

## **Audit Committee**

Thursday, August, 21, 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 AGENDA**

4. Approve the Minutes of June 5, 2008.

### **REGULAR AGENDA**

5. ACTION ITEM - 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. INFORMATION ITEM - Scope of Work for Annual Financial Audit Services.

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## OTHER ITEMS

7. Items of Concern and Referral to Administration
8. Review Committee Work Plan. (Burns)
9. Committee Staff Report. (Burns)
10. Chairperson's Report. (Gage)
11. Determine Consent Agenda for the September 4, 2008 Board Meeting.
12. **Announcements**
13. **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.**



## Audit Committee

Thursday, June 5, 2008

### MINUTES

#### CALL TO ORDER

#### 1. ROLL CALL

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.

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

- Integrity of VTA's Financial Statements;
- Compliance with legal and regulatory requirements; and
- 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 pertaining to the Audit Committee will be included in VTA's Rules of Procedure.

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 pertaining to the Audit Committee will be included in VTA's Rules of Procedure.

**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. Announcements**

There were no Announcements.

**15. ADJOURN**

**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



Date: August 12, 2008  
 Current Meeting: August 21, 2008  
 Board Meeting: September 4, 2008

## BOARD MEMORANDUM

**TO:** Santa Clara Valley Transportation Authority  
 Audit Committee

**THROUGH:** N/A

**FROM:** General Manager, Michael T. Burns

**SUBJECT:** Auditor General Request for Proposal (RFP) - Scope of Work and Proposer's Minimum Qualifications

**Policy-Related Action:** Yes

**Government Code Section 84308 Applies:** No

## ACTION ITEM

### **RECOMMENDATION:**

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).

### **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 has developed a Request for Proposals (RFP) based upon the Scope of Work approved by the Audit Committee at the June 5, 2008 meeting and the Board of Directors at the August 7, 2008 meeting. The Scope of Work and Proposer's Minimum Qualifications from the RFP is included

as Attachment A.

The RFP Scope of Work and Proposer's Minimum Qualifications 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:**

An independent cost estimate has been developed. Funds are available in the FY09 budget.

Prepared by: Michael T. Burns, General Manager

## **SCOPE OF SERVICES**

Santa Clara Valley Transportation Authority (VTA) is seeking proposals from qualified firms of Certified Public Accountants (CPA) to provide Auditor General and Internal Audit services for a two year period, with three additional one-year options to be executed at the sole discretion of VTA. Scope of Services would include, but may not be limited to, the following:

1. Develop and Recommend Goals and Objectives for the Internal Audit Program at VTA.
2. Develop and recommend an Annual Internal Audit Plan.
  - Recommend a methodology to assess and prioritize business risk that will serve as the basis for developing the Annual Audit Plan.
  - Recommend a methodology for conducting VTA internal audits.
  - 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 Internal Audit Plan
  - Conduct the Risk Assessment.
  - Develop and recommend the Annual Internal Audit Plan to the Audit Committee for approval.
3. Conduct individual audits in the approved Internal Audit Plan.
  - Plan and conduct individual audits according to the approved Annual Internal Audit Plan.
  - Develop written preliminary audit findings for each audit.
  - Review preliminary audit findings with VTA management.
  - Solicit VTA management response to preliminary audit findings.
  - Develop a draft audit report that incorporates VTA management's response to findings.
  - Review the draft audit report with VTA management.
  - Create the final audit report and review with VTA management.
  - Review the final audit report with the VTA Audit Committee.
4. Provide and review status reports on audit activities with the VTA Audit Committee.
  - The VTA Audit Committee is a committee of the VTA Board of Directors that meets on a quarterly basis.
5. Recommend revisions to the approved Internal Audit Plan as required.
6. Other requirements:
  - An Audit Partner of the selected firm will act as the Auditor General and have overall responsibility for the scope described in this section and elsewhere in this RFP document.

- The Auditor General will have a direct reporting relationship to the Audit Committee and an administrative reporting relationship to the General Manager.
- The Auditor General will recommend guidelines for the frequency of audits for business functions within VTA.
- The Auditor general will report out disagreements with Management and have a process for resolution of disagreements.
- The Auditor General will have direct responsibility to develop and recommend the Annual Internal Audit Plan, assign and manage the audit resources required to conduct each audit and provide audit results and progress reports to the Audit Committee.
- Other than the Audit partner, all staff assigned to the duties outlined in this document will be fully qualified and experienced audit staff.

7. Other

- Proposers are asked to include any additional services offered by their firm that would augment the scope outlined in this RFP. The proposed costs for those services should be identified separately on Attachment B, Cost Proposal.
- Proposers may not currently be performing Auditor General Services for the County of Santa Clara or any of the 14 cities in the VTA service area.
- Proposers may not be currently performing any other services for VTA.

## **PROPOSER'S MINIMUM QUALIFICATIONS**

### General Qualifications:

1. The Proposer shall have, at a minimum, 5 years of public accounting experience in and comprehensive knowledge of financial and internal auditing, acting in the capacity of an Auditor for a public transportation agency.
2. The Proposer shall have, at a minimum, 5 years experience in and comprehensive knowledge acting in the capacity of an Auditor General for an organization of the size and complexity of VTA.
3. The Proposer shall 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 shall 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:

The selected firms will have the following minimum qualifications and experience working with the public sector, preferably with a transit property comparable in size to the Santa Clara Valley Transportation Authority.

1. A minimum of five years in business performing financial and internal auditing and acting as an Auditor General.
2. Assignment to the engagement of at least two qualified, currently licensed CPAs, 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. The Audit Partner will serve in the capacity of the Auditor General. These key individuals will be an important factor considered by the selection committee. There can be no change of the key individuals once the proposal is submitted without the prior approval of VTA's project manager.
3. The Audit Partner serving as VTA's Auditor General will have a direct reporting relationship to the Audit Committee and an administrative reporting relationship to the General Manager.
4. Must be a certified accounting firm.
5. Must meet the current independence standards of the GAO Standards for Audit of Governmental Organizations, Programs Activities and Functions.
6. Must have a record of superior work.

7. Must meet specific qualifications requirements imposed by State and local law, rules and regulations.
8. Must have experience involving primary responsibility for conducting independent financial and internal audits and Auditor General responsibilities for a public agency.
9. Must be thoroughly familiar with:
  - Ø Generally Accepted Government Auditing Standards issued by Comptroller General of the United States;
  - Ø Governmental Accounting, Auditing and Financial Reporting issued by the Government Finance Officers Association;
  - Ø Governmental Accounting Standards Board Statements;
  - Ø U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations;
  - Ø The most current guidelines for financial and compliance audits of federally-assisted programs;
  - Ø The Federal Transit Administration standards for reporting data in the Federal Funding Allocations Statistics Forms;
  - Ø The most current audit guide for State and local governments;
  - Ø OMB's Circular No. A-87, Cost Principles for State and Local Governments;
  - Ø Test of Compliance, as required by California Administrative Code Title 21 and
  - Ø The Approved Compliance Supplement from OMB's Major Compliance Features of Programs Administered by State and Local Governments.

## **EVALUATION AND SELECTION**

### **A. Evaluation Criteria:**

The following criteria will be used to evaluate proposals:

1. **Qualification of the Firm:** Technical experience in performing work of a closely similar nature; experience working with transportation properties and other public agencies; record of completing work on schedule; strength and stability of the firm; technical experience and strength and stability of proposed subcontractors; and assessments by client references. (20 points)
2. **Staffing and Project Organization:** Qualifications of project staff, particularly key personnel, especially the Audit Partner; key personnel's level of involvement in performing related work; logic of project organization; adequacy of labor commitment; concurrence in the restrictions on changes in key personnel. (20 points)
3. **Demonstrated understanding of the project requirements and potential problem areas;** project approach, work plan, and quality assurance program. (20points)
4. **Local Firm Preference:** Five points shall be awarded if at least 50% of the dollar value of services to be rendered will be performed by a local firm. An additional point shall be awarded for each additional 10% of the dollar value of services to be performed by a local firm, to a maximum point award of 10 points.
5. **Cost and Price:** Reasonableness of the total price and competitiveness of this amount with other offers received; adequacy of data in support of figures quoted; reasonableness of individual task budgets; basis on which prices are quoted. (30 Points)



Date: August 11, 2008  
 Current Meeting: August 21, 2008  
 Board Meeting: N/A

## **BOARD MEMORANDUM**

**TO:** Santa Clara Valley Transportation Authority  
 Audit Committee

**THROUGH:** General Manager, Michael T. Burns

**FROM:** Chief Financial Officer, Joseph T. Smith

**SUBJECT:** Scope of Work for Annual Financial Audit Services

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### **FOR INFORMATION ONLY**

#### **BACKGROUND:**

Pursuant to state law and administrative code of the Santa Clara Valley Transportation Authority (VTA), Vavrinek, Trine, Day & Company, LLP (VTD) was hired as the independent Certified Public Accountant, to conduct the audit of VTA financial statements. The term of the contract commenced in June 2006 and will continue through April 30, 2009 with options to extend the agreement for two additional one-year terms.

The scope of VTD's services includes the following:

- Conduct the audit of and render an opinion on the:
- VTA General-purpose Financial Statements
- Congestion Management Program (CMP) General-purpose Financial Statements
- VTA- Amalgamated Transit Union (ATU) Pension Plan
- 2000 Measure A Transportation Program
- VTA's Federal Financial Assistance Program (Single Audit)
- Budgetary Comparison Schedule
- Internal Control over Financial Reporting based on the audit of the financial statements
- Compliance with Requirement of the Transportation Development Act
- Perform agreed-upon procedures with regard to the data reported in the VTA's Annual National Transit Database (NTD).

#### **DISCUSSION:**

VTD has been VTA's independent external auditor since June 2006. For the Fiscal Year 2006 and Fiscal Year 2007, they have conducted their audit in accordance with auditing

standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. In their opinion, the financial statements included in the Comprehensive Annual Financial Report (CAFR) for the two years referenced above fairly represented, in all material respects, the financial position, the changes in financial position and cash flows where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Presently, VTD is conducting its interim work relative to the audit of VTA's financial statements for Fiscal Year 2008. They have accomplished the following:

#### May 2008

- Tested internal controls in relation to Measure A and Single Audit
- Cash disbursements in relation to Measure A and Single Audit
- Cash receipt sample testing

#### July 2008

- Compliance testing for VTA-ATU Pension Plan, CMP, and TDA
- Cash disbursement sample testing
- Payroll disbursement sample testing
- Documented procedures in relation to risk assessment

#### September 2008

- Complete Audit field work

#### December 2008

- Present the 2008 CAFR along with the VTA-ATU Pension Plan Report, and Retiree Medical Trust Fund Report to the Audit Committee on December 11, 2008

Prepared By: Joseph T. Smith, Chief Financial Officer