

AUDIT COMMITTEE

Thursday, August 21, 2008

MINUTES

CALL TO ORDER

The Regular Meeting of the Audit Committee (CMPP) 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.

1. ROLL CALL

Attendee Name	Title	Status	Arrived
David Casas	Board Member	Present	
Don Gage	Board Member	Present	
Nancy Pyle	Board Member	Present	
Dolly Sandoval	Board Member	Present	

A quorum was present.

2. PUBLIC PRESENTATIONS

There were no Public Presentations.

3. ORDERS OF THE DAY

Vice Chairperson Casas asked why the Board of Directors Public Presentation item is placed at the end of the Agenda, but the Standing Committees Public Presentation is at the beginning of the Agenda.

Vice Chairperson Casas referenced his request at the August 7, 2008 Board of Directors Regular Meeting to have the Public Presentation item moved to the beginning of the Agenda and stressed the importance of continuity and how VTA engages with the community at its Standing Committees and Board of Directors Meeting.

Vice Chairperson Casas queried if the placement of the Public Presentation item was a policy issue. Chairperson Gage responded that it is at the discretion of the Chairperson.

Chairperson Gage referenced the 2004 Board of Directors Regular Meetings where the Public Presentation item was placed at the beginning of the Agenda to allow the public the opportunity to speak.

Member Sandoval stated that the placement of the Public Presentation item is a procedural issue and not a policy issue. Member Sandoval continued that the decision to place the Public Presentation item at the end of the Board Agenda was determined by VTA Board of Director's Chairperson Liz Kniss.

CONSENT AGENDA

4. Minutes of June 5, 2008

M/S/C (Pyle/Sandoval) to approve the Minutes of June 5, 2008.

REGULAR AGENDA

5. Auditor General Request for Proposal (RFP) – Scope of Work and Proposer's Minimum Qualifications

Michael T. Burns, General Manager, referenced the June 5, 2008 Audit Committee Minutes, Page 4 of 6, and commented on the Auditor General Scope of Work and VTA's Internal Audit Services. Mr. Burns reported that the Scope of Work Services will require an audit firm to supply the resources to develop and execute VTA's Audit Plan. The Audit Committee approved the Scope of Work at its June 5, 2008 Meeting, which was forwarded for consideration to the August 7, 2008 Board of Directors Regular Meeting.

Mr. Burns continued that staff developed a Request for Proposal (RFP) based on the conceptual scope of work services outlined by the Audit Committee. The RFP Scope of Work and Proposer's Minimum Qualifications will be reviewed by the Audit Committee with a recommendation forwarded for consideration to the September 4, 2008 Board of Directors Regular Meeting.

Mr. Burns stated that the next steps will be:

- Issue the Request for Proposal (RFP), noting that the contract for services will be a competitive bid process;
- Selecting an Auditor General;
- Forwarding the Auditor General recommendation to the December 11, 2008 Audit Committee for consideration; and
- Forwarding the Auditor General recommendation to the January 2009 Board of Directors Regular Meeting for approval.

Mr. Burns referenced Attachment A – Scope of Services, noting that the Scope of Work Services for the Auditor General and VTA's Internal Audit Services are the following:

- Develop and recommend Goals and Objectives for the Internal Audit Program at VTA;

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

- Develop and recommend an Annual Internal Audit Plan for VTA;
- Conduct individual audits in the approved Internal Audit Plan;
- Provide and review status reports on audit activities with the VTA Audit Committee;
- Recommend revisions to the approved Internal Audit Plan as required;
- Other requirements related to the Auditor General and Scope of Work Services;
- Other – Proposer’s are asked to include any additional services offered by their firm that would augment the scope outline in the RFP; Proposer’s may not currently be performing Auditor General Services for Santa Clara County or any of the 14 cities in the VTA services area; and
- Proposers may not be currently performing any other services for VTA.

Mr. Burns referenced Attachment A – Proposer’s Minimum Qualifications, noting the following General and Specific Qualifications:

General Qualifications

- Proposer will have at a minimum five years of public accounting experience in and comprehensive knowledge of financial and internal auditing;
- Proposer will have at a minimum five years experience in and comprehensive knowledge acting in the capacity of an Auditor General for an organization of the size and complexity of VTA; and
- Proposer will possess knowledge of regulations and codes regarding financial and internal auditing and acting in the capacity of an Auditor General for a public transportation agency and will be familiar with local conditions relating to financial and internal auditing and acting in the capacity of an Auditor General in Santa Clara County.

Specific Qualifications

- A minimum of five years in business performing financial and internal auditing and acting as an Auditor General;
- At least two qualified currently licensed Certified Public Accountants (CPA’s), one an Audit Partner with a minimum of five years experience each in performing and/or supervising governmental audits and the responsibilities of an Auditor General;
- Must be a certified accounting firm;
- Must meet the current independence standards of the GAO standards for Audit of Governmental Organizations, Programs Activities and Functions; and
- Must have a record of superior work.

Mr. Burns referenced Attachment A – Evaluation and Selection, noting the following criteria that will be used to evaluate proposals:

Evaluation and Selection

- Qualification of the Firm – 20 points;
- Staffing and Project Organization – 20 points;
- Demonstrated understanding of the project requirements and potential problem area; project approach, work plan, and quality assurance program – 20 points;

- Local Firm Preference – 10 points; and
- Cost and Price based on reasonableness of the total price and competitiveness of the amount with other offers received – 30 points.

Mr. Burns stated that the expectation is that a recommendation will be available for consideration at the December 11, 2008 Audit Committee Regular Meeting.

Member Pyle asked how broad of a collection of firms would VTA need to have to satisfy the criteria and qualifications. Mr. Burns responded that staff believes that there is a significant amount of potential firms available.

Thomas Smith, Purchasing and Material Manager, stated that staff anticipates a significant number of firms with good qualifications and size.

Member Sandoval queried about the collection of firms available with a transportation background. Mr. Burns responded that the Proposer's would probably be an accounting and/or audit firm who would partner with individuals with transportation experience.

Mr. Smith stated that staff anticipates that the interested firms will be large national or international firms with transportation experience.

Member Pyle stressed the importance of practical possibilities. Chairperson Gage noted that in the past there have been many good firms available.

Mr. Burns stated that VTA has a process for pre-proposal meetings where firms are granted the opportunity to forward concerns, issues, and questions regarding the RFP.

Member Sandoval requested a list of the possible pool of candidates for the RFP.

Vice Chairperson Casas inquired whether the ineligibility of proposers on the RFP would extend to contractors who may be sub-contracting to prime contractors on other VTA projects. Kevin Allmand, Acting General Counsel, responded that the ineligibility of contractors proposing on the RFP would extend to sub-contractors on VTA projects.

Vice Chairperson Casas referenced Attachment A – Scope of Services, Item #7., second bulleted item under the “Other” section, and noted that it should state 15 cities instead of 14 cities.

Member Pyle queried if VTA's external auditing firm would be eligible to bid on the contract. Leonard Dana, Vavrinek, Trine, Day and Co., LLP (VTD), responded that VTD, VTA's external audit firm, would be ineligible to bid due to an inherent conflict of interest.

M/S/C (Sandoval/Pyle) to approve submitting a recommendation to the Board of Directors to review and approve the Scope of Work and Proposer's Minimum Qualifications for the Santa Clara Valley Transportation Authority (VTA) Auditor General Request for Proposal (RFP).

6. Scope of Work for Annual Financial Audit Services

Joseph Smith, Chief Financial Officer (CFO), introduced Leonard Dana, Vavrinek, Trine, Day and Co., LLP (VTD), who provided a brief report on the Scope of Work for Annual Financial Audit Services.

Mr. Dana stated that VTD has been VTA's independent external auditor since June 2006 and will continue through April 2009 with options to extend the contract for two additional one-year terms.

Mr. Dana directed attention to the presentation entitled, "Santa Clara County VTA Audit Plan Year Ended June 30, 2008", highlighting the following first and second interim activities:

First Interim Activities

- Internal Control Walkthroughs of Cash Disbursements and Payroll;
- Single Audit Testing of all Major Federal Programs; and
- Measure A and B Compliance Testing.

Mr. Dana reported that under the new auditing standards it is required to document risk assessments, which basically states that the auditors have looked at the intended risks and designed audit procedures to meet the those risks.

Second Interim Activities

- Federal Transit Administration (FTA)/Transportation Development Act (TDA) Compliance Testing;
- Internal Control Walkthroughs of the Cash Receipts/Farebox Revenues and Information Technology (IT) Infrastructure Review;
- Entity Wide Risk Assessment of all funds Statement on Auditing Standards (SAS) 104-111 Testing;
- Significant Transactions Classes;
- Statement on Auditing Standards (SAS) 99 Fraud Review - assessing the organizations programs and controls to address fraud risks; and
- Audit Team Brainstorming Discussion.

Mr. Dana reported that the Governmental Accounting Standards Board (GASB), establishes standards of financial accounting and reporting for state and local government entities regarding accounting for retiree health benefits.

GASB 45 requires public agency employers to provide more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that they incur when they provide Other Post Employment Benefits (OPEBs) other than pensions. Mr. Dana stated that VTA has completed all the necessary procedures and requirements regarding GASB 45.

Mr. Dana continued that VTD, VTA's external auditors, has reviewed VTA's actuarial assumptions and confirmed the entities of being capable of conducting the work of an expert.

Mr. Dana stated that VTD will conduct a wrap up procedure, which will evaluate any audit differences and propose audit adjustments as required. All potential audit adjustments will be reviewed with management for concurrence prior to recording.

During September – October 2008, VTD is scheduled to review VTA’s Comprehensive Annual Financial Report (CAFR), which is a thorough and detailed presentation of the organizations financial condition. VTD will review VTA’s CAFR for accuracy, completeness, and compliance with applicable Government Finance Officers Association (GFOA) reporting standards.

Mr. Dana commented on the Statement on Auditing Standards (SAS) 112, which requires VTD to report significant deficiencies or material weaknesses in VTA’s internal control procedures. He continued that from a historical perspective, VTA has not had any significant deficiencies or material weaknesses in the past.

Mr. Dana stated that VTD will conduct a final exit meeting with VTA management and will provide a memorandum for record on the external audit services.

Mr. Dana commented on the Statement on Auditing Standards (SAS) 114, which establishes standards and provides guidance on the auditor's communication with those charged with governance in relation to an audit of financial statements.

Mr. Smith reported that VTA’s Financial Statements will be presented to the Committee at the December 11, 2008 Audit Committee Meeting then forwarded for consideration at the January 8, 2009 Board of Directors Regular Meeting.

Mr. Dana continued that VTD is required to conduct the National Transit Database (NTD) Testing, which will be scheduled separately from the regular audit and will be completed as the NTD report schedules are finished. VTA is required to file a report with the NTD that lists all the statistical data on ridership.

Chairperson Gage asked if VTA receives a letter on the SAS 112 and would staff have the opportunity to conduct reconciliation. Mr. Dana responded, “yes,” and noted that VTD would discuss any items with management prior to inclusion in the SAS 112 letter.

Chairperson Gage asked if the Audit Committee would have the opportunity to provide input. Mr. Dana responded, “yes.”

Vice Chairperson Casas queried about the estimated value of the threshold deemed as material. Mr. Dana responded that VTD conducts an assessment on the year end field work utilizing a mathematical assessment, which is in the range of \$1 million to \$2 million.

Vice Chairperson Casas queried about the level of validation that VTD engages in regarding VTA’s financial controls. Mr. Dana responded that VTD completes a financial statement matrix and reviews significant accounts and transaction classes to determine if there will be financial risks.

Mr. Dana continued that VTD will either perform a test of controls or a walkthrough. Test of controls are those activities performed by VTD during the control testing stage

that gather evidence as to the operational effectiveness of internal control procedures, which VTD has planned reliance. A walkthrough is when an auditor selects a small sample of representative transactions or economic events and traces them through the accounting information system.

Vice Chairperson Casas inquired if VTD randomly selects non-selective accounts. Mr. Dana responded, "yes."

Vice Chairperson Casas inquired if an audit of credit card use should be a specific project. Mr. Dana responded, "yes."

Chairperson Gage queried about the completion dates of the activity tasks. Mr. Dana responded that staff will provide VTD with a draft of VTA's Financial Statements in September. VTD will complete the audit field work by the end of September 2008.

On order of Chairperson Gage, there being no objection, the Committee received the Scope of Work for Annual Financial Audit Services.

OTHER ITEMS

7. Items of Concern and Referral to Administration

There were no Items of Concern and Referral to Administration.

8. Committee Work Plan

Vice Chairperson Casas queried about the consideration of an audit on the credit card usage as a special project since it is not part of the contract. Vice Chairperson Casas requested that staff determine the costs of the special project, the scope of work, and relevancy.

Chairperson Gage queried about the number of credit cards issued to staff. Tom Smith, Purchasing and Materials Manager, responded that there are approximately 75 to 80 credit cards issued.

Mr. Dana stated that company credit card usage is fairly well defined on what can be charged to the card.

The Audit Committee requested that VTD conduct the audit on the credit card usage as a special project.

Mr. Burns inquired if VTD would be able to conduct the special project audit on the credit card usage; and determine the costs of the special project and the scope of work. Mr. Dana responded, "yes."

Mr. Burns stated that staff will include the request on the Committee Work Plan and have a proposal available for the December 11, 2008 Audit Committee Meeting.

Vice Chairperson Casas stressed the importance for VTA to conduct random sample spot audits. Mr. Burns responded that staff does conduct random tests internally, but noted that the special project audit will be a good independent check for the organization.

Mr. Burns noted that the following items are scheduled for the December 11, 2008 Audit Committee Meeting:

- Recommendation for the Auditor General;
- VTA's Financial Statements; and
- Request input from the Board of Directors regarding the types of audits the Auditor General should conduct for the organization.

Chairperson Gage stressed the importance for staff to establish a list of audits and prioritize the audits. Chairperson Gage stated that staff should set the priority of the audit list then forward the information to the Audit Committee for review.

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

9. Committee Staff Report

There was no Committee Staff Report.

10. Chairperson's Report

There was no Chairperson's Report.

11. Determine Consent Agenda for the September 4, 2008 Board Meeting

CONSENT: Agenda Item #5., Review and approve the Scope of Work and Proposer's Minimum Qualifications for the Santa Clara Valley Transportation Authority (VTA) Auditor General Request for Proposal (RFP).

REGULAR: None

12. Announcement

There were no Announcements.

13. ADJOURNMENT

On order of Chairperson Gage, there being no objection, the meeting was adjourned at 4:23 p.m.

Respectfully submitted,

Tracene Y. Crenshaw, Board Assistant
VTA Board of Directors