

Audit Committee

Thursday, June, 5, 2008
3:30 PM

Conference Room 157
County Government Center
70 West Hedding Street
San Jose, CA

AGENDA

CALL TO ORDER

1. ROLL CALL

2. PUBLIC PRESENTATIONS:

This portion of the agenda is reserved for persons desiring to address the Committee on any matter not on the agenda. Speakers are limited to 2 minutes. The law does not permit Committee action or extended discussion on any item not on the agenda except under special circumstances. If Committee action is requested, the matter can be placed on a subsequent agenda. All statements that require a response will be referred to staff for reply in writing.

3. ORDERS OF THE DAY

CONSENT/REGULAR AGENDA

- 4.** Elect a Vice Chairperson for 2008. (Burns)
- 5.** ACTION ITEM - Recommend approval of the indicated amendments to the VTA Administrative Code defining the purpose and duties of the Audit Committee.
- 6.** ACTION ITEM - Recommend approval of the indicated amendments to the VTA Rules of Procedure that govern the proceedings of Audit Committee meetings.
- 7.** ACTION ITEM - Review and approve the Scope of Work for the Santa Clara Valley Transportation Authority (VTA) Auditor General.
- 8.** Determine the Committee meeting schedule for the remainder of 2008. (Gage)

OTHER ITEMS

9. Items of Concern and Referral to Administration
10. Review and approve the Committee Work Plan. (Burns)
11. Committee Staff Report. (Burns)
12. Chairperson's Report. (Gage)
13. Determine Consent Agenda for the August 7, 2008 Board Meeting.
14. Announcements
15. **ADJOURN**

NOTE COMMITTEE MEMBERS: In order to establish a quorum for this meeting, members are asked to call the Board Secretary's Office at (408) 321-5680 or E-mail: board.secretary@vta.org before 5:00 p.m. on the day prior to the meeting. Thank you for your cooperation.

In compliance with the Americans with Disabilities Act (ADA), those requiring accommodations or accessible media for this meeting should notify the Board Secretary's Office 48 hours prior to the meeting at (408) 321-5680 or e-mail: board.secretary@vta.org, TDD (408) 321-2330. VTA's Homepage is located on the Web at: <http://www.vta.org>.

All reports for items on the open meeting agenda are available for review in the Board Secretary's Office, 3331 North First Street, San Jose, California, (408) 321-5680, the Monday, Tuesday, and Wednesday prior to the meeting. This information is available on VTA's website at <http://www.vta.org> and also at the meeting.

**NOTE: THE BOARD OF DIRECTORS MAY ACCEPT, REJECT OR MODIFY
ANY ACTION RECOMMENDED ON THIS AGENDA.**



Date: May 30, 2008

Current Meeting: June 5, 2008

Board Meeting: August 7, 2008

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

FROM: General Manager, Michael T. Burns

SUBJECT: Amend VTA Administrative Code to Define Audit Committee

Policy-Related Action: Yes

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Recommend approval of the indicated amendments to the VTA Administrative Code defining the purpose and duties of the Audit Committee.

BACKGROUND:

In March, Chair Kniss announced the formation of the Audit Committee as a standing committee of the Board. This decision was in response to the recommendation made by the Hay Group as part of the VTA Organizational and Financial Assessment. Chair Kniss also announced that Director Don Gage has agreed to serve as the Chair of the Audit Committee. The purpose of these changes to the VTA Administrative Code is to provide an overview of the appointment and membership, meeting frequency and duties of the Audit Committee. These changes specify the establishment of the Auditor General as well as the internal audit function.

DISCUSSION:

In order to establish itself as a standing committee of the Santa Clara Valley Transportation Authority's (VTA) Board of Directors (along with the Administration and Finance Committee, Congestion Management Program and Planning Committee, and Transit Planning and Operations Committee), the Board must adopt amendments to the VTA Administrative Code. Attachment A describes recommended changes to the Administrative Code. If adopted, these changes will establish the Audit Committee as a standing committee of the Board.

ALTERNATIVES:

The Audit Committee could determine alternative membership and meeting frequencies. There are no practical alternatives to the appointment process and duties if the Board's decision to implement this recommendation of the Hay Group report is be enacted.

FISCAL IMPACT:

There is no fiscal impact associated with this change.

Prepared By: Jim Lawson, Sr. Policy Advisor

**VTA Administrative Code
Sections 2-36 through 2-40**

Sec. 2-36. Appointments.

At the first meeting in January, the Chairperson shall nominate for Board approval the members and chairpersons of all standing committees of the Board. The membership of each committee shall consist of four Directors. The term of each appointment shall be for one year, *except for the Chair of the Audit Committee, whose term of appointment shall be for two years.* (Amend. Ord. No. 95.2, § 2, 5/4/95.)

Sec. 2-37. Duties.

Standing committees shall serve in an advisory capacity to the Board. They shall meet, study, prepare recommendations and report to the Board on matters within their respective assigned areas of responsibility as well as other matters referred to them by the General Manager or the Chairperson in consultation with each other or by the Board.

In addition to serving in an advisory capacity, the Audit Committee shall oversee the activities of the Auditor General and the internal audit function and recommend to the Board a public accounting firm to conduct the annual financial audit.

Notwithstanding individual committee responsibilities, standing committees shall work jointly where issues overlap the assignments of two or more standing committees. (Amend. Ord. No. 95.2, § 3, 5/4/95.)

Sec. 2-38. Meetings.

Unless otherwise determined by the Board, standing committee meetings shall be held once a month when there is business for the committee to transact. *The Audit Committee shall meet at least once each quarter.* The times and locations of regular meetings shall be established by resolution adopted by the Board. All meetings shall be called, noticed and conducted in accordance with the applicable provisions of the Ralph M. Brown Act (commencing with Section 54950 of the Government Code). The General Manager and General Counsel shall be given notice of all standing committee meetings.

Sec. 2-40. Standing committees established.

The standing committees of the Board and their duties are as follows:

(a) Administration and Finance Committee. The Administration and Finance Committee shall review and recommend to the Board policy decisions pertaining to the general administration and financial management of VTA. The committee's specific areas of responsibility shall be set forth in the Board's Rules of Procedure.

(b) Transit Planning and Operations Committee. The Transit Planning and Operations Committee shall review and recommend to the Board policy decisions pertaining to transit

planning, transit capital projects, transit operations and marketing. The committee's specific areas of responsibility shall be set forth in the Board's Rules of Procedure.

(c) CMP and Planning Committee. The CMP and Planning Committee shall review and recommend to the Board policy decisions pertaining to the congestion management program and the development of the countywide transportation plan for Santa Clara County. The committee's specific areas of responsibility shall be set forth in the Board's Rules of Procedure.

(d) Audit Committee. The Audit Committee shall review and recommend to the Board policy decisions required to fulfill the Board's oversight responsibilities for (1) the integrity of VTA financial statements, (2) compliance with legal and regulatory requirements, and (3) assuring an effective system of internal management and financial controls. The Audit Committee shall oversee the activities of the Auditor General and the internal audit function and recommend to the Board a public accounting firm to conduct the annual financial audit. The committee's specific areas of responsibility shall be set forth in the Board's Rules of Procedure.



Date: May 30, 2008
 Current Meeting: June 5, 2008
 Board Meeting: August 7, 2008

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Board of Directors

FROM: General Manager, Michael T. Burns

SUBJECT: Amend VTA Rules of Procedure Governing the Audit Committee Meetings

Policy-Related Action: Yes

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Recommend approval of the indicated amendments to the VTA Rules of Procedure that govern the proceedings of Audit Committee meetings.

BACKGROUND:

In March, Chair Kniss announced the formation of the Audit Committee as a standing committee of the Board. This decision was in response to the recommendation made by the Hay Group as part of the VTA Organization and Financial Assessment. The purpose of this memo is to provide recommended changes to the Santa Clara Valley Transportation Authority's (VTA) Rules of Procedure. These recommended changes specify in a more particular way the Appointment and Duties, Meetings and specific work of the Committee. This also establishes in the VTA Rules of Procedure the Auditor General and the internal audit function.

DISCUSSION:

In order to establish itself as a standing committee of the Santa Clara Valley Transportation Authority's (VTA) Board of Directors (along with the Administration and Finance Committee, Congestion Management Program and Planning Committee and Transit Planning and Operations Committee), the Board must adopt amendments to the VTA Rules of Procedure. Attachment A describes recommended changes to the VTA Rules of Procedure. If adopted, these changes will establish the Audit Committee as a standing committee of the Board. Together with the recommended changes to the VTA Administrative Code, this action will create the office of Auditor General and the internal audit function.

ALTERNATIVES:

The Audit Committee could determine alternative membership and meeting frequencies. There are no practical alternatives to the appointment process and duties if the Board's decision to implement this recommendation of the Hay Group report is enacted.

FISCAL IMPACT:

There is no fiscal impact associated with amending the VTA Rules of Procedure.

Prepared By: Jim Lawson, Sr. Policy Advisor

ATTACHMENT A

Article IX**Board Standing Committees****§9.1 Appointment and Duties**

The Chairperson shall nominate and the Board shall appoint at the first meeting in January the members and Chairperson of all standing committees of the Board. The membership of each committee shall consist of four Board members and each term of appointment shall be for one year, *except for the Chair of the Audit Committee, whose term of appointment shall be for two years*. Alternates may not serve on Board standing committees.

Standing committees shall report to the Board in an advisory capacity. They shall meet, study, and prepare recommendations within their respective assigned areas of responsibility. Other matters may be referred to them by the General Manager, the Chairperson, or by the Board.

In addition to serving in an advisory capacity, the Audit Committee shall oversee the activities of the Auditor General and the internal audit function and recommend to the Board a certified public accounting firm (accountant) to conduct the annual financial audit.

§9.2 Meetings

Standing committee meetings shall be held once a month when there is business for the committee to consider, or as otherwise determined by the Board. *The Audit Committee shall meet at least once each quarter*. Times and locations of regular meetings shall be established by resolution of the Board and all meetings shall be called, noticed and conducted in accordance with the provisions of the Ralph M. Brown Act. The General Manager and General Counsel shall be given notice of all standing committee meetings.

Audit Committee shall review and recommend to the Board policy decisions required to fulfill the Board's oversight responsibilities for (1) the integrity of VTA financial statements, (2) compliance with legal and regulatory requirements, and (3) assuring an effective system of internal management and financial controls. The Audit Committee shall oversee the activities of the Auditor General, the internal audit function and the public accounting firm that conducts the annual financial audit. Specific areas of responsibility shall 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 financial statements.*
- *Recommend to the VTA 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.*
- *Each committee member shall ensure that he or she is fully informed about the results of all audit activities.*



Date: May 30, 2008

Current Meeting: June 5, 2008

Board Meeting: August 7, 2008

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

FROM: General Manager, Michael T. Burns

SUBJECT: Auditor General Scope of Work

Policy-Related Action: Yes

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Review and approve the Scope of Work for the Santa Clara Valley Transportation Authority (VTA) Auditor General.

BACKGROUND:

In addition to creating the Audit Committee as a standing committee of the Board, the Hay Group recommended that VTA create an internal audit function managed by an Auditor General and that the Auditor General report directly to the Audit Committee with a dotted line responsibility to the General Manager. This structure allows the Audit committee to provide oversight on audit results and places the responsibility for managing the administrative aspects of the function with the General Manager. This construct satisfies the spirit of Sarbanes-Oxley and creates a structure that allows the Board to satisfy its responsibilities for independent oversight of VTA.

DISCUSSION:

In order to allow VTA to gain immediate auditing expertise and ensure the independence of this function, VTA plans to initially contract for these audit services. The scope of services will require that an audit firm provide the resources (including the Auditor General) to develop and execute an Audit Plan for VTA. The contract for services will be competitively bid. Staff will develop a Request for Proposals (RFP) based upon the Scope of Work approved by the Audit Committee. A draft Scope of Work is included as Attachment A.

The completed RFP will be reviewed by the Audit Committee and recommended to the Board of Directors for approval. The contract with the successful audit firm will be recommended to the Audit Committee and the Board for approval.

ALTERNATIVES:

The Audit Committee could recommend staff begin the recruitment and hiring process for the position of Auditor General.

FISCAL IMPACT:

A budget estimate will be prepared prior to release of the RFP.

Prepared By: Jim Lawson, Sr. Policy Advisor

VTA Audit Committee
Scope of Work
for
VTA Audit Services

1. Recommend a methodology to assess VTA business risk that will serve as the basis for developing an annual Audit Plan.
2. Recommend a methodology for conducting VTA audits.
3. Recommend a methodology for reporting on:
 - a. Results of individual audits
 - b. Status of recommendations scheduled to be implemented by management
 - c. Status of the Audit Plan.
4. Develop and recommend an Annual Audit Plan for VTA.
5. Conduct the individual audits in the approved Audit Plan.
 - a. Plan and conduct individual audits
 - b. Develop preliminary audit findings
 - c. Review preliminary audit findings with VTA management
 - d. Solicit VTA management response to preliminary audit findings
 - e. Develop draft audit report
 - f. Review draft audit report with VTA management
 - g. Create final audit report
 - h. Review final audit report with VTA Audit Committee

6. Provide and review status reports with the VTA Audit Committee.
7. Recommend revisions to the annual Audit Plan as required.

Resources

1. VTA requires a team of professional auditors lead by an Audit Partner to complete the Scope of Services described above.
2. The Audit Partner will serve in the capacity of Auditor General.
3. The Auditor General will have a direct reporting relationship to the Audit Committee Chair and an administrative reporting relationship to the General Manager.
4. The Auditor General will have direct responsibility to develop and recommend the Annual Audit Plan, assign and manage the audit resources required to conduct each audit, and provide audit results and progress reports to the Audit Committee.

Term of the Agreement

1. VTA requires a three year agreement for the provision of audit resources and services.