

## **Audit Committee**

Thursday, October 1, 2009  
4:30 PM

**PLEASE NOTE REVISED MEETING DATE AND TIME**

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 March 5, 2009.

**5.** Approve the Minutes of May 7, 2009.

### **REGULAR AGENDA**

**6.** INFORMATION ITEM - Review the Security Guard Qualification and Training Internal Audit Report.

**7.** INFORMATION ITEM - Review Scope of Work for Annual Financial Audit Services.

8. INFORMATION ITEM - Receive Verbal Report on Status of Internal Audit Work Plan.

## **OTHER ITEMS**

9. Items of Concern and Referral to Administration.
10. Review Committee Work Plan. (Burns)
11. Committee Staff Report. (Burns)
12. Chairperson's Report. (Gage)
13. Determine Consent Agenda for the November 5, 2009 Board of Directors Meeting.

## **14. ANNOUNCEMENTS**

## **15. ADJOURN**

**NOTE COMMITTEE MEMBERS:** In order to establish a quorum for this meeting, members are asked to call the Board Secretary's Office at (408) 321-5680 or E-mail: bd.sec.polling@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, 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

Attendee Name	Title	Status
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



## Audit Committee

Thursday, May 7, 2009

### MINUTES

#### CALL TO ORDER

The Regular Meeting of the Audit Committee was called to order at 4:07 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
Don Gage	Chairperson	Present
Nancy Pyle	Member	Present
David Casas	Vice Chairperson	Absent
Greg Sellers	Member	Absent

**A quorum was not present and a Committee of the Whole was declared.**

#### 2. PUBLIC PRESENTATIONS

There were no Public Presentations.

#### 3. ORDERS OF THE DAY

There were no Orders of the Day.

#### CONSENT AGENDA

#### 4. (Deferred to the September 3, 2009 Audit Committee meeting.)

Minutes of March 5, 2009.

#### REGULAR AGENDA

#### 5. Annual Internal Audit Plan

Pat Hagan, Auditor General, Deloitte & Touche, LLP, reported on the risk prioritization, internal audit focus areas, and internal audit plan. He presented a two-year internal audit plan containing a high-level schedule and budget.

Mr. Hagan provided a detailed report on the following internal audit projects scheduled for FY2010: 1) Guard qualification and training internal audit; 2) Silicon Valley (SVRT) soft cost internal audit; 3) IT security internal audit; 4) SAP access control internal audit; 5) Investment controls testing; and 6) Auditor General services support.

Mr. Hagan presented the schedule for the FY2010 internal audit projects. He noted findings and recommendations would be presented at future Audit Committee meetings.

Chairperson Gage recommended the internal audit should point out areas requiring policy development and direction. Mr. Hagan responded the recommendation would be considered and incorporated in the findings of the internal audit.

Chairperson Gage referenced the Guard Qualification and Training project, and recommended the following: 1) Revisit VTA's policy regarding drug and alcohol testing; 2) Conduct periodic drug and alcohol testing; and 3) Limit the report provided to the Board on direction and policy related matters.

Michael T. Burns, General Manager, explained the internal audit process. He noted the report presented to the Board would contain a summary of the findings and staff's recommendation.

Mr. Hagan stated disagreements between the Auditor General and staff would also be presented to the Board. He added the Auditor General would be working with the General Counsel in reviewing contracts and confidential information.

Kevin D. Allmand, General Counsel stated VTA's policy on drug and alcohol testing would be reviewed.

Chairperson Gage referenced the SVRT Soft Cost Internal Audit project, and recommended developing a policy that would address change orders. He added strict penalty should be imposed on delayed projects. Mr. Hagan responded the recommendation would be considered under the SVRT Contract Compliance project.

Member Pyle inquired if the SVRT Soft Cost Internal Audit project would include real estate. Mr. Hagan responded the real estate component of the internal audit would be under the construction project. This would include cost for right-of-way acquisition, preliminary design phase, and construction engineering phase.

Chairperson Gage referenced the IT Security Internal Audit project, and recommended developing a policy that would address proper use of employee's personal time in utilizing office equipments. Mr. Hagan responded the recommendation would be considered in the internal audit.

Karen Antion, Consultant, stated VTA has an existing policy that filters the websites employees are able to access. She noted the internal audit would verify if the policy is being implemented and provides needed improvements.

Chairperson Gage referenced the Investment Controls Testing project, and recommended that staff, Committees Members, and the Board be regularly briefed on issues affecting VTA's investment policy.

**On order of Chairperson Gage** and there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to authorize the General Manager to execute one or more task orders with Deloitte & Touche LLP, to conduct the Fiscal Year 2010 internal audit work plan, in an amount not to exceed \$225,000.

## **OTHER ITEMS**

### **6. Items of Concern and Referral to Administration**

There were no Items of Concern and Referral to Administration.

### **7. Committee Work Plan**

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

### **8. Committee Staff Report**

There was no Committee Staff Report.

### **9. Chairperson's Report**

There was no Chairperson's Report.

### **10. Determine Consent Agenda for the June 4, 2009 Board Meeting**

#### **CONSENT:**

Agenda Item #5. Authorize the General Manager to execute one or more task orders with Deloitte & Touche LLP, to conduct the Fiscal Year 2010 internal audit work plan, in an amount not to exceed \$225,000.

#### **REGULAR:**

None

### **11. Announcements**

There were no Announcements.

**12. ADJOURNMENT**

**On order of Chairperson Gage** and there being no objection, the meeting was adjourned at 4:44 p.m.

Respectfully submitted,

Michael Diaresco, Board Assistant  
Office of the Board Secretary



Date: September 2, 2009

Current Meeting: October 1, 2009

Board Meeting: November 5, 2009

## **BOARD MEMORANDUM**

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

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

**FROM:** Auditor General, Pat Hagan

**SUBJECT:** Security Guard Qualification and Training Internal Audit

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### **FOR INFORMATION ONLY**

#### **BACKGROUND:**

At the June 4, 2009, meeting, the VTA Board of Directors approved the FY 2010 internal audit work plan and authorized the General Manager to execute task orders with Deloitte & Touche LLP to conduct the internal audit projects identified in the plan. In July 2009, Deloitte & Touche initiated the first audit on security guard qualification and training. The audit was performed in accordance with the Standards for Consulting Services issued by the American Institute for Certified Public Accountants. The results of this audit are presented in Auditor General Report No. 2009-01 (see Attachment A).

#### **DISCUSSION:**

The purpose of this project was to assess the VTA security contractor's compliance with training and certification requirements, including firearms training, as specified in the new Security and Protective Service Agreement with AlliedBarton, which went into effect on March 13, 2009 ("the Agreement").

The Auditor General established the following objectives for this audit:

- Assess whether AlliedBarton security personnel serving VTA are in compliance with training and certification requirements specified in the contract terms; and
- Assess VTA processes for monitoring contractor reports of compliance with critical training certification requirements.

The scope of the contract requirements evaluated included the following provisions:

- Criminal background checks
- Drug and alcohol procedures and program

- “State Guard Card certification”
- California driver’s license and “Safe Driver Training”
- VTA-provided training and orientation
- Contractor-provided pre-assignment training
- Roadway Protection, Security Awareness and National Incident Management System (“NIMS”) training
- “Security Guard Power to Arrest Training” for armed security guards
- Periodic re-certifications
- Reporting requirements related to personnel assignments and training, drug and alcohol testing and the status of license and background checks.

A sample of 25 AlliedBarton security guards were selected (armed and unarmed) from a total of 81 security guards assigned to the VTA account as of July 6, 2009. For each security guard in the sample, the internal audit team reviewed the documentation evidencing that the appropriate training and certifications requirements were achieved. Additionally, the internal audit team conducted inquiries and evaluated processes to identify potential improvements to enhance the efficiency and effectiveness of VTA’s monitoring process for critical training and certification requirements.

### **Results:**

Overall, based on the sample selected for the testing period (March 13, 2009 through June 30, 2009), it appears that AlliedBarton complied with the key contractual training and certification requirements, including the firearm permit (armed security guards only), security guard card, and requirements on drug and alcohol testing and criminal background search.

However, VTA’s informal monitoring process can be improved through formalization of process and controls. In addition, there were several lower relative risk observations for which the Auditor General recommends that VTA either amend the Agreement to reflect current practice and document exceptions to the Agreement, or comply with the training requirements in accordance with the Agreement.

### **Management Response:**

VTA’s General Manager and Chief Operating Officer concur with the findings of the internal audit, and have identified steps that will be taken to formalize the process for monitoring AlliedBarton’s compliance with all security contract requirements. VTA has committed to implementing these process improvements by no later than November 30, 2009.

The internal audit team will assess the remedial actions after that date, and will report its findings at a subsequent Audit Committee meeting.

Prepared By: Pat Hagan, Auditor General  
Memo No. 2087



## MEMORANDUM

**TO:** Audit Committee Chair, Don Gage  
Santa Clara Valley Transportation Authority

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

**FROM:** Pat Hagan, Auditor General

**DATE:** September 3, 2009

**SUBJECT:** Security Guard Qualification and Training Internal Audit

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Enclosed is our report for the security guard qualification and training internal audit.

Our internal audit was performed in accordance with the terms of the agreement between Santa Clara Valley Transportation Authority and Deloitte & Touche LLP for Auditor General Services, Contract No. SO9022, dated January 9, 2009, and in accordance with the Standards for Consulting Services issued by the American Institute of Certified Public Accountants. This report is intended solely for the information and use of management and the Audit Committee of the Santa Clara Valley Transportation Authority and is not intended to be used by anyone other than these specified parties. Recommendations for improvement are presented for management's consideration. Management is responsible for the effective implementation of corrective action plans.

Please contact Pat Hagan in the VTA Auditor General's office, if you have any questions.

*\*This report is intended solely for the information and internal use of Santa Clara Valley Transportation Authority, and should not be used or relied upon by any other person or entity.*

**AUDITOR GENERAL REPORT No. 2009-01**  
Security Guard Qualification and Training Internal Audit  
September 3, 2009

## **EXECUTIVE SUMMARY**

Security and protective services at VTA are under the direction of the Chief Operating Officer. VTA has a contract with AlliedBarton Security Services LP (AlliedBarton), for security and protective services; VTA also contracts with the Santa Clara County Sheriff's Department for law enforcement services.

Internal Audit performed an internal audit of AlliedBarton's compliance with security guard training and certification requirements as specified in the Security and Protective Services Agreement, effective March 13, 2009 ("the Agreement"), at such time AlliedBarton replaced Securitas Security Services, VTA's former security services provider.

The objectives of the internal audit were:

- Assess whether AlliedBarton security personnel serving VTA are in compliance with training and certification requirements specified in contract terms.
- Assess the effectiveness of VTA processes for monitoring contractor reports of compliance with training and certification requirements.

A sample of 25 AlliedBarton security guards were selected (armed and unarmed) from a total of 81 security guards assigned to the VTA account as of July 6, 2009. For each security guard in the sample, Internal Audit reviewed the support evidencing that the appropriate training and certifications requirements were achieved. Additionally, Internal Audit conducted inquiries and obtained evidence to identify potential process improvements to enhance the efficiency and effectiveness of the process to monitor contractor reports of compliance with critical training and certification requirements.

### Results

Overall, based on the sample selected for the testing period (March 13, 2009 through June 30, 2009), it appears that AlliedBarton complied with the key training and certification requirements, including the firearm permit (armed security guards only), security guard card, and requirements on drug and alcohol testing and criminal background search.

VTA's informal monitoring process can be improved through formalization of the process and controls. In addition, there were several lower relative risk observations for which Internal Audit recommends that VTA either amend the Agreement to reflect current practice and document exceptions to the Agreement, or comply with the training requirements in accordance with the Agreement.

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**AUDITOR GENERAL REPORT No. 2009-01**  
Security Guard Qualification and Training Internal Audit  
September 3, 2009

Management Response

VTA's General Manager and Chief Operating Officer concur with the findings of the internal audit, and have identified steps that will be taken to formalize the process for monitoring AlliedBarton's compliance with all security contract requirements. VTA has committed to implementing these process improvements by November 30, 2009.

The Internal Audit team will assess the remedial actions after that date, and will report its findings at a subsequent Audit Committee meeting.

**BACKGROUND**

Santa Clara Valley Transportation Authority (VTA) and AlliedBarton Security Services LP (AlliedBarton) signed an agreement for Security and Protective Services effective March 13, 2009 ("the Agreement"). The Agreement is for a term of three years and VTA has the option to extend it by an additional two years. The total compensation for services provided under the Agreement is expected to be approximately \$11 million for the three year term.

AlliedBarton replaced Securitas Security Services ("Securitas") who held the security and protective services contract for the last six years. This is the first time AlliedBarton has contracted with VTA.

VTA Operations' Department is responsible for monitoring the security and protective services agreement with AlliedBarton. In the Agreement it states that AlliedBarton will furnish the technical and professional labor and materials to satisfactorily provide services to maintain a program of security and protective services on behalf of VTA transit patrons, employees and contractors, and VTA properties. Specifically, the security guards are generally responsible for:

- employee / contractor and passenger security,
- property and revenue protection,
- revenue collection,
- lost and found,
- fixed asset inventory,
- site security and facility access control,
- security at special events,
- special operations, and
- closed circuit television and other security services as required by VTA.

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**AUDITOR GENERAL REPORT No. 2009-01**  
 Security Guard Qualification and Training Internal Audit  
 September 3, 2009

The Agreement specifies the security guard qualification requirements and the training requirements to be furnished by VTA and by AlliedBarton. In addition, the Agreement outlines the periodic reporting requirements that AlliedBarton must meet, including reports summarizing the status of the training requirements.

Internal Audit was informed by VTA and AlliedBarton that the transition from Securitas to AlliedBarton went smoothly and that the parties worked closely together to resolve any training, certification or scheduling issues. A significant number of Securitas guards were retained by AlliedBarton to continue working on the VTA account as AlliedBarton employees. Per VTA, this high incidence of retention helped make the transition a success.

**INTERNAL AUDIT OBJECTIVES**

- Assess whether AlliedBarton security personnel serving VTA are in compliance with training and qualification requirements specified in contract terms.
- Assess VTA processes for monitoring contractor reports of compliance with training and certification requirements; identify potential process improvements to enhance efficiency and effectiveness.

**SCOPE:**

The scope of contract requirements assessed included:

- Criminal background checks
- Drug and alcohol procedures and program
- State Guard Card certification
- California driver's license and Safe Driver Training
- VTA-provided training and orientation
- Contractor-provided pre-assignment training (e.g., 24 hours for armed security guards performing revenue collection and protection function)
- "Roadway Protection, Security Awareness and National Incident Management System ("NIMS") Training"
- "Security Guard Power to Arrest Training" for armed security officers
- Periodic re-certifications

The scope of VTA processes assessed included monitoring of the following contractor reports:

- Monthly reports of personnel assignments and training
- Rosters of new security personnel and their training records
- Quarterly reports on drug and alcohol testing
- Annual reports on the status of licenses and background checks

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**AUDITOR GENERAL REPORT No. 2009-01**  
Security Guard Qualification and Training Internal Audit  
September 3, 2009

**APPROACH:**

For the testing period March 13, 2009 through June 30, 2009, Internal Audit tested a sample of 25 personnel files and conducted follow-up interviews, as needed, to assess contract compliance.

Conducted interviews with key VTA personnel and documented processes used to periodically verify that contractor training and certification reports are filed as required and reviewed; evaluated key process controls.

**OVERALL RISK RATING:**

Low

**FISCAL IMPACT:**

None

**RESULTS:**

The following summarizes the internal audit observations, each individual area's risk rating, the Auditor General's recommendation, and management's response.

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**AUDITOR GENERAL REPORT No. 2009-01**  
**Security Guard Qualification and Training Internal Audit**  
 September 3, 2009

Applicable Requirement*	Observation	Recommendation	Management Response
<b>1.0 Contract Compliance with Training and Qualification Requirements</b>			
<p><b>Exhibit A.C.6:</b> Contractor shall be responsible for providing all training, retraining, and obtaining the required certifications to keep all security guards proficient with the requirements of the contract and to maintain their State Guard Certification.</p>	No Exceptions Observed	Not Applicable	Not Applicable
<p><b>Exhibit A.C.6:</b> The Contractor shall deliver to VTA a roster listing all security guards and administrative staff assigned to the VTA account with a copy of their certifications and training records at the time of Orientation Training.</p> <p><b>Exhibit A.H.1.A:</b> All of Contractor's security guards and field supervisors assigned to VTA must attend orientation training for one week, 40 hours, prior to transition and commencement of security guard service; Contractor's assigned staff should anticipate being in training up to eight hours per day for five consecutive days for a maximum of 40 hours; If the Contractor's security guards and/or supervisors have been previously trained by VTA, VTA may, at its sole determination, waive the orientation requirement for some or all of such guards and supervisors.</p>	<p>For 19 (12 armed and 7 unarmed) out of the 25 AlliedBarton security guards and supervisors selected for testing, Internal Audit could not obtain evidence that the individuals attended the training or that VTA waived the orientation requirement. Internal Audit was informed that the required training was verbally waived for 14 out of the 19 security guards, since they transitioned from their previous employer Securitas to AlliedBarton and are considered experienced security guards. The additional five security guards, who were hired after the Agreement became effective, have not yet attended the orientation training.</p> <p>Exceptions to the contract, such as waivers for required training, should be documented.</p> <p>[Risk Rating: Low]</p>	<p>We recommend VTA Management maintain documentary evidence to support the waiver or delay of the orientation requirements for certain AlliedBarton security guards and supervisors in accordance with contract requirements.</p>	<p><i>VTA waived the orientation training for 14 guards, from the sample of 25, who transitioned from Securitas to AlliedBarton; these 14 guards had previously received orientation training (as Securitas employees). In the future VTA will document any waiver of this orientation requirement for guards who have previously received VTA orientation training. The guards who were hired after the Agreement became effective are scheduled to attend VTA's next orientation training in September 2009. VTA will continue to require orientation training for any security guard who has not received orientation training.</i></p> <p><b>Remediation:</b> All new security guards and field supervisors hired after the Agreement became</p>

\* The applicable requirements are excerpts from Exhibit A 'Scope of Services' of the agreement between Santa Clara Valley Transportation Authority and AlliedBarton Security Services LP for Security and Protective Services (Contract No. S09013), dated March 13, 2009.

**AUDITOR GENERAL REPORT No. 2009-01**  
**Security Guard Qualification and Training Internal Audit**  
**September 3, 2009**

Applicable Requirement*	Observation	Recommendation	Management Response
			<i>effective will attend the VTA orientation training in September 2009. All training waivers and exceptions will be documented by October 31, 2009.</i>
<p><b>Exhibit A.C.7:</b> Contractor shall be responsible for providing its staff Safe Driver Training on an annual basis - each officer must be recertified in Safe Driver Training annually.</p>	<p>For eight unarmed guards out of the 25 security guards and supervisors selected for testing, no evidence was available that the annual Safe Driver Training was completed. Internal Audit was informed that the training was verbally waived, as the location where the eight security guards are assigned does not require driving a vehicle.</p> <p>Having security guards without Safe Driver Training limits their opportunities for assignment or ability to back-fill for other security guards.</p> <p>[Risk Rating: Low]</p>	<p>We recommend that either the Agreement is amended to reflect current practice or each of the security guards complete the annual safe driver training in accordance with contract requirements.</p>	<p><i>VTA has waived training requirements for those security guards serving in non-driving assignments; going forward VTA will formalize the process for future waivers of non-driving security guard assignments.</i></p> <p><i><u>Remediation:</u> All training waivers and exceptions will be documented by October 31, 2009.</i></p>
<p><b>Exhibit A.C.9:</b> The Contractor shall provide a weekly staffing schedule and produce a monthly report deliverable to VTA's Chief Operating Office or designee which will reflect post hours, personnel assigned to the post, and a monthly report itemizing all pre-assignment post training and post supervisor inspection activity performed by the Contractor's field supervision and management.</p>	<p>No Exceptions Observed</p>	<p>Not Applicable</p>	<p>Not Applicable</p>
<p><b>Exhibit A.C.15:</b> The Contractor shall also cooperate with VTA reporting requirements including</p>	<p>No Exceptions Observed</p>	<p>Not Applicable</p>	<p>Not Applicable</p>

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Applicable Requirement*	Observation	Recommendation	Management Response
quarterly program reports.....			
<b>Exhibit A.C.15:</b> The Contractor shall also cooperate with VTA reporting requirements including ....., the annual federal drug and alcohol MIS report, periodic site visits, and processing of annual re-certification forms.	The annual requirements are not due until 2010.	Not Applicable	Not Applicable
<b>Exhibit A.C.15:</b> The Contractor shall implement and maintain procedures for pre-employment drug and alcohol testing for all security guards assigned to VTA. In addition, the Contractor shall implement a drug and alcohol testing program for all safety sensitive personnel pursuant to the D.O.T. Requirements, 49 CFR Parts 40 and 655.	No Exceptions Observed	Not Applicable	Not Applicable
<b>Exhibit A.C.18:</b> Contractor must create and maintain an updated roster of all officers (armed and unarmed and administrative staff) assigned to the VTA account. Contractor shall deliver an updated roster to VTA upon request within 48 hours.	Internal Audit confirmed that the roster is updated as required; during the test period, VTA did not request the updated roster.	Not Applicable	Not Applicable
<b>Exhibit A.D.2:</b> To the extent permitted under California Penal Code Section 11105, Contractor must perform a Department of Justice criminal background search, by a fingerprint search by Live Scan of the California State Department of Justice, on each employee hired by the Contractor after the effective date of the contract (3/13/2009), who will be assigned to provide the security guard or supervisor services to VTA.	No Exceptions Observed	Not Applicable	Not Applicable
<b>Exhibit A.D.3:</b> On an annual basis, Contractor must certify to VTA the	This annual requirement is not due until 2010.	Not Applicable	Not Applicable

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following: a. That it has verified the current status of each employee's security guard license; b. That any employee whose security guard license has been revoked is no longer assigned to perform services under the contract with VTA; and c. That it has performed criminal background checks on all new employees as required under item 2 above. d. That it has verified the current status of each employee's California Driver's license			
<b>Exhibit A.H.1.B:</b> Roadway Protection Training (RWP) needs to be provided to all armed officers, command staff, supervisors, and selected unarmed officers. The four hour course is provided on an as needed basis.	No Exceptions Observed	Not Applicable	Not Applicable
<b>Exhibit A.H.1.C:</b> Security Awareness Training (4 hours) will be provided for all security officers and command staff....The frequency of this training will be determined by VTA.	For 19 (12 armed and 7 unarmed) out of the 25 AlliedBarton security guards and supervisors selected for testing, Internal Audit could not obtain evidence that the Security Awareness training was completed. Internal Audit was informed that the required training was verbally waived for 14 out of the 19 security guards, since they transitioned from their previous employer Securitas to AlliedBarton and are considered by VTA to be experienced security guards. The additional five security guards, who were hired after the Agreement became effective, have not yet received security awareness training.	We recommend that exceptions to the Agreement are documented and supported, or that each security guard receives the Security Awareness training in accordance with contract requirements.	<i>VTA waived the security awareness training for 14 guards, from the sample of 25, who transitioned from Securitas to AlliedBarton; these 14 guards had previously received security awareness training. VTA will document any future waiver of security awareness training. The guards who were hired after the Agreement became effective are scheduled to attend VTA's next orientation training (which includes security awareness) in September 2009. VTA will continue to require security awareness</i>

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	<p>Exceptions to the contract, such as waivers for required training, should be documented.            [Risk Rating: Low]</p>		<p><i>training for any security guard and supervisor who has not received security awareness training.</i></p> <p><i><u>Remediation:</u> All new security guards and field supervisors hired after the Agreement became effective will attend the VTA orientation training in September 2009. All training waivers and exceptions will be documented by October 31, 2009.</i></p>
<p><b>Exhibit A.H.1.D:</b> Classroom National Incident Management System (NIMS) training will be provided when training opportunities become available to command staff in leadership roles, rank of Sergeant and above or these classes may be taken online, VTA's preferred method.</p>	<p>As of July 2009, classroom NIMS training has not been provided.            [Risk Rating: Low]</p>	<p>We recommend that VTA, together with AlliedBarton, look for NIMS training opportunities, including online courses.</p>	<p><i>Command staff will receive on-line NIMS training; VTA will continue to seek funding to provide classroom training opportunities to supplement the on-line training.</i></p> <p><i><u>Remediation:</u> On-line training will be completed and documented by November 30, 2009.</i></p>
<p><b>Exhibit A.H.2:</b> All armed security guards must complete Security Guard Power to Arrest Training as outlined by the Department of Consumer Affairs - Bureau of Security and Investigative Services.</p>	<p>No Exceptions Observed</p>	<p>Not Applicable</p>	<p>Not Applicable</p>
<p><b>Exhibit A.H.2:</b> As part of the minimum pre-assignment training furnished by AlliedBarton, the following training hours are required for the security guards to complete based on their assigned positions:</p>	<p>For 14 (8 armed and 6 unarmed) out of the 25 AlliedBarton security guards and supervisors selected for testing, no evidence was available that these security</p>	<p>We recommend that exceptions to the Agreement for experienced security guards are documented and supported or each</p>	<p><i>VTA waived the minimum pre-assignment training for 14 guards, from the sample of 25, who transitioned from Securitas to AlliedBarton; these 14</i></p>

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<ul style="list-style-type: none"> <li>- Security guards assigned to non-public worksite facilities: 8 hours.</li> <li>- Security guards assigned to public facilities: 16 hours.</li> <li>- Armed security guards performing revenue collection and protection functions: 24 hours.</li> <li>- Designated armed officers: 80 hours.</li> </ul>	<p>guards complied with the minimum hourly requirement for the pre-assignment training courses furnished by AlliedBarton. We were informed that the required training was verbally waived, as the 14 security guards transitioned from their previous employer Securitas to AlliedBarton and are considered experienced security guards.</p> <p>Exceptions to the contract, such as waivers for required training, should be documented.</p> <p>[Risk Rating: Low]</p>	<p>security guard receives minimum pre-assignment training in accordance with contract requirements.</p>	<p><i>guards had previously received training that met the requirements of the pre-assignment training. VTA will document any future waiver of pre-assignment training for security guards. VTA will continue to require pre-assignment training for any security guard who has not received pre-assignment training.</i></p> <p><i><b>Remediation:</b> All training waivers and exceptions will be documented by October 31, 2009.</i></p>
<b>2.0 Assessment of monitoring contractor compliance with critical training and qualification requirements.</b>			
<p>Internal Audit assessed the efficiency and effectiveness of VTA processes for monitoring contractor compliance with critical training and qualification requirements.</p>	<p>Internal Audit noted that, although frequent communication and coordination meetings take place between VTA Management and AlliedBarton, a formalized monitoring process has not yet been developed and implemented.</p> <p>Current monitoring processes should be formalized to avoid the potential that VTA does not have current status of security guard training and certification and notification of potential issues.</p> <p>[Risk Rating: Low]</p>	<p>We recommend that VTA and AlliedBarton develop and implement a formalized process to monitor AlliedBarton's compliance with critical training and qualification requirements as outlined in the Agreement.</p>	<p><i>VTA will establish procedures to formalize monitoring of contractor compliance with all contract provisions. These procedures will include written documentation of any waiver or exception of training/orientation requirements, documentation of communications between VTA and AlliedBarton, records of requests for information and acknowledgement of receipt when reports are received from the contractor.</i></p>

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			<p><i>Remediation: Procedures to formalize current monitoring processes of contractor compliance with all contract provisions will be completed and in place by October 31, 2009.</i></p>

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Date: September 2, 2009  
Current Meeting: October 1, 2009  
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:** External Financial Auditor Review FY2009 Audit Plan

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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 continues through April 30, 2009 with options to extend the agreement for two additional one-year terms.

In FY2009, VTA exercised its first one-year extension and extended the audit contract for another year.

The scope of VTD's services includes the following:

- Conduct the financial statement audit and render an opinion on the:
  - VTA General-purpose Financial Statements
  - VTA- Amalgamated Transit Union (ATU) Pension Plan
  - VTA's Federal Financial Assistance Program (Single Audit)
  - Other Post Employment Benefit Report
- Perform internal control assessment over financial reporting based on the audit of the financial statements
- Perform compliance audit 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 Fiscal Year 2006, Fiscal Year 2007, and Fiscal Year 2008, 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. For the Fiscal Years 2006 through 2008 that VTD had performed the audit of VTA financial statements, VTD had consistently rendered an unqualified opinion.

Presently, VTD is conducting its interim work relative to the audit of VTA's financial statements for Fiscal Year 2009. Presented below are VTD's timeline and deliverables relating to this engagement.

**May 2009**

- 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 2009**

- Cash disbursement sample testing
- Payroll disbursement sample testing
- Documented procedures in relation to development of VTA's indirect cost allocation

**August-September 2009**

- Complete Audit field work

**December 2009**

- Present the 2009 CAFR along with the VTA-ATU Pension Plan Report, and the Other Post Employment Benefit Report to the Audit Committee on December 10, 2009

Prepared By: Joseph T. Smith, Chief Financial Officer  
Memo No. 1889