

**Audit Committee**

Thursday, March 5, 2009

**MINUTES**

**CALL TO ORDER**

The Regular Meeting of the Audit Committee was called to order at 4:02 p.m. by Chairperson Gage in Room 157, County Government Center, 70 West Hedding Street, San Jose, California.

**1. ROLL CALL**

<b>Attendee Name</b>	<b>Title</b>	<b>Status</b>
David Casas	Vice Chairperson	Present
Don Gage	Chairperson	Present
Nancy Pyle	Member	Present
Greg Sellers	Member	Absent

**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 AGENDA**

**4. Minutes of December 11, 2008**

**M/S/C (Pyle/Casas)** to approve the Minutes of December 11, 2008.

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

## REGULAR AGENDA

### 5. Elect Standing Committee Vice Chairperson

Chairperson Gage opened the nominations from the floor for the position of Vice Chairperson of the Audit Committee for 2009.

Member Pyle nominated Member Casas to serve as the Vice Chairperson for 2009.

**M/S/C (Pyle/Gage)** to close the nominations and elect David Casas as the Committee's Vice Chairperson for calendar year 2009.

### 6. 2000 Measure A Program Financial Report, Fiscal Year 2008

Joseph T. Smith, Chief Financial Officer, reported the Measure A ballot required an audit of the 2000 Measure A Program be conducted annually by an Independent Auditor to ensure the 2000 Measure A Program's sales tax revenues are spent in accordance with the intent of the Measure. He noted the audited 2000 Measure A Program Financial Statements were part of the Santa Clara Valley Transportation Authority (VTA) Comprehensive Annual Financial Report (CAFR).

Mr. Smith indicated the 2000 Measure A Program Financial Report, Fiscal Year 2008, was also presented at the February 11, 2009, 2000 Measure A Citizens Watchdog Committee.

Leonard Dana, Vavrinek, Trine, Day & Co., LLP (VTD), referenced the 2000 Measure A Program Financial Report, Fiscal Year Ended June 30, 2008, and provided a brief overview. He reported VTD issued an unqualified opinion on the 2000 Measure A Program's Financial Statements. The Report contained a section entitled, Program Summaries, and included information on each project and expenditures to date for the fiscal year. There were no reportable deficiencies or material weaknesses in internal control procedures.

Vice Chairperson Casas inquired if there were any questions raised that were addressed satisfactorily, which could have been a finding. Mr. Dana reported there were no findings.

**M/S/C (Pyle/Casas)** to approve submitting a recommendation to the Board of Directors to review and accept the 2000 Measure A Program Financial Report for Fiscal Year 2008.

### 7. FY2008 CMP Audited Financial Report

Joseph T. Smith, Chief Financial Officer, reported the Joint Powers Agreement for the administration of the Santa Clara County Congestion Management Program (CMP) also required an audit of the CMP accounts and records be conducted annually by a certified public accounting firm. Mr. Smith noted the CMP's audited financial statements were also part of the VTA Comprehensive Annual Financial Report (CAFR).

Leonard Dana, Vavrinek, Trine, Day & Co., LLP (VTD), referenced the Congestion Management Program Independent Auditor's Report, Financial Statements and Supplementary Information, June 30, 2008, and provided a brief overview. The audit report indicated the CMP's financial statements present fairly, in all respects, the financial position of the CMP as of June 30, 2008. He reported VTD issued an unqualified opinion on the CMP financial statements. There were no reportable deficiencies or material weaknesses in internal control procedures.

**M/S/C (Pyle/Casas)** to approve submitting a recommendation to the Board of Directors to review and accept the audited Financial Report for the Congestion Management Program for Fiscal Year 2008 (FY2008).

## **8. Internal Audit Program Goals & Objectives**

Michael T. Burns, General Manager, reported the VTA Board of Directors approved a Task Order Contract with Deloitte & Touche, LLC on January 8, 2009, to provide Auditor General Services. The Task Order Contract was for a two-year term with three additional one-year options to perform VTA's Internal Audit function. The Scope of Work for the first two Task Orders were as follows: 1) develop and recommend goals and objectives for VTA's Internal Audit Program and 2) develop and recommend an Annual Internal Audit Plan.

Pat Hagan, Auditor General, Deloitte & Touche, LLP, introduced Farah Faruqui, Partner, and Heather Honegger, Senior Manager, Deloitte & Touche, LLP.

Mr. Hagan provided a report on the Internal Audit Program components, highlighting: 1) Objectives of the VTA Internal Audit function; 2) Scope of work of the Internal Audit function; 3) Accountability; 4) Internal Audit function's responsibilities; 5) Authority of the Internal Audit function; and 6) Standards of Audit practice.

Chairperson Gage queried if the Internal Audit discovers anything illegal, would the Audit Committee be allowed to conduct a Closed Session to discuss the issue. Kevin Allmand, VTA General Counsel, indicated it would have to be leading to potential litigation. Mr. Hagan also indicated the Internal Auditor would work with VTA's General Counsel to determine the appropriate disclosures and would inform the Audit Committee of any issues. Depending upon the type of issue that could be a potential litigation, a Closed Session would be recommended.

Chairperson Gage indicated if there are any disagreements between the Auditor General and various departments within VTA, both parties be in attendance to present their case to the Audit Committee.

**M/S/C (Pyle/Casas)** to approve submitting a recommendation to the Board of Directors to approve the goals and objectives for the internal audit program at VTA, as proposed by the Auditor General.

## OTHER ITEMS

### 9. Receive Presentation on Risk Assessment Methodology

Pat Hagan, Auditor General, Deloitte & Touche, LLP, directed attention to the presentation entitled, “Auditor General Risk Assessment,” and provided an overview, highlighting: 1) The role of internal audit at VTA; 2) The internal audit process; 3) Risk assessment methodology; 4) Risk assessment executive summary; 5) Risk assessment results; 6) Response to risks; and 7) Proposed audit focus areas for discussion.

In reference to “The Role of Internal Audit,” Chairperson Gage queried if the Auditor General would be conducting interviews at the employee level with regard to processes. Mr. Hagan indicated, “absolutely”. He noted the importance of the interviews and process documentation and the importance of the Auditor General having access to the VTA Chiefs and their operations. Chairperson Gage requested the Auditor General inform him of any obstacles encountered during the interview process.

In reference to the “Overview of Internal Audit Process,” Chairperson Gage requested the Committee members be informed in a timely manner if the Auditor General needs to meet more than on a quarterly basis to discuss areas of concern.

In reference to the “Risk Assessment Methodology,” bulleted item #4 – “Interviewed approximately 30 VTA managers from various departments, including Chiefs, Deputy Directors and other key personnel,” Mr. Hagan thanked the VTA Chiefs and staff for their participation in the audit interview process.

Chairperson Gage mentioned the use of best practices and queried if the Auditor General has experience with other transit agencies with regards to the interview process. Mr. Hagan indicated he is the National Audit Partner for Deloitte & Touche’s public sector practice and has a number of other transit audit clients and transit consulting clients. Additionally, the Federal Transit Administration (FTA) has a national transit database, which publishes very good information from all transit agencies including the VTA, so there is good benchmarking data available.

In reference to the “Response to Risks,” Vice Chairperson Casas requested, for future purposes, a bar be included on the graph identifying where each risks falls as contained on the model “heat map” listing the relative impact and vulnerability of key identified risks. He noted if something is going to move materially on the graph, to indicate the rationale, so it can be tracked from year to year.

In reference to the “Proposed Audit Focus Areas for Discussion,” Chairperson Gage queried if the Auditor General would come back with an extensive list of areas reviewed. Mr. Hagan indicated he would come back with a proposed scope of work indicating specific areas and control objectives to be reviewed. Chairperson Gage requested it be matched against the amount of dollars being allocated.

Mr. Hagan noted an annual update on the risks would be provided, showing the movement and hopefully improvement of those risks.

Member Pyle referenced the “Fraud, Waste and Abuse Risk,” and expressed concern regarding the potential lost of money involving these types of situations. Mr. Hagan reported Sarbanes-Oxley is not applicable to governments, but Sarbanes-Oxley has required for-profit companies to set-up a whistleblower program, such as an anonymous tip line.

Vice Chairperson Casas referenced the “Information Technology (IT) Risk, Focus Area - Audit IT Security,” and expressed concern regarding employees with laptops and possible negligence. He requested policies be put in place protecting employee information in case of negligence. Vice Chairperson Casas indicated with regards to IT, when looking at capacity, there is the possibility of integrated servers. He queried if this could be streamlined by making minimum investments, saving on energy and increasing the capacity of the IT group.

Vice Chairperson Casas referenced the “Fraud, Waste and Abuse Risk,” and queried if any travel restrictions have been implemented within VTA. Michael T. Burns, General Manager, indicated travel at VTA has decreased significantly and noted he approves all travel at VTA. He noted a process can be put in place where expense reports are reviewed to ensure they are within the established limits. With regards to travel, Chairperson Casas commented on rate negotiations. He indicated a philosophy should be put in place where there is an understanding of those policies on travel limitations, stipends, etc.

Mr. Burns recommended rescheduling the Thursday, June 4, 2009, Audit Committee meeting to Thursday, May 7, 2009. The Audit Plan would be presented for review and approval at the meeting and forwarded to the June 4, 2009, Board of Directors meeting.

Chairperson Gage requested the June 4, 2009, Audit Committee meeting be rescheduled to Thursday, May 7, 2009, at 4:00 p.m. in Conference Room 157, at 70 West Hedding Street, San Jose.

Vice Chairperson Casas noted he would be unable to attend the May 7, 2009, Audit Committee meeting.

Mr. Hagan reported on the next steps, highlighting: 1) Develop detailed scope of work for priority audit projects; 2) Collaborate with VTA management to develop FY 2010 Audit Plan; 3) Recommend scope, budget and timeline; and 4) Present FY 2010 Audit Plan for discussion and approval at next Audit Committee meeting.

Chairperson Gage requested the Auditor General prepare a two-year Audit Plan.

**On order of Chairperson Gage** and there being no objection, the Committee received a presentation on Auditor General’s Risk Assessment Methodology.

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

There were no Items of Concern and Referral to Administration.

**11. Committee Work Plan**

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

**12. Committee Staff Report**

There was no Committee Staff Report.

**13. Chairperson's Report**

There was no Chairperson's Report.

**14. Determine Consent Agenda for the April 2, 2009 Board Meeting**

**CONSENT:**

**Agenda Item #6.** Review and accept the 2000 Measure A Program Financial Report for Fiscal Year 2008.

**Agenda Item #7.** Review and accept the audited Financial Report for the Congestion Management Program for Fiscal Year 2008 (FY2008).

**Agenda Item #8.** Approve the goals and objectives for the internal audit program at VTA, as proposed by the Auditor General.

**REGULAR:**

None

**15. Announcements**

There were no Announcements.

**16. ADJOURNMENT**

**On order of Chairperson Gage** and there being no objection, the meeting was adjourned at 4:53 p.m.

Respectfully submitted,

Tracene Y. Crenshaw, Board Assistant  
Office of the Board Secretary