

# **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



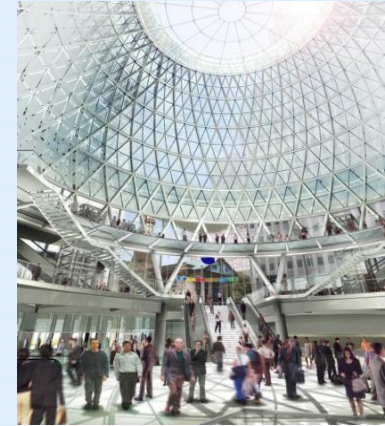
# Metropolitan Transportation Authority

## 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



New York Transit Museum





# Metropolitan Transportation Authority

## What it Takes

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



**700**  
Stations



**2,411**  
Commuter  
Fleet



**1,704**  
Track Miles



**6,465**  
Subway  
Cars



**9**  
Bridges and  
Tunnels



**5,690**  
Buses

## 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



# Lines of Defense

## First Line

### MTA Business Management

- Business Process Owners

Independence Level: **No Independence**

Reports to: **Senior Management**

Responsibilities:

- **Identify Business Key Business Processes with Associated Risks**
- **Design and Manage Controls Mitigating Identified Risks**
- **Conduct Annual Vulnerability Reviews and Self-Assessments**
- **Responsible for Corrective Actions Associated with Any Control Deficiencies**





# Lines of Defense

## Second Line

### **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**



# Lines of Defense

## Third Line

### MTA Audit Services

- Risk Assurance

Independence Level: **Greatest Independence**

Reports to: **Audit Committee**

Responsibilities:

- **Provide Independent Assurance on the Effectiveness Internal Controls, Including Whether the First and Second Lines of Defense Achieve Risk Management and Control Objectives.**



# External Functions

## 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 Functions

## 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.**



# External Functions

## Regulators

**OSC, FTA, FRA, FEMA, etc.**

- Risk Assurance

Independence Level: **Greatest Independence**

Reports to: **Various & Public**

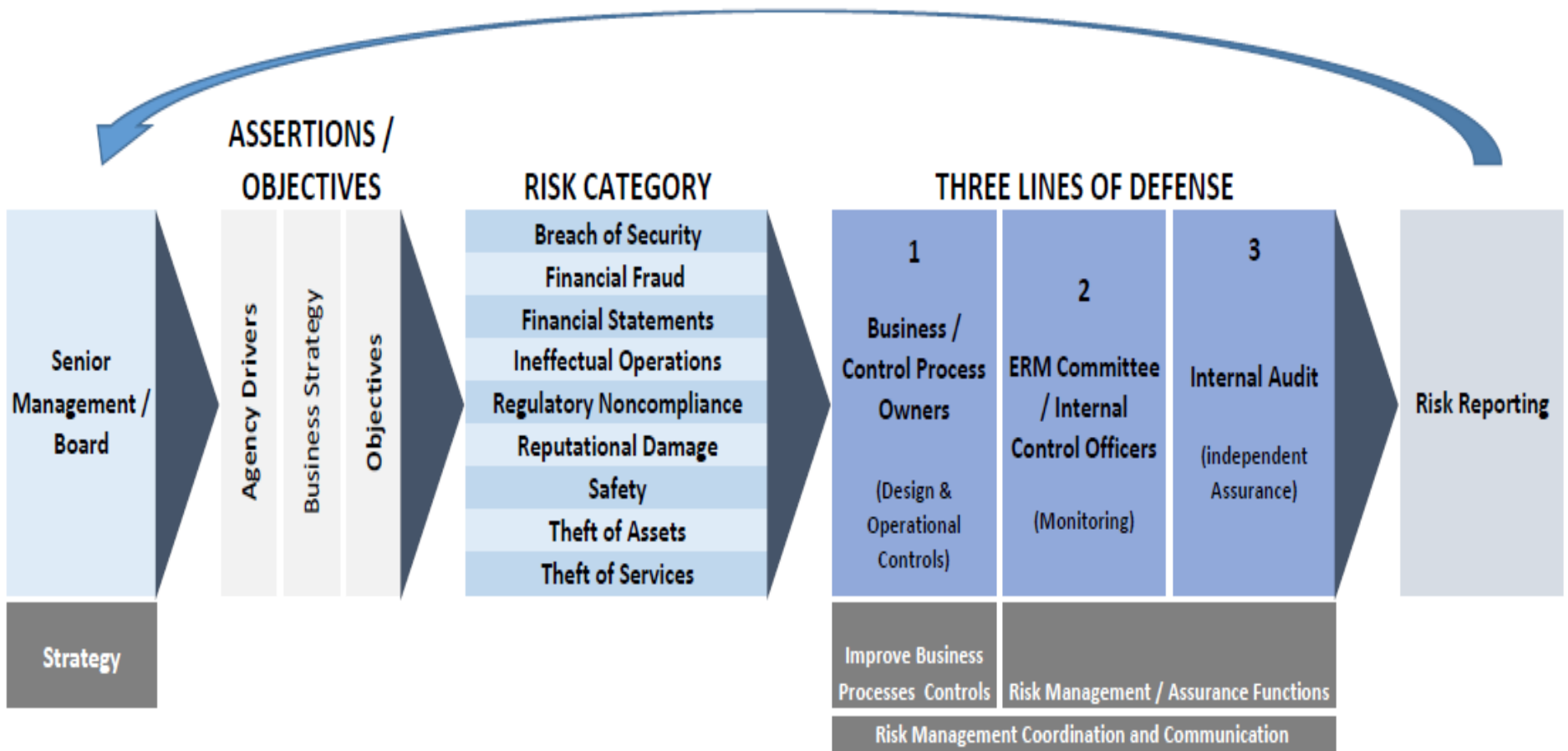
Responsibilities:

- 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



# 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)
- IIA Position Paper: *“The Three Lines of Defense in Effective Risk Management and Control”*, January 2013
- *“Defense In Depth”* by Jane Seago, Internal Auditor Magazine, Volume LXXII: V, October 2015





# Any Questions?



# Contact Information

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