

Date: _____ February 27, 2008

Committee Meeting Date: _____ March 12, 2008

Board Meeting Date: _____ NA

BOARD MEMORANDUM

INFORMATION ITEM

TO: Committee on Transit Accessibility
Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager

FROM: Ann D. Carey
Executive Assistant to the General Manager

SUBJECT: State Audit Work Plan

FOR INFORMATION ONLY

At its meeting on August 29, 2007, the Joint Legislative Audit Committee voted to have the California State Auditor perform an audit of VTA. Assemblymembers Lieber and Beall and Senator Alquist requested an audit of VTA's governance structure, strategic planning, and financial viability. A copy of their request is attached.

In response to the request, the State Auditor developed a scope of work to guide their audit of VTA. A copy of their scope of work is also attached. The State Auditor initiated the audit on January 16, 2008, with an entrance meeting with the General Manager and staff. Subsequent to that meeting, VTA forwarded a copy of a request from Assemblymember Beall to the audit team. A copy of Mr. Beall's letter is attached.

The audit team commenced its field work on February 25, 2008, reviewing documentation and interviewing staff. They anticipate completing their audit in late June. The audit team leader, Mr. Ben Belnap, is available to talk with members of the Committee on Transit Accessibility. You may contact him directly at (916) 445-1253, ext. 229, or by e-mail: benb@bsa.ca.gov. Mr. Belnap has been given a roster of current CTA committee members.

Pursuant to California state law (Government Code Sections 8545 and 8545.1), employees of the Bureau of State Audits and of VTA are prohibited from publicly disclosing any documents or information related to the conduct of a state audit. Violations of these provisions in state law carry misdemeanor penalties.

STATE CAPITOL
P . O . B O X 9 4 2 8 4 9
SACRAMENTO, CA 94249-0115

California Legislature

August 15, 2007

The Honorable Nell Soto, Chair
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

Dear Assemblywoman Soto

We write to respectfully request the Joint Legislative Audit Committee to authorize an audit of the Santa Clara Valley Transportation Authority (VTA). The audit should focus on the areas of governance structure, strategic planning, and financial viability.

The VTA is an independent special district responsible for bus and light rail service, congestion management, specific highway improvement projects, and countywide transportation planning. The VTA partners with systems for bus and rail service between Santa Clara County and the counties of Alameda, Santa Cruz, San Mateo and San Francisco.

The VTA provides critical transportation services to more than 1.7 million constituents and is responsible for an annual budget of \$731 million (FY 2008 Recommended Operating & Capital Budget).

Currently, the VTA faces significant financial challenges. In May 2004, the Santa Clara County Civil Grand Jury raised numerous issues regarding short-term shortfalls in revenues. The Grand Jury also cited high costs for services rendered and raised serious concerns about the VTA's ability to build and operate a BART extension to San Jose.

A more recent report by a consultant commissioned by the VTA raised additional concerns regarding the agency's governance structure and financial capacity. Further, the report brought to light issues regarding the capital projects undertaken by the VTA; their funding as well as focus.

Since this report was released in March 2007, the VTA reports making progress in implementing the consultant's recommendations, emphasizing the areas of organizational structure and financial management. They cite progress in putting in place a new organizational structure to support improvements in financial outlook and operating efficiencies; adoption of a biennial budget that maintains an operating reserve; implementation of cash management procedural improvements and restructuring of outstanding debt to reduce risk and achieve cost savings. Concurrent with these changes the agency's credit rating has been upgraded by two national credit rating services.

To support further progress and in light of the seriousness of issues facing the agency, we believe that an audit and evaluation by the State Auditor is necessary to bring clarity and recommend needed action. We request that the audit focus on the following areas:

Governance Structure

Review the VTA's governance structure to determine whether roles and responsibilities are clearly defined and communicated. Is it comparable to other transportation authorities, and is it effective for fulfilling VTA's responsibilities? The audit should include an evaluation of the effectiveness of the current statutes and practices governing board member selection and tenure.

Planning

Review and assess the VTA's strategic planning and project planning efforts. This should include determining how the VTA (and its Board) sets goals, objectives and priorities; and how they ensure goals are achieved and performance is measured. The State Auditor should review projects approved over the last two years, including the BART extension, to determine what analyses were prepared and reviewed in approving the projects and if the analyses considered all relevant factors — costs, benefits, and alternatives. The audit should also compare actual costs to projected costs and determine if the goals were achieved.

Financial Viability

Review the financial reporting structure to determine if there is adequate review of quarterly reports to ensure forecasts such as revenues, expenditures, and ridership are on track and determine what action is taken when actuals deviate from forecasts. Trend the revenues, expenditures, and ridership for the last three years—comparing actual to forecast—and determine reasons for fluctuations. Review the VTA's

financial plans for the next 5 and 10 years to determine whether they considered relevant factors.

Fiscal Oversight

Review Board and management oversight and capacity to exercise prudent and appropriate oversight over the agency's funds. Do the board and management monitor VTA's performance as a transit operator on a regular basis and is this review adequate to make fiscal decisions?

Thank you for your attention to this request.

Sincerely,

SALLY J. LIEBER, 22nd District
Assembly Speaker pro Tempore

ELAINE ALQUIST, 13th District
Senator

JIM BEALL, Jr., 24th District
Assemblymember

2007-129 AUDIT SCOPE AND OBJECTIVES

The audit by the Bureau of State Audits will provide independently developed and verified information related to the VTA and would include, but not be limited to, the following:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. Review and assess the VTA's governance structure to determine if roles and responsibilities are clearly defined and communicated. Determine whether the structure complies with statutes and whether it allows for effective operations. Assess the processes for selecting board members and their tenure.
3. Determine how the various participants within the governance structure interact and communicate on priorities, issues, resolutions, or actions.
4. Review and assess the VTA's strategic and project planning processes. Determine how the VTA, board, and/or committees:
 - a. Set goals, objectives, and priorities.
 - b. Measures success in meeting goals and objectives.
 - c. Monitors progress towards achieving goals and objectives.
 - d. Follows up on redirecting or re-prioritizing as needed.
5. Identify and review the projects approved during fiscal years 2005-06 and 2006—07, including the Bay Area Rapid Transit extension project.
6. For those projects approved by VTA, determine what analyses were prepared as a basis for approval of the projects and evaluate the analyses to ensure they considered relevant factors such as costs, benefits, and various alternatives. To the extent possible, compare actual costs, milestones, and outcomes to projected costs, milestones, and outcomes to determine if goals were achieved.
7. Review the VTA's financial reporting structure and determine if it allows for adequate levels of review such as quarterly reporting to ensure revenues, expenditures, ridership, and other budgeting forecasts are on track. Determine what action the VTA takes when actuals deviate from forecasts and assess the effectiveness of the actions.
8. For the prior three fiscal years, trend the revenues, expenditures, ridership, and other forecasts deemed appropriate. Compare actual to forecasts and determine the reasons for the fluctuations.
9. Review the VTA's long-term financial planning efforts to ensure they consider relevant factors.

10. Assess the level of oversight the Board and VTA executive management exercise over the VTA operations and financial records. Determine whether they regularly monitor the VTA's performance as a transit operator and if the level of review is adequate for fiscal decision-making.

January 31, 2008

Ms. Nancy C. Woodward
CPA, Audit Principal
California State Auditor
Bureau of State Audits
555 Capital Mall, Suite 300
Sacramento, CA 95184

RE: Audit of Santa Clara Valley Transportation Authority (VTA)

Dear Ms. Woodward

During the audit entrance meeting on January 16, 2008, we advised you that Assemblymember Mr. Jim Beall may have submitted a letter requesting that the audit include paratransit services. We have received a copy of a letter that Mr. Beall sent to Honorable Nell Soto, Chair of the Joint Legislative Audit Committee, on November 30, 2007, and are forwarding it to you for your records.

We look forward to working with you and your team in the coming months.

Yours truly

Michael T. Burns
General Manager

Attachment

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FAX (916) 319-2124
DISTRICT OFFICE
100 PASEO DE SAN ANTONIO, SUITE 300
SAN JOSE, CA 95113
(408) 282-8920
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Assembly California Legislature

JIM BEALL JR.
ASSEMBLYMEMBER, TWENTY-FOURTH DISTRICT

COMMITTEES:
CHAIR, HUMAN SERVICES
BUDGET
BUDGET SUBCOMMITTEE I ON
HEALTH AND HUMAN SERVICES
HIGHER EDUCATION
VETERANS AFFAIRS
SELECT COMMITTEES:
CHAIR, ALCOHOL AND DRUG ABUSE
FOSTER CARE

November 30, 2007

The Honorable Nell Soto, Chair
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

Dear Assemblywoman Soto

I am writing to request that the audit of the Santa Clara Valley Transportation Authority (VTA) include the Committee for Transit Accessibility (CTA..). During the last years the CTA has addressed issues that may have relevance to the Auditors. For example, In May through about August of 2006 the CTA met with the Chief Financial Officer and his staff to address direct and indirect costs associated with the Paratransit Contract. At that time VTA identified about \$5 Million dollars that was overcharged onto Paratransit costs and this could possibly lower the costs of the fixed route.

The CTA has requested at their September meeting that their work plan include an item to allow the CTA and public an opportunity to review the National Transit Database funding, cost accounting of both fixed route and Paratransit, but the request was not in the initial audit work plan.

Thank you for this consideration. Issues raised by the CTA should be incorporated into the Audit to have to a full and complete analysis of the fiscal oversight of VTA and the governance structure.

Sincerely

Assemblymember Jim Beall, Jr.

cc: Assemblymember Sally Lieber
cc: Randy Tamez — Committee for Transit Accessibility