

# AUDIT COMMITTEE

Thursday, June 5, 2008

## MINUTES

### 1. CALL TO ORDER

The Regular Meeting of the Audit Committee was called to order at 3:34 p.m. by Chairperson Gage in Room 157, County Government Center, 70 West Hedding Street, San Jose, California.

### ROLL CALL

#### Members Present

David Casas, Vice Chairperson  
Don Gage, Chairperson  
Nancy Pyle

#### Members Absent

Dolly Sandoval

**A quorum was present.**

### 2. PUBLIC PRESENTATIONS

There were no Public Presentations.

### 3. ORDERS OF THE DAY

There were no Orders of the Day.

## CONSENT/REGULAR AGENDA

### 4. Election of Vice Chairperson for 2008

Chairperson Gage opened the nominations from the floor for the position of Audit Committee Vice Chairperson for 2008.

Member Pyle nominated Member Casas for the position of Audit Committee Vice Chairperson for 2008.

**M/S/C (Pyle/Gage)** to close the nominations and elect Member Casas as Audit Committee Vice Chairperson for 2008, on a white ballot.

**NOTE:** M/S/C MEANS MOTION SECONDED AND CARRIED AND, UNLESS OTHERWISE INDICATED, THE MOTION PASSED UNANIMOUSLY.

**5. Amend VTA Administrative Code to Define Audit Committee**

Michael T. Burns, General Manager, reported that one of the Hay Group Organizational and Financial Assessment recommendation was the formation of the Audit Committee as an additional Standing Committee of the Board of Directors. Mr. Burns stated that he will serve temporarily as the staff liaison with support from Karen Antion, Karen Antion Consulting, until the Auditor General is appointed.

Mr. Burns suggested that the Audit Committee meet before the Board meetings at least quarterly. He stated that amendments to the Santa Clara Valley Transportation Authority's (VTA) Administrative Code need to be adopted by the Board in order to establish the Audit Committee as a Standing Committee of VTA's Board of Directors.

The amendment changes specify the establishment of the Auditor General as well as the internal audit function and provide an overview of the appointment, membership, meeting frequency, and duties of the Audit Committee.

Mr. Burns stated that the following amendments pertain to the Audit Committee and will be incorporated into VTA's Administrative Code:

- Audit Committee will meet at least once each quarter;
- Audit Committee Chairperson's term will be for two years; and
- Audit Committee will oversee the activities of the Auditor General, the internal audit function, and recommend to the Board a public accounting firm to conduct the annual financial audit. The Audit Committee's specific areas of responsibility will be described in VTA's Rules of Procedure.

Mr. Burns commented on the Audit Committee's duties and responsibilities:

- 1) Integrity of VTA's Financial Statements;
- 2) Compliance with legal and regulatory requirements; and
- 3) Assuring an effective system of internal management and financial controls.

Kevin Allmand, Acting General Counsel, referenced Attachment A – Article IX, Board Standing Committees, and noted that §9.4 Standing Committees Established will be included in VTA's Rules of Procedure pertaining to the Audit Committee.

Mr. Burns stated that the Audit Committee makes the determination regarding what audits move forward. The Audit Committee's specific areas of responsibility will include at least the following:

- Review and approve the annual VTA Audit Plan prepared by the Auditor General;
- Review the results of individual audits and ensure that management's responses to audit findings are implemented;
- Recommend to the Board approval of an accountant to conduct VTA's Annual Financial Audit;
- Review with the external auditors the results of the financial audit.
- Review significant accounting and reporting issues and understand their impact on the VTA's Financial Statements;
- Recommend to the Board approval of the Annual Financial Report;

- Review VTA enterprise risk management reports and findings;
- Review the effectiveness of VTA's system for monitoring compliance with laws and regulations and the results of management's action concerning any instances of noncompliance;
- Review the findings of any examinations by regulatory agencies;
- Monitor compliance with VTA's Code of Ethics. Obtain regular updates from management and VTA legal counsel regarding compliance matters; and
- Each committee member will ensure that he or she is fully informed about the results of all audit activities.

Chairperson Gage stressed the importance for the Audit Committee to develop a base list of documents that the Committee recommends to be audited then the Board can determine if they want additional items placed on the list.

Chairperson Gage requested that Karen Antion, Karen Antion Consulting, develop the base list of items that need to be audited. Ms. Antion responded that the External Financial Audit Services will develop a methodology to assess the areas of high business risk as well as the consequences and develop an Audit Plan.

Ms. Antion suggested that the list be compiled from the recommendations submitted by the Hay Group Organizational and Financial Assessment.

Chairperson Gage stressed the importance for the Audit Committee to establish goals, guidelines, and objectives.

Chairperson Gage stressed the importance to focus on appointing an Auditor General who has experience and understands transportation issues.

Chairperson Gage and Committee Members agreed to allow Mr. Burns to review and select a qualified candidate for the Auditor General position then forward the recommendation for consideration to the Audit Committee.

**M/S/C (Pyle/Casas)** to approve submitting a recommendation to the Board of Directors to recommend approval of amendments to the VTA Administrative Code defining the purpose and duties of the Audit Committee.

**6. Amend VTA Rules of Procedure Governing the Audit Committee Meetings**

Board Member Pyle referenced Attachment A – Article IX, Board Standing Committees, noting that §9.4 Standing Committees Established will be included in VTA's Rules of Procedure pertaining to the Audit Committee.

**M/S/C (Pyle/Casas)** to approve submitting a recommendation to the Board of Directors to recommend approval of amendments to the VTA Rules of Procedure that govern the proceedings of Audit Committee meetings.

**7. Auditor General Scope of Work**

Karen Antion, Karen Antion Consulting, reported that the scope of work for the Auditor General and VTA's Internal Audit Services are the following:

- Recommend a methodology to assess VTA business risk that will serve as the basis for developing an Annual Audit Plan;
- Recommend a methodology for conducting VTA audits;
- Recommend a methodology for reporting on results of individual audits, status of recommendations scheduled to be implemented by management, and status of the Audit Plan;
- Develop and recommend an Annual Audit Plan for VTA;
- Conduct the individual audits in the approved Audit Plan – 1) Plan and conduct individual audits, 2) Develop preliminary audit findings, 3) Review preliminary audit findings with VTA management, 4) Solicit VTA management response to preliminary audit findings, 5) Develop draft audit report, 6) Review draft audit report with VTA management, 7) Create final audit report, and 8) Review final audit report with VTA Audit Committee;
- Provide and review status reports with the VTA Audit Committee; and
- Recommend revisions to the Annual Audit Plan as required.

Chairperson Gage stated that there may be instances where staff does not agree with the auditors and recommended that a process be in place to address issues and concerns before they occur. He stressed the importance for all information be draft versions until the final documents are presented to the Audit Committee.

Chairperson Gage recommended that any discrepancies between staff and the auditors be reviewed by Kevin Allmand, Acting General Counsel, to ensure compliance of the rules and regulations. He recommended Ann Ravel, Santa Clara County Counsel, as a resource.

Chairperson Gage stressed the importance for the Audit Committee to have adequate staff support and time.

Board Member Pyle queried about the External Financial Audit Services contract. Mr. Burns responded that staff anticipates that the External Financial Audit Services should be appointed within six months.

Chairperson Gage recommended that VTA propose a two year contact with a one year extension with the External Financial Audit Services.

Board Member Pyle stressed the importance for VTA to contract with local firms with an understanding of transportation. Mr. Burns responded that part of VTA's selection criteria includes experience in transportation and local business preference.

Chairperson Gage recommended that a detailed workplan and timeline of the audit services be developed to ensure that the Committee has the ability to monitor the progress of the work.

Vice Chairperson Casas stressed the importance for VTA to evaluate the other services and resources that the firms have available to ensure that they have the capacity to conduct the work.

Chairperson Gage recommended that the Board establish an audit schedule to determine how often VTA's departments and areas of concern are assessed. Chairperson Gage stressed the importance to regularly conduct audits to ensure VTA is performing its due diligence.

Vice Chairperson Casas stressed the importance to adhere to the firms recommendations on the best practice to conduct the audits, whether it is to conduct scheduled audits or random.

Ms. Antion stated that staff will incorporate the Audit Committee's comments into the Scope of Work.

**M/S/C (Pyle/Casas)** to approve submitting a recommendation to the Board of Directors to review and approve the Auditor General Scope of Work.

Chairperson Gage recommended that staff conduct the RFP and proceed with the process then come back to the Audit Committee with a recommendation for consideration by the Board of Directors.

**8. Determine the Committee meeting schedule for the remainder of 2008**

The next meeting of the Audit Committee is scheduled for Thursday, August 21, 2008 at 3:30 p.m. held in Conference Room 157, County Government Center, 70 West Hedding Street, San Jose.

The next quarterly meeting is scheduled for Thursday, December 11, 2008 immediately following the December 11, 2008 Regular Board of Directors Meeting.

Chairperson Gage requested that the Office of the Board Secretary forward the Audit Committee meeting schedule to the Committee Members.

**On order of Chairperson Gage**, there being no objection, the Committee determined the Committee meeting schedule for the remainder of 2008.

**OTHER ITEMS**

**9. Items of Concern and Referral to Administration**

There were no Items of Concern and Referral to Administration.

**10. Committee Work Plan**

**On order of Chairperson Gage**, there being no objection, the Committee reviewed and approved the Committee Work Plan.

**11. Committee Staff Report**

There was no Committee Staff Report.

**12. Chairperson's Report**

There was no Chairperson's Report.

**13. Determine Consent Agenda for the August 7, 2008 Board Meeting**

**CONSENT:** **Agenda Item #5.**, Recommend approval of amendments to the VTA Administrative Code defining the purpose and duties of the Audit Committee; **Agenda Item #6.**, Recommend approval of amendments to the VTA Rules of Procedure that govern the proceedings of Audit Committee meetings; and **Agenda Item #7.**, Review and approve the Auditor General Scope of Work.

**REGULAR:** None

**14. Announcement**

There were no Announcements.

**15. ADJOURNMENT**

**On order of Chairperson Gage**, there being no objection, the meeting was adjourned at 4:24 p.m.

Respectfully submitted,

Michelle M. Garza, Board Assistant  
VTA Board of Directors