for attorneys.
- Sec. 308. Fair funds for investors.

TITLE IV—ENHANCED FINANCIAL DISCLOSURES

- Sec. 401. Disclosures in periodic reports.
- Sec. 402. Enhanced conflict of interest provisions.
- Sec. 403. Disclosures of transactions involving management and principal stockholders.



Governance

Ethics

GOVERNANCE

- An effective Governance Program assist the Board or CEO in fulfilling their fiduciary obligations.

GOVERNANCE

- Develop and recommend to the Board the implementation and modifications as appropriate to, any policies or documents relating to the governance of the MTA, including the MTA Code of Ethics and Corporate Governance Principles.

GOVERNANCE

- Advise the Board on current development in Corporate Governance and consider corporate governance issues that arise from time to time, and develop appropriate recommendations for the Board regarding such matters.

GOVERNANCE

- Coordinate and oversee the annual self-evaluation of the role and performance of the Board, its committees, and management in the governance of the MTA.
-

GOVERNANCE

- Review, and as necessary recommend to the Board any revisions to, MTA policies regarding the protection of whistleblowers from retaliation.

GOVERNANCE

- Monitor the MTA's compliance with MTA policy and the laws and requirements and Report significant findings to the Board.



ERM

Governance

Ethics

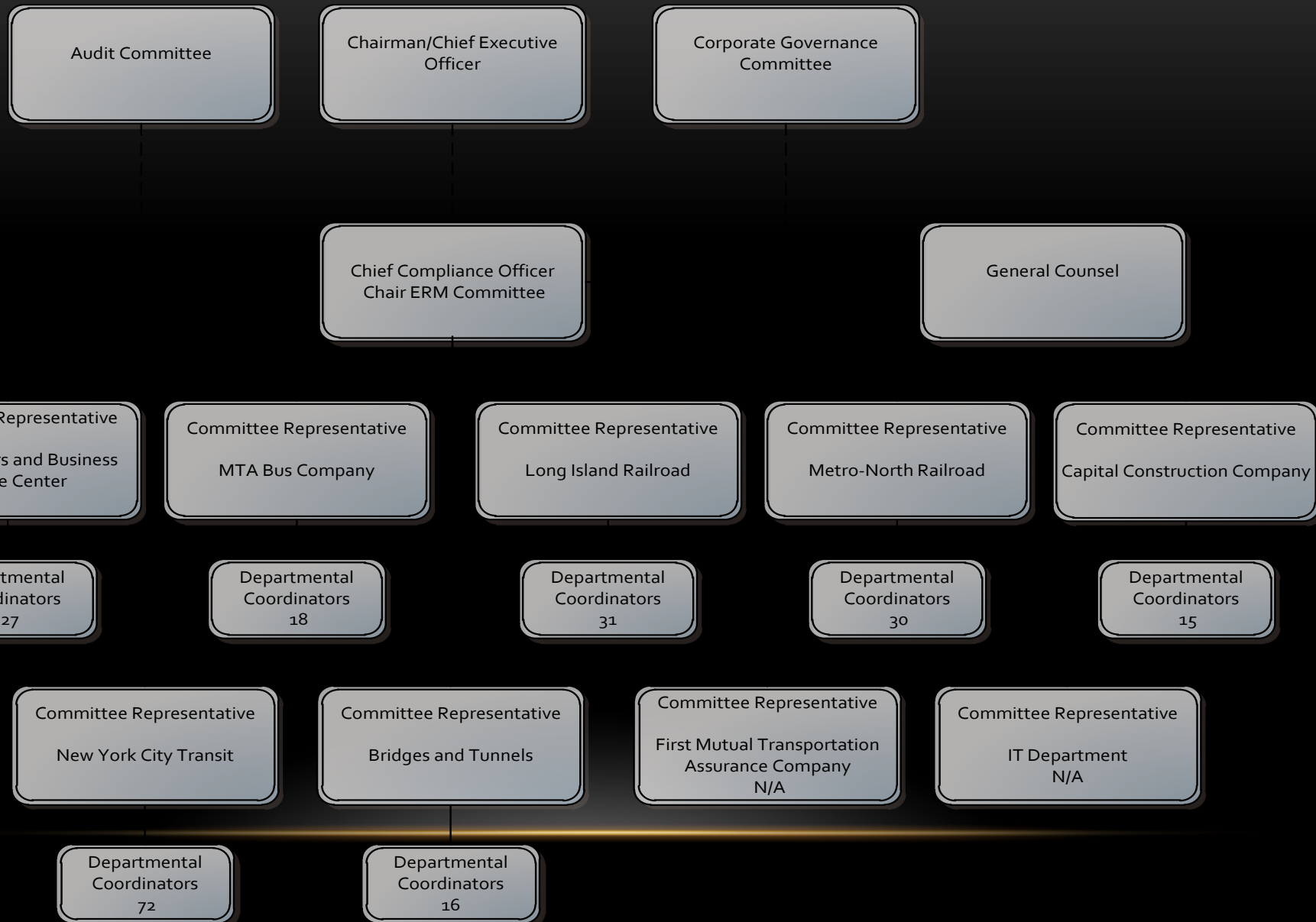
RISK PROGRAM

- Risk (Internal Controls):
 - Promote orderly, economical, efficient, and effective operations and to produce quality products and services consistent with the organizations mission;
 - Safeguard resources against loss due to waste, abuse, mismanagement, errors, and fraud;
 - Ensure adherence to laws, regulations, contracts, and management directives; and
 - Develop and maintain reliable financial and management data and to accurately present that data in timely reports.
-

RISK PROGRAM

- Integrate within Business
- Engaged with Management
- Part of Organizational Strategic Plan

ERM COMMITTEE STRUCTURE





Compliance

The image shows a pyramid divided into four horizontal sections. From top to bottom, the sections are labeled: Compliance, ERM, Governance, and Ethics. The pyramid has a brown, marbled texture. The background is black.

ERM

Governance

Ethics

COMPLIANCE PROGRAM

Compliance Ensures:

Encourage voluntarily disclosure to oversight agencies when problems are discovered.

COMPLIANCE PROGRAM

Compliance Ensures:

Responds to alleged violations of rules, regulations, policies, procedures, and Code of Ethics by evaluating or recommending the initiation of investigative procedures.

COMPLIANCE PROGRAM

Compliance Ensures:

Acts as an independent review and evaluations body to ensure that compliance issues or concerns within the MTA are being appropriately evaluated, investigated and resolved.

COMPLIANCE PROGRAM

Compliance Ensures:

Maintains Code of Ethics and the Ethics/Compliance Helpline and provide for its direction and management.

COMPLIANCE PROGRAM

Compliance Ensures:

To create a better working surrounding for employees, provide compliance education and training programs.