

Audit Committee

Thursday, March 5, 2009
4:00 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 December 11, 2008.**

REGULAR AGENDA

- 5. ACTION ITEM - Conduct voting to determine the Committee's vice chairperson for calendar year 2009.**
- 6. ACTION ITEM - Review and accept the 2000 Measure A Program Financial Report for Fiscal Year 2008.**
- 7. ACTION ITEM - Review and accept the audited Financial Report for the Congestion Management Program for Fiscal Year 2008 (FY2008).**

8. ACTION ITEM - Approve the goals and objectives for the internal audit program at VTA, as proposed by the Auditor General.

OTHER ITEMS

9. INFORMATION ITEM - Receive Presentation on Auditor General's Risk Assessment Methodology.
10. Items of Concern and Referral to Administration
11. Review Committee Work Plan. (Burns)
12. Committee Staff Report. (Burns)
13. Chairperson's Report. (Gage)
14. Determine Consent Agenda for the April 2, 2009 Board of Directors Meeting.
15. **ANNOUNCEMENTS**
16. **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, December 11, 2008

MINUTES

CALL TO ORDER

The Regular Meeting of the Audit Committee was called to order at 11:48 a.m. by Chairperson Gage in the Board of Supervisors' Chambers, County Government Center, 70 West Hedding Street, San Jose, California.

1. ROLL CALL

Attendee Name	Title	Status	Arrived
David Casas, Vice Chairperson	Board Member	Present	
Don Gage, Chairperson	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

There were no Orders of the Day.

CONSENT AGENDA

4. Minutes of August 21, 2008

M/S/C (Pyle/Casas) to approve the Minutes of August 21, 2008.

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

REGULAR AGENDA

5. 2009 Audit Committee Meeting Schedule

M/S/C (Pyle/Sandoval) to approve the 2009 Audit Committee Meeting Schedule.

6. Contract Award for Auditor General Services

Michael T. Burns, General Manager, reported the proposed contract award for Auditor General Services is being presented to the Audit Committee for review and anticipate forwarding a recommendation to the Board of Directors to approve the contract award at their January 8, 2009 meeting.

Karen Antion, Consultant, provided a report on the Request for Proposals (RFP) process for the Auditor General Services. On September 5, 2008, the Valley Transportation Authority (VTA) issued a RFP based upon the approval of the Scope of Work by the Audit Committee and Board of Directors. VTA received and evaluated proposals from the following two qualified firms: 1) Deloitte and Touche, LLP and 2) KPMG, LLP. A review board was convened which included the Chief Financial Officers from VTA, BART, City of Palo Alto and VTA Purchasing and Materials Manager. The Review Board evaluated the written proposals submitted by both firms and determined both firms were qualified.

Ms. Antion reported the Review Board determined Deloitte and Touche, LLP, demonstrated a greater experience and understanding of transportation issues. She noted Pat Hagan, the recommended Auditor General, presented a level of national transit experience and his team had a good understanding of the roles and responsibilities of an outsourced Auditor General. Ms. Antion noted the Deloitte and Touche local team includes an audit partner that has direct experience serving as an Auditor General to a large Silicon Valley technology manufacturer.

Ms. Antion reported the cost proposed by Deloitte and Touche, LLP, for the initial scope of developing the Annual Audit Plan was significantly less than KPMG. She noted the hourly rates of both firms were essentially equal for all categories. The Task Order Contract will be for a two-year term with three additional one-year options. The Scope of Work for the first Task Order will include the following: 1) Develop and recommend goals and objectives for the Internal Audit Program at VTA; and 2) Develop and recommend an Annual Internal Audit Plan.

Mr. Hagan stated he would be honored to serve as the Auditor General for VTA and introduced Deloitte and Touche team members in attendance. Mr. Hagan thanked VTA management for the recommendation and noted Deloitte and Touche's' philosophy for internal audit. He indicated one of the things Deloitte and Touche thinks is important for a world class internal audit group is to match up to the values articulated in VTA's strategic plan.

Upon query of Chairperson Gage, Mr. Hagan noted it is likely Deloitte and Touche would be attending all VTA Board of Directors meetings. Chairperson Gage noted the

importance of Deloitte and Touche providing a report on an annual basis containing their findings/recommendations so the Board of Directors can be kept apprised.

Vice Chairperson Casas queried about Deloitte and Touche's work plan. Mr. Hagan noted it is anticipated Deloitte and Touche would be presenting an initial work plan and summary of risks at the March 5, 2009 Audit Committee meeting.

M/S/C (Pyle/Casas) to approve submitting a recommendation to the Board of Directors to authorize the General Manager to execute a Task Order Contract with Deloitte & Touche, LLP to provide Auditor General Services for a two year period in the amount of \$350,000. Additionally authorize the General Manager to execute three additional one year contract options for \$175,000 per year subject to approval by the Audit Committee.

7. Independent Auditor's Report on the VTA's Procurement Card Program Agreed-Upon Procedures for the Fiscal Year Ended June 30, 2008

Joseph T. Smith, Chief Financial Officer, reported on August 21, 2008, the Audit Committee directed staff to request that VTA's Independent Audit Firm, Vavrinek, Trine, Day & Co., LLP (VTD), perform the agreed-upon procedures for VTA's Procurement Card Program.

Leonard Dana, VTD, reported the review was completed as requested in conjunction with the annual audit of VTA. He referenced the report entitled, "Independent Accountant's Report on Applying Agreed-Upon Procedures," highlighting: 1) Agreed Upon Procedures Performed and 2) Results of Procedures.

Chairperson Gage queried if periodic reviews would be conducted. Mr. Dana recommended the periodic reviews be conducted by Internal Audit. Mr. Burns indicated the recommendation is appropriate.

Vice Chairperson Casas stated it is appropriate to have enforcement of the controls to ensure there are no improprieties. He noted the importance of having spot reviews to reaffirm individuals are following established procedures.

Member Pyle directed attention to the Board Memorandum, Page 2 of 2, Compliance Review Results, last sentence contained in first paragraph, and requested the word "were" be placed between the words "there and no."

M/S/C (Casas/Sandoval) to approve submitting a recommendation to the Board of Directors to review and receive the Independent Auditor's Report on the agreed-upon procedures performed on VTA's Procurement Card for the fiscal year ended June 30, 2008 (FY2008).

8. Fiscal Year 2008 Comprehensive Annual Financial Report for the Santa Clara Valley Transportation Authority and the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan Report

Joseph T. Smith, Chief Financial Officer, reported VTA is required to have its financial statements audited by a certified public accounting firm pursuant to state law and VTA Administrative Code. He noted an audit of VTA finances for fiscal year ended

June 30, 2008 (FY 2008), was conducted by Vavrinek, Trine, Day & Company, LLP (VTD).

Leonard Dana, VTD, provided an overview of the audited Fiscal Year 2008 Comprehensive Annual Financial Report (CAFR) for VTA and the VTA Amalgamated Transit Union Pension Plan Report for Fiscal Year 2008 highlighting: 1) Audit Results, noting VTD rendered an unqualified opinion on VTA's financial statements; 2) Auditor's Management Letter; and 3) Audited Financial Statements.

In reference to the Financial Statements, VTA has a new accounting principle that will be implemented in 2010. It requires VTA fair value any derivative financial positions it may have, i.e. Swaps. VTA's Swaps had a negative value of approximately \$21 million.

In reference to the VTA's ATU Pension Plan, Mr. Dana noted subsequent to June 30, 2008, the fair market value of the equity investments in the Plan had declined by approximately \$16 million.

Vice Chairperson Casas requested staff provide a written report regarding the issues to the full Board of Directors.

Upon query of Chairperson Gage, Mr. Smith noted staff would be providing quarterly reports regarding the status of the Swaps.

M/S/C (Pyle/Sandoval) to approve submitting a recommendation to the Board of Directors to review and receive the audited Comprehensive Annual Financial Report for the Santa Clara Valley Transportation Authority, and the Valley Transportation Authority Amalgamated Transit Union Pension Plan Report for Fiscal Year 2008.

9. Audited Santa Clara Valley Transportation Authority Retiree's Other Post Employment Benefits (OPEB) Trust (Trust) Financial Report for Fiscal Year 2008

Joseph T. Smith, Chief Financial Officer, reported in May 2008, a Trust was established by the Board of Directors to comply with the accounting pronouncement promulgated by the Government Accounting Standards Board (GASB). He noted the VTA Retiree's Other Post Employment Benefits (OPEB) Trust was audited by Vavrinek, Trine, Day & Company, LLP (VTD) as well.

M/S/C (Sandoval/Pyle) to approve submitting a recommendation to the Board of Directors that the VTA Board of Directors acting as the Trustees of the Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits (OPEB) Trust (Trust) review and receive the audited financial report for Fiscal Year 2008.

10. Professional Services Contract Audits

Mark S. Robinson, Acting Chief Engineering & Construction Officer, reported at the November 6, 2008 Board of Directors meeting, staff had several contract amendments agendized for action involving consulting engineering firms. He referenced the attached Board Memorandum of November 6, 2008, entitled, "Kato Road Grade Separation Project – Amendment to Design and Engineering Services Contract." Board Member

Casas questioned how VTA audits the charges in a professional services contract, in particular, a Time and Materials (T&M) contract. Board Member Casas requested staff provide a report back at the December 11, 2008 Audit Committee.

Mr. Robinson noted the informational item outlines the different contract types for consulting engineering firms. He noted a correction to the Board Memorandum of November 6, 2008. It was not a Time and Materials (T&M) contract; it was a cost plus fixed fee type of contract for engineering services.

Mr. Robinson provided a report on the audit process conducted by VTA on its professional services contracts. VTA audits the performance of the consultant on a T&M type of contract and on the invoice review process.

Vice Chairperson Casas queried about the controls in place regarding a T&M type of contract. Mr. Burns commented either VTA or another firm used by VTA conducts an assessment of the amount of work that is required to be accomplished. Then a negotiation process is held with the consultant prior to contract settlement as to the number of hours necessary to perform a particular task. After this takes place, the whole project managing system is set-up based on those tasks and hours.

Member Sandoval queried the percentage of contracts that are Time and Materials contracts. Mr. Robinson noted nearly 100% of VTA's engineering consultant contracts are negotiated as "Cost Plus Fixed Fee" contracts during the design phases. He commented when entering into a construction phase or in a design-build contract, there will be activities identified during the course of construction or unanticipated events. A consultant who has served VTA during the design phase is then brought in to assist VTA through this particular challenge, and it is in those instances that VTA has a Time and Materials quick method of bringing the consultant onboard. During the course of construction, nearly 100% of the time VTA uses Time and Materials on-call consultant services.

Chairperson Gage requested staff consult VTA Legal Counsel regarding contract issues and Legal Counsel review all contracts and Time and Materials.

On order of Chairperson Gage and there being no objection, the Committee received a report on Professional Services Contract Audits.

OTHER ITEMS

11. Items of Concern and Referral to Administration

There were no Items of Concern and Referral to Administration.

12. Committee Work Plan

Michael T. Burns, General Manager, reiterated the anticipation of an initial risks assessment being presented at the March 5, 2009 Audit Committee meeting.

Chairperson Gage queried about the work plan being in coordination with the two-year budget cycle. Mr. Burns noted it would make sense for the work plan to be consistent with VTA's Budget cycle.

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

13. Committee Staff Report

There was no Committee Staff Report.

14. Chairperson's Report

Chairperson Gage welcomed Deloitte & Touche, LLP.

15. Determine Consent Agenda for the January 8, 2009 Board Meeting

CONSENT: Agenda Item #6. Authorize the General Manager to execute a Task Order Contract with Deloitte & Touche, LLP to provide Auditor General Services for a two year period in the amount of \$350,000. Additionally authorize the General Manager to execute three additional one year contract options for \$175,000 per year subject to approval by the Audit Committee;

Agenda Item #7. Review and receive the Independent Auditor's Report on the agreed-upon procedures performed on VTA's Procurement Card for the fiscal year ended June 30, 2008 (FY2008); and

Agenda Item #9. VTA Board of Directors acting as the Trustees of the Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits (OPEB) Trust (Trust) review and receive the audited financial report for Fiscal Year 2008.

REGULAR: Agenda Item #8. Review and receive the audited Comprehensive Annual Financial Report for the Santa Clara Valley Transportation Authority, and the Valley Transportation Authority Amalgamated Transit Union Pension Plan Report for Fiscal Year 2008.

16. Announcements

There were no Announcements.

17. ADJOURNMENT

On order of Chairperson Gage and there being no objection, the meeting was adjourned at 12:33 p.m.

Respectfully submitted,

Tracene Y. Crenshaw, Board Assistant
VTA Board of Directors



Date: February 23, 2009
 Current Meeting: March 5, 2009
 Board Meeting: N/A

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Audit Committee

THROUGH: General Manager, Michael T. Burns

FROM: Chief External Affairs Officer, Greta Helm

SUBJECT: Elect Standing Committee Vice Chairperson

Policy-Related Action: No

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Conduct voting to determine the Committee's vice chairperson for calendar year 2009.

BACKGROUND:

The VTA Administrative Code has established four board standing committees that review items and provide recommendations to the full board on matters within their respective assigned areas of responsibility. The four standing committees are: Administration and Finance (A&F); Transit Planning and Operations (TPO); Congestion Management Program and Planning (CMPP); and Audit, which was added in 2008. The chairperson and vice chairperson for each committee are determined annually, except for Audit Committee chairperson, which is determined every other year.

The VTA Board Chairperson nominates, for Board approval, committee members for each standing committee chairperson position. The Board approves the appointment of the standing committee chairpersons at its first meeting of the calendar year, which is normally January. Standing committee chairpersons serve a one-year term, except for the Audit Committee chairperson, which serves for two years

At the first meeting of the calendar year, each standing committee elects from its membership a vice chairperson. The vice chairperson performs the duties of the chairperson in the event of the chairperson's absence or inability to act, and while so acting, has all of the authority of the chairperson. The vice chairperson position serves a one-year term, which coincides with the calendar year and the Committee chairperson's term. The vice chairperson is eligible for election to successive terms and only members, not alternates, are eligible to serve. The affirmative vote of a majority of the total authorized committee membership, which is three

members, is required to elect the vice chairperson. The term of office for the newly elected vice chairperson commences immediately following completion of the voting.

FISCAL IMPACT:

There is no financial impact.

Prepared by: Stephen Flynn, Sr. Management Analyst



Date: February 18, 2009

Current Meeting: March 5, 2009

Board Meeting: April 2, 2009

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Audit Committee

THROUGH: General Manager, Michael T. Burns

FROM: Chief Financial Officer, Joseph T. Smith

SUBJECT: 2000 Measure A Program Financial Report, Fiscal Year 2008

Policy-Related Action: No

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Review and accept the 2000 Measure A Program Financial Report for Fiscal Year 2008.

BACKGROUND:

Measure A, approved by Santa Clara County (County) voters in November 2000, is a 30-year half-cent sales tax devoted to transit improvement projects within the County. The Measure A ballot requires an annual audit of the 2000 Measure A Program (Program) be conducted by an Independent Auditor to ensure that the Program's sales tax revenues are spent in accordance with the intent of the Measure. Vavrinek, Trine, Day and Company LLP (VTD), a certified public accounting firm has audited the Program's financial statements for FY2008. The Citizen's Watchdog Committee (CWC). has also engaged the services of Macias, Gini, and O'Connell LLP, another independent audit firm to conduct a "compliance audit" to ensure the Program projects and activities are in compliance with the Measure A ballot. Their report will be presented to the CWC in April 2009.

DISCUSSION:

VTD has audited the Program's FY20008 financial records and financial statements. VTD has issued a "clean" or unqualified opinion on the Program's financial statements. The audit report states that the Program's financial statements present fairly, in all material respects, the respective financial position of the Program as of June 30, 2008, and the changes in financial position of the Program for the year then ended in conformity with principles generally accepted in the United States of America. There were no reportable conditions or material weaknesses in internal control procedures. The Independent Auditor's Report, the Program's financial

statements, and notes to the financial statements are contained in the Financial Section of the report.

At the July 2007 and November 2007 meetings of the CWC, the Committee expressed a desire to include total expenditures from inception of the Program in future annual reports. In FY2007, Program Reports, Section 2 of the report contained supplemental schedules that identify the revenues and expenditures for the Program, by year, from inception through FY2006. Those prior year revenues and expenditures are combined with the FY2008 results to provide Program inception-to-date totals on pages 20-21.

Section 3 of the report includes information for each project including expenditures to date, description, status, and activities this fiscal year.

These financial statements can be viewed online at <http://www.vta.org/inside/investor/index.html>. A hard copy may be requested by writing to Santa Clara Valley Transportation Authority, Fiscal Resources Division, 3331 North First Street, San Jose, CA 95134-1927. For more information and questions contact VTA Public Affairs and Community Outreach at (408) 321-7575, TDD only (408) 321-2330, or email community.outreach@vta.org <<mailto:community.outreach@vta.org>>.

ADVISORY COMMITTEE DISCUSSION/RECOMMENDATION

The 2000 Measure A Citizen Watchdog Committee considered this item on February 11, 2009. Mr. Leonard Danna, Partner with the audit firm of Vavrinek, Trine, Day & Co, LLP, gave a brief presentation. There were no comments on the presentation. The Committee Members requested that staff distribute the financial reports in advance of the meeting to allow the members to review them. The Committee unanimously received and accepted the 2000 Measure Financial Report.

FISCAL IMPACT:

There is no fiscal impact as a result of this action.

Reviewed by: Ali Hudda, Deputy Director, Accounting

Prepared by: Tony Sandhu, General Accounting Manager



Date: February 17, 2009

Current Meeting: March 5, 2009

Board Meeting: April 2, 2009

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Audit Committee

THROUGH: General Manager, Michael T. Burns

FROM: Chief Financial Officer, Joseph T. Smith

SUBJECT: FY2008 CMP Audited Financial Report

Policy-Related Action: No

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Review and accept the audited Financial Report for the Congestion Management Program for Fiscal Year 2008 (FY2008).

BACKGROUND:

The Joint Powers Agreement for the administration of the Santa Clara County Congestion Management Program (CMP) requires an annual audit of the CMP accounts and records to be conducted by an independent Certified Public Accountant. Vavrinek, Trine, Day and Company LLP (VTD), a certified public accounting firm, has audited CMP's financial records for the period July 1, 2007 to June 30, 2008.

The CMP's audited financial statements were prepared in accordance with the requirements of generally accepted accounting principles (GAAP) in the United States of America as promulgated by the Government Accounting Standards Board (GASB). The CMP's audited financial statements are part of Santa Clara Valley Transportation Authority's (VTA) Comprehensive Annual Financial Report.

DISCUSSION:

VTD has issued a "clean" or unqualified opinion on the CMP's financial statements. The audit report states that CMP's financial statements present fairly, in all material respects, the respective financial position of the CMP Special Revenue Fund and the Agency Fund as of June 30, 2008, and the changes in financial position of the Special Revenue Fund for the year then ended in conformity with principles generally accepted in the United States of America. There

were no reportable conditions or material weaknesses in internal control procedures. The Independent Auditor's Report and Financial Statements are included on page 1 of the report.

These financial statements can be viewed online at <http://www.vta.org/inside/investor/index.html>. A hard copy may be requested by writing to Santa Clara Valley Transportation Authority, Fiscal Resources Division, 3331 North First Street, San Jose, CA 95134-1927. For more information and questions contact VTA Public Affairs and Community Outreach at (408) 321-7575, TDD only (408) 321-2330, or email community.outreach@vta.org <<mailto:community.outreach@vta.org>>.

FISCAL IMPACT:

There is no fiscal impact as a result of this action.

Reviewed by: Ali Hudda, Deputy Director, Accounting

Prepared by: Tony Sandhu, General Accounting Manager



Date: February 26, 2009

Current Meeting: March 5, 2009

Board Meeting: April 2, 2009

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Audit Committee

THROUGH: General Manager, Michael T. Burns

FROM: Auditor General, Pat Hagan

SUBJECT: Internal Audit Program Goals & Objectives

Policy-Related Action: Yes

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Approve the goals and objectives for the internal audit program at VTA, as proposed by the Auditor General.

BACKGROUND:

At the January 8, 2009, meeting, the VTA Board of Directors authorized the General Manager to execute a task order contract with Deloitte & Touche, LLC, to provide Auditor General Services. Under the initial task order, the Auditor General was charged with executing the first two tasks within the contracted scope-of-services: (1) develop and recommend goals and objectives for the internal audit program; and (2) develop and recommend an annual internal audit plan.

DISCUSSION:

The Auditor General has developed a comprehensive definition for the internal audit program. The program components include objective, scope, accountability, responsibilities, authority, and standards, as described in greater detail below.

OBJECTIVE

The objective of the VTA Internal Audit function is to provide independent, objective assurance and audit services designed to add value to and improve VTA operations. The Internal Audit function will help VTA accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and operational processes.

SCOPE

The scope of work of the Internal Audit function encompasses the following:

- Reviewing the reliability and integrity of significant financial, managerial, and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with policies, standards, procedures, and applicable laws and regulations which could have a significant impact on operations;
- Reviewing and assessing whether resources are acquired economically, used efficiently, adequately protected, and properly accounted for;
- Reviewing operations or programs to ascertain whether they are being carried out as planned and whether results are consistent with stated goals and objectives, and
- Reviewing the processes used to appropriately identify and manage enterprise risk.

Opportunities for improving management control, efficiency, and VTA's image may be identified during audits. They will be communicated to the appropriate level of VTA management and/or the Audit Committee.

ACCOUNTABILITY

The Auditor General is charged with directing the Internal Audit function and shall be accountable to the VTA Board of Directors through the Audit Committee, with an administrative reporting relationship to the VTA General Manager. The Audit Committee will approve the annual audit plan proposed by the Auditor General, including the associated resource plan and budget. The Internal Audit function will cooperate with VTA management in a joint effort to accomplish the organization's objectives; however, the auditors will maintain organizational independence in order to render impartial and unbiased judgments essential to the proper conduct of audits.

RESPONSIBILITIES

The Internal Audit function's responsibilities include:

- Develop an annual audit plan using appropriate risk-based methodology, considering any risks or control concerns identified by VTA management, and submit this plan to the Audit Committee for its review and approval;
- Conduct audits in the approved annual audit plan in accordance with professional standards;
- Communicate findings with appropriate individuals throughout the audit as it is conducted; develop written preliminary audit findings promptly and review the findings with the appropriate levels of VTA management;
- Solicit VTA management response to preliminary audit findings, develop a draft audit report that incorporates VTA management's response to findings and review it with VTA management;
- Create a final report for each audit and review it with VTA management and the VTA Audit Committee;

- Periodically follow up on the status of audit recommendations and report on corrective actions implemented by VTA management;
- Provide and review quarterly status reports on audit activities to the VTA Audit Committee;
- Recommend revisions to the approved internal audit plan as appropriate, and
- Assist in the investigation of significant issues, including suspected fraudulent activities, within VTA and notify the General Manager, the General Counsel and the Audit Committee of the results.
- Perform supplemental or special audits, as directed by the Audit Committee.

AUTHORITY

The Internal Audit function is authorized to:

- Have unrestricted access to all functions, activities, records, property, information systems, and personnel necessary to conduct approved audit activities;
- Have full and free access to the members of the Audit Committee;
- Obtain the necessary assistance of personnel in the departments of VTA where they perform audits.

The Internal audit function is not authorized to:

- Perform any management or operational duties for VTA;
- Initiate or approve accounting transactions;
- Engage in any activities that Internal Audit would normally be expected to review or appraise, such as writing policies and procedures for VTA use;
- Activities that would create a conflict of interest or appearance of conflict of interest; or
- Activities not approved by the Audit Committee.

STANDARDS OF AUDIT PRACTICE

The Internal Audit services will be performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants

ALTERNATIVES:

The Audit Committee could reject the recommendation of the Auditor General and direct that the program be redefined.

FISCAL IMPACT:

There is no financial impact as a result of this action.

Prepared by: Auditor General



Date: February 26, 2009
Current Meeting: March 5, 2009
Board Meeting: N/A

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Audit Committee

THROUGH: General Manager, Michael T. Burns

FROM: Auditor General, Pat Hagan

SUBJECT: Receive Presentation on Risk Assessment Methodolgy

FOR INFORMATION ONLY

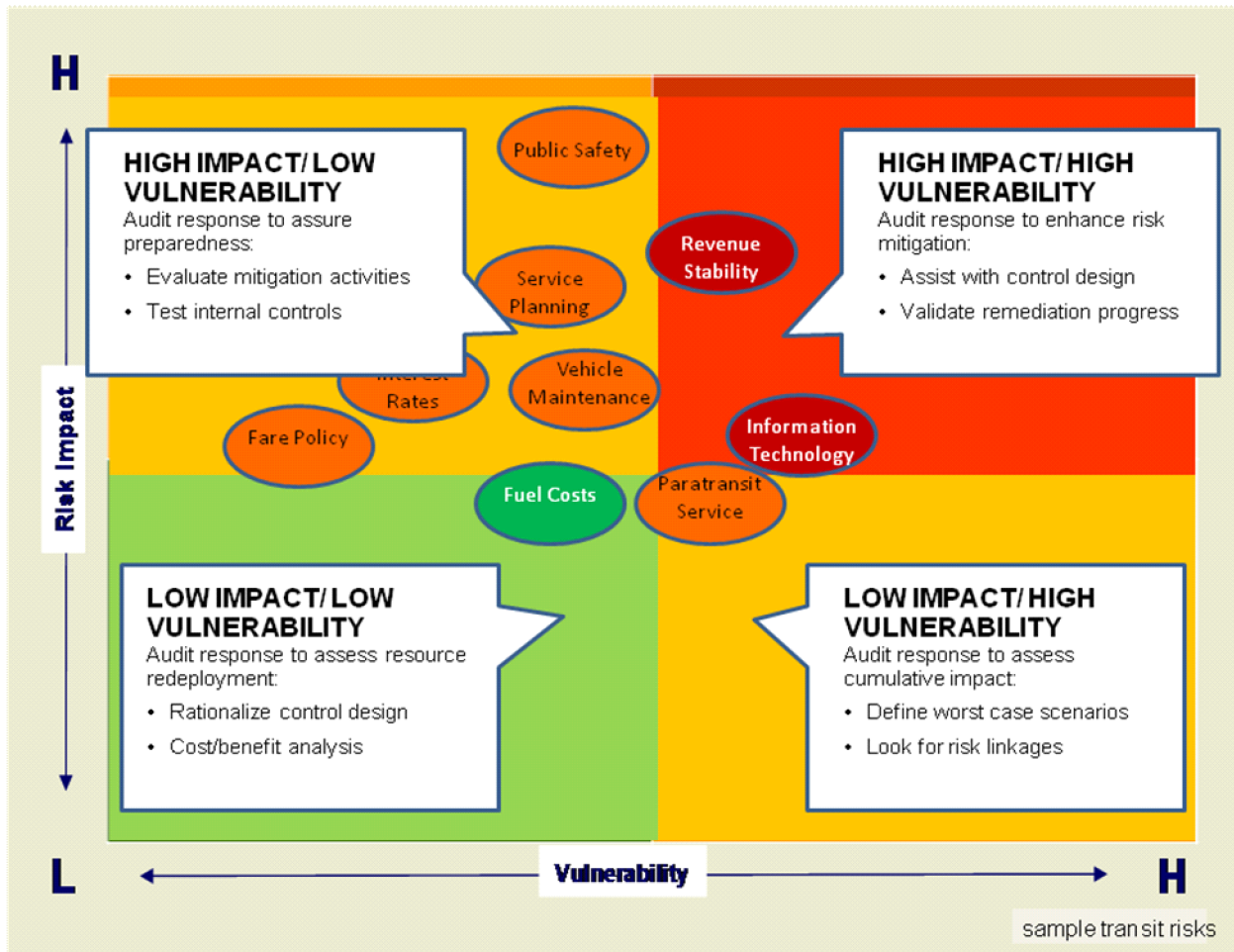
BACKGROUND:

At the January 8, 2009, meeting, the VTA Board of Directors authorized the General Manager to execute a task order contract with Deloitte & Touche, LLC, to provide Auditor General Services. Under the initial task order, the Auditor General was charged with executing the first two tasks within the contracted scope-of-services: (1) develop and recommend goals and objectives for the internal audit program; and (2) develop and recommend an annual internal audit plan. As a first step in developing the internal audit plan, the Auditor General conducted a risk assessment of potential financial and business risks.

DISCUSSION:

The Santa Clara Valley Transportation Authority (VTA) Audit Committee has charged the Auditor General with responsibility for assessing and prioritizing business risk, recommending an Annual Audit Plan and conducting internal audits according to the approved Annual Audit Plan.

The Auditor General has now completed the preliminary risk assessment and will present a draft chart depicting the relative impact and vulnerability of key identified risks (heat map) for discussion at the Audit Committee meeting. The heat map will be presented in the following format:



The heat map discussed at this meeting will be used as the basis for developing the 2010 Annual Audit Plan to be presented for approval at the next Audit Committee meeting in June. The overall methodology used to assess and prioritize risk and develop the audit plan is described below.

Step	Description
1	Deepen baseline understanding We conducted research in order to understand VTA as an organization, including management’s goals and objectives, the supporting business processes and information systems, the regulatory environment and the control environment. Our research was conducted primarily by reviewing internal and external VTA documentation such as: public

	information and press releases, the Organizational and Financial Assessment Report, the audit report issued by the Bureau of State Audits, comprehensive annual financial reports (CAFRs), the most recent adopted biennial budget, long range transportation plans, key performance metrics, policies and procedures, and internal controls documentation.
2	Develop risk model Based on the understanding obtained in Step 1, we developed a customized risk model for VTA. The customized risk model includes VTA's risk framework and defined impact and vulnerability criteria. The risk framework contains the salient and applicable risks, grouped into risk categories (e.g., operational, financial, security) and accompanied by customized operational risk definitions for each risk.
3	Assess and prioritize risks We toured key VTA operations, interviewed nine VTA Chiefs individually and conducted interviews with approximately 20 Deputy Directors, management employees and consultants in a cross section of VTA departments. The activities conducted in these first three steps were used to develop the VTA risk universe, along with preliminary impact and vulnerability ratings for each risk. For the most significant risks, this information was summarized and reviewed with VTA's General Manager and in a workshop session with the VTA Chiefs in order to calibrate and validate the risk ratings.
4	Develop risk-based internal audit plan We divided the risks identified in Step 3 into three categories: <ul style="list-style-type: none"> • Risks that are not conducive to internal audit reviews and should be addressed by management action; • Risks where audit coverage is provided either by the external auditor appointed to conduct VTA's annual financial audit or by various Federal or State auditors and examiners, and • Risks that could potentially be addressed by internal audit. Risks in the last category will be prioritized based on impact and vulnerability, as well as known circumstances such as the timing and status of VTA management actions to address these risks. Relative positioning in the four quadrants of the heat map (as described previously) will help to determine the appropriate audit approach. We will then develop a high-level audit project plan for each of the highest priority items and compile a proposed audit plan to present to the Audit Committee for approval.
5	Schedule audits and plan resources Our final step will be to schedule individual audits throughout the year and allocate resources as approved by the VTA Audit Committee. We will assign appropriate personnel, including subject matter specialists, to supervise and conduct each audit.

Prepared By: Auditor General