



MEMORANDUM

TO: Board of Directors
FROM: Michael T. Burns, General Manager
DATE: September 4, 2007
SUBJECT: State Auditor Work Plan

Michael T. Burns

At their meeting on August 29 the Joint Legislative Audit Committee voted to have the State Auditor perform an audit of VTA. This was at the request of Assemblymember Sally Lieber. The major thrust of this particular audit will be governance structure, strategic planning, and financial oversight.

As you know, we are making significant progress in all of these areas as a result of the recently completed Organizational and Financial Assessment by the Hay Group. At the August 30 Board meeting you approved the contract to continue the organizational changes recommended by the Hay Group. I have attached the State Auditor's proposed work plan. The areas covered are essentially the same areas where we have identified challenges and are working to improve VTA's efficiency and effectiveness.

I welcome this opportunity to validate the work we are doing in these important areas and look forward to cooperating with the State Auditor and her staff. If you have any questions, please do not hesitate to let me know.

Attachment

Elaine M. Howle
State Auditor

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ANALYSIS OF AUDIT REQUEST

2007-129

August 29, 2007

I. AUDIT REQUEST

Assemblymembers Lieber and Beall and Senator Alquist are requesting an audit of the Santa Clara Valley Transportation Authority's (VTA) governance structure, strategic planning, and financial viability.

II. BACKGROUND

VTA is an independent special district responsible for bus and light rail operations, congestion management, specific highway improvement projects, and countywide transportation planning in Santa Clara County. VTA was formed in 1995 as a regional agency when the Santa Clara County Department of Transportation merged with the Congestion Management Agency.

VTA's mission is to provide the public with a safe and efficient countywide transportation system that increases access and mobility, reduces congestion, improves the environment, and supports economic development, thereby enhancing quality of life. Its goals include integrating transportation and land use, improving mobility and access, and maintaining financial stability.

Twelve voting members make up the Board of Directors (Board) that govern VTA; there are five additional members who serve as alternates. Members include city council members and county supervisors who are appointed by the jurisdictions they represent to serve for a two-year term. The Board sets policies and approves items such as amending the administrative code; adopting the annual budget; and recommending major capital improvement projects to appropriate regional, state, and federal funding authorities.

The Board has established three standing committees to advise it on policy matters and to provide for in-depth review of individual issues before taking final action. The Board also established six advisory committees to review policies under development to ensure that they meet the needs of VTA's constituents, customers, elected officials, the business community, and others.

In 2004 a Santa Clara County Civil Grand Jury inquiry reviewed the Board structure and financial management of VTA. The grand jury identified significant financial challenges facing the VTA, some a result of decisions made or accepted by the Board and others a consequence of the structure of the Board. The grand jury recommended changes in size and composition of the Board to provide better governance of VTA finances.

In March 2007 a consultant commissioned by VTA released a report that identified additional financial and governance challenges for VTA. The report also identified issues regarding specific capital projects funded by VTA. The report made nine recommendations, including changes to the governance structure of VTA. The members are concerned about these issues and feel an audit by the State Auditor would bring clarity to the issues.

III. 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.

IV. OTHER WORK IN THE GENERAL AREA

2003-119 *Los Angeles County Metropolitan Transportation Authority: It Could Use Certain Recommended Management Tools to Improve Its Oversight of Legal Contracts, and Its Efforts Resulted in the Award of a Large Construction Contract Within Budget (July 2004)*

2002-116 Los Angeles County Metropolitan Transportation Authority: It Is Too Early to Predict Service Sector Success, but Opportunities for Improved Analysis and Communication Exist (December 2003)

2001-101 Los Angeles County Metropolitan Transportation Authority: It Can Increase Its Efforts to Ensure the Safe Operation of Its Buses (August 2001)

V. RESOURCE REQUIREMENTS

We estimate that this audit would require approximately 2,760 hours of audit work at a cost of approximately \$234,600 plus travel expenses and the possible costs related to an outside consultant, if necessary. We will conduct this audit using our existing budget authority to the extent funding is available for audits approved by the Joint Legislative Audit Committee.

VI. REQUIRED DATE OF COMPLETION

Assemblymembers Lieber and Beall and Senator Alquist did not request a completion date for this audit.



ELAINE M. HOWLE

State Auditor