



Date: March 26, 2007

Committee Meeting Dates: April 11, 2007

Board Meeting Date: N/A

BOARD MEMORANDUM

ACTION DISCUSSION INFO

TO: 2000 Measure A Citizens Watchdog Committee
 Santa Clara Valley Transportation Authority
 Board of Directors

THROUGH: Michael T. Burns
 General Manager

FROM: Jim Lawson
 Government Affairs Manager

SUBJECT: Determine Independent Auditor For Audit of FY2007 2000 Measure A Program
 Financial Records and Statements

RECOMMENDED ACTION:

To fulfill the Committee’s responsibility of having an independent financial audit of the 2000 Measure A Program’s financial records and statements conducted annually, determine, for the audit of FY2007, whether to:

- (1) Have a competitive bid process conducted in order to utilize the services of an independent financial auditor;
- or
- (2) Use the services of the same independent auditor used for FY2006 and that is currently under contract to VTA (Vavrinek Trine Day & Company, LLP).

BACKGROUND:

In November 2000, the voters in Santa Clara County approved Measure A, a 30-year half cent sales tax devoted to transit projects. The Measure A ballot stated that an independent citizens watchdog committee, consisting of VTA’s Citizens Advisory Committee (CAC), must review all 2000 Measure A expenditures. It also specified that CAC, acting as the Citizens Watchdog Committee (CWC), has the responsibility and authority to have an audit conducted each fiscal year by an independent auditor “to ensure tax dollars are being spent in accordance with the intent of this measure.”

The results of the annual independent audit is one of several tools used by the CWC to evaluate and render a conclusion on whether 2000 Measure A funds are being spent in accordance with

the intent of the ballot. The Committee also uses information provided by 2000 Measure A-specific reports, including the Revenue & Expenditure Plan, Quarterly Expenditure Reports, Quarterly Revenue Reports, and other reports and data. Additionally, it will use testimony received at the Public Hearing it is required to conduct annually in developing its conclusion.

For the audit of the 2000 Measure A Program's FY2006 financial records and statements, in September 2006 the CWC voted to utilize the services of the independent auditing firm of Vavrinek Trine Day & Company, LLP (VTD). VTD was then and still is under contract to VTA to provide independent auditing services.

DISCUSSION:

First and foremost, it is the sole decision of the Citizens Watchdog Committee which independent auditing firm it utilizes each year to fulfill its responsibility of having an annual audit of the 2000 Measure A Program's financial records and statements conducted. The only requirement the CWC must meet is to select an independent auditor utilizing a competitive process as defined by government code (in this case, a Request For Proposal (RFP)). The RFP process will evaluate both whether the proposing firm is qualified and has the capacity to perform the audit.

Of paramount importance is that the Committee has confidence in the expertise and thoroughness of the independent auditor. This is because the Committee will use the audit results as a component in forming its conclusion on whether 2000 Measure A funds are being spent in accordance with the ballot measure. This conclusion will then be reflected in the CWC's annual report issued to the citizens of Santa Clara County. Cost of an audit should only be a minor consideration since the annual independent audit is both ballot-required and a planned and reasonable expense of the 2000 Measure A Program.

It should be noted that the criterion that defines an independent auditor is independence from the entities they audit, both in fact and appearance. In this instance, that would require the selected audit firm to be independent from both VTA and the CWC, both in fact and appearance. For the 2000 Measure A Program, the independent auditor would be responsible for conducting the audit and providing results directly to the CWC.

To fulfill its responsibility of having an independent financial audit of the 2000 Measure A financial records and statements conducted for the fiscal year about to conclude (FY2007), CWC now needs to decide whether to utilize the services of the independent auditor currently under contract to VTA (VTD) or initiate a competitive process (RFP) to select an alternative independent auditor.

There are several factors for the Committee to consider in making this decision:

- The independent auditor generally begins the audit process prior to the end of the fiscal year, typically in the May – June timeframe. The issuance of the draft audit report typically occurs during the late winter/early spring of the following year. As such, it is imperative that the Committee choose how to proceed as soon as possible.

- If the Committee chooses to use a different independent auditor, the RFP process will take approximately 8 – 12 weeks from the date of decision to complete. To expedite, staff has begun development of the scope and other necessary components. It is projected that a list of qualified firms could be brought to the Committee for consideration potentially at its May meeting but more likely, at its June meeting (if held).
- If the Committee chooses a new independent auditor, staff would recommend that the term of the contract be defined for a one-year period with the option of a minimum of two one-year renewals (for a maximum duration of three years; service contracts are limited to a maximum of seven years). This duration would provide potential firms a sufficient period to become familiar with Measure A activities while providing the Committee with the capability to NOT continue using the services of a firm it is not completely satisfied with or does not have complete confidence in.
- Due to the size, potential impact and material relationship to VTA, it is required that the 2000 Measure A Program be audited as a component of the independent financial audit of VTA and included in VTA's Comprehensive Annual Financial Report (CAFR). The current independent auditor (VTD) will still be responsible for conducting their audit, meeting with and providing their conclusions directly to CWC, irrespective of whether an additional independent auditing firm is engaged.
- Each year (most likely in spring), the Committee will be asked to determine which independent auditor it will use for the upcoming audit. For most years, the Committee will need to vote on whether to utilize the services of the same independent auditor it used for the last audit, or whether to initiate a competitive process for a new independent auditing firm.

ALTERNATIVES:

To fulfill its obligations as defined in the ballot, the CWC is required to engage an independent auditor to conduct an audit of the 2000 Measure A Program's financial records and statements. As such, the Committee has two alternatives. First, use a different independent auditing firm than the one under contract to VTA, which will require the completion of a competitive bid process, or second, use the independent auditing firm currently under contract to VTA (VTD).

FISCAL IMPACT:

Conducting an annual independent audit is a normal, planned expense of the 2000 Measure A Program that is mandated by the ballot. Sufficient funds are available in the 2000 Measure A Program to conduct the audit whether the Committee chooses to engage the services of a separate independent auditor or if it decides to use the independent auditing firm under contract to VTA.

Due to the limited scope of the audit and the setup required, it is estimated that engaging a separate independent auditor will cost approximately \$30,000 - \$60,000 for each year of the contract.

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