

Audit Committee

Thursday, October 1, 2009

MINUTES

CALL TO ORDER

The Regular Meeting of the Audit Committee was called to order at 4:30 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	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 March 5, 2009

M/S/C (Casas/Sellers) to approve the Minutes of March 5, 2009.

5. Minutes of May 7, 2009

M/S/C (Casas/Sellers) to approve the Minutes of May 7, 2009.

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

REGULAR AGENDA

6. Security Guard Qualification and Training Internal Audit

Michael T. Burns, General Manager, reported the Auditor General has completed its first audit as part of the Fiscal Year (FY) 2010 Internal Work Plan approved by the VTA Board of Directors. The audit conducted was on the security guard qualification and training due to VTA's transition from Securitas Security Services to AlliedBarton Security Services LP. Mr. Burns acknowledged Michael Hursh, Operations Deputy Director, and Captain Robert Schiller were in attendance, noting their availability to address any concerns/questions.

Pat Hagan, Auditor General, Deloitte & Touche, LLP, introduced team members Farah Faruqui, Partner, and Sandra Koning, Manager.

Member Pyle took her seat at 4:34 p.m.

Mr. Hagan provided a summary report on the Auditor General Report No. 2009-01, Security Guard Qualification and Training Internal Audit. He reported the Security Guard Qualification and Training Internal Audit was a compliance audit that related to the transition from Securitas to AlliedBarton. He noted it was a compliance audit of the contractual requirements between VTA and the contractor. The objectives of the internal audit were to: 1) Assess whether AlliedBarton security personnel serving VTA were in compliance with training and certification requirements specified in contract terms; and 2) Assess the effectiveness of VTA processes for monitoring contractor reports of compliance with training and certification requirements.

Mr. Hagan reported out of a total of 81 AlliedBarton security guards assigned to VTA, a sample of 25 armed and unarmed security guards was selected for the testing period of March 13, 2009 through June 30, 2009. Based upon the sample selected, it appeared AlliedBarton complied with the key training and certification requirements.

The Internal Audit determined VTA's informal monitoring process could be improved through formalization of the process and controls. The Internal Audit observed several lower relative risks and recommended 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.

Mr. Hagan reported on VTA's management response, noting VTA concurred with the Internal Audit findings. He thanked Mr. Burns and staff for their cooperation and support.

Mr. Hagan reported on the responsibilities of the AlliedBarton security guards. He reported VTA and AlliedBarton indicated the transition from Securitas to AlliedBarton went smoothly, noting a number of Securitas guards were retained by AlliedBarton.

Mr. Hagan reported on the scope of contract requirements assessed and VTA processes assessed. He noted the overall risk rating was “low.”

Chairperson Gage queried if the same number of personnel were involved from the previous contractor up till now. Mr. Hursh noted the scope of the security services were essentially the same level of protection as with the previous contractor. Upon query of Chairperson Gage, Mr. Hursh reported on the level of firearms training of AlliedBarton, noting it exceeded State requirements.

Upon query of Vice Chairperson Casas, Mr. Hursh indicated tasers were not issued to the security guards. Vice Chairperson Casas queried if AlliedBarton was responsible for the operation of surveillance video equipment. Mr. Hursh noted AlliedBarton was not responsible for the maintenance or upkeep of the Closed Circuit Television (CCTV) system. VTA has contracted personnel to maintain the surveillance video equipment.

Vice Chairperson Casas referenced the Auditor General Report No. 2009-01, Page 3 of 12, last bulleted item under the security guards responsibilities: “closed circuit television and other security services as required by VTA.” He indicated it is not specified whether testing is conducted. Vice Chairperson Casas commented in order to solve a crime from a security standpoint, one wants to make sure the assets are functional and also relevant from the image that is produced. Mr. Hagan indicated from an audit perspective, when testing some of the technology areas that could be part of the scope.

Vice Chairperson Casas queried if random checks were conducted for criminal backgrounds, liens, and bankruptcies. Mr. Hursh reported on the criminal background check procedures and Mr. Hagan noted civil record checks were also conducted.

Member Sellers queried if there was an opportunity to independently verify alcohol testing was being conducted on a quarterly basis. Mr. Hagan noted from an audit perspective, VTA has to request the reports and has not done so at this time. Mr. Hursh indicated from an operational perspective, if there are any issues, VTA operational staff is notified, noting there is plenty of data sharing between AlliedBarton and VTA.

Mr. Hagan referenced the Auditor General Report No. 2009-01, Security Guard Qualification and Training Internal Audit, Exhibits A.C.6, A.C.7, A.D.3, and A.H.1.C under Section 1.0 – Contract Compliance with Training and Qualification Requirements. He provided an overview of the internal audit observations, individual area’s risk rating, Auditor General’s recommendation, and management’s response.

In reference to management’s responses, Chairperson Gage requested a checklist be completed identifying areas covered.

Vice Chairperson Casas expressed concern regarding the chart formatting and requested each exhibit header have some type of connectivity.

On order of Chairperson Gage and there being no objection, the Committee reviewed the Security Guard Qualification and Training Internal Audit Report.

7. **External Financial Auditor Review FY2009 Audit Plan**

Joseph T. Smith, Chief Financial Officer, reported pursuant to state law and VTA's Administrative Code, VTA is required to have an annual audit conducted on its financial statements. He introduced Leonard Danna, Partner, Vavrinek, Trine, Day & Co., LLP (VTD), and noted Mr. Danna would be providing an overview of the Audit Plan.

Mr. Danna, VTD, directed attention to the presentation entitled, "Audit Plan for the Year Ended June 30, 2009," and provided an overview, highlighting: 1) Scope Changes for 2008-09; 2) 2008-09 Fee Analysis; 3) Significant New Accounting Pronouncements; 4) Timetable: Interim, Final and Completion; noting VTD received and was in the process of reviewing the first draft of the financial statements; and the National Transit Database (NTD) audit work was to be completed the week of October 5, 2009; 5) Interim Work Completed to Date; and 6) Final Audit Work Procedures. Mr. Danna noted VTD expects to meet all of its deadlines going forward.

Upon query of Chairperson Gage, Mr. Smith noted VTA staff has been reviewing the Audit reports.

Chairperson Gage queried if a summary of the audits were made available to the public. Mr. Smith indicated VTA provides the Comprehensive Annual Financial Report (CAFR), which is posted on VTA's Website.

Vice Chairperson Casas referenced the Audit Plan for the Year Ended June 30, 2009 presentation, Page 3, 2008-09 Fee Analysis, fourth bulleted item: "In addition, VTA staff proposed additional scope changes as noted in the previous slide which resulted in a further fee decrease." Vice Chairperson Casas noted the previous slide, Page 2, Scope Changes for 2008-09, showed there was no separate audit report for Measure A and CMP. He queried it was not that VTD was not conducting the work; VTD was just not sending out a separate report. Mr. Danna indicated that was correct. If a separate report was conducted of those two components, VTD would have the audit to a lower level of materiality, which means VTD would be conducting more work. Vice Chairperson Casas commented from a standpoint, you are talking millions of dollars and a savings of \$20,000. He queried if VTD sees any material risk on not going down to that level of detail. Mr. Danna indicated, "no."

Vice Chairperson Casas referenced Page 6, Interim Work Completed to Date, third bulleted item: "High risk areas noted include investments, capital grant accruals, sales tax, STA and TDA revenues and classification of restricted vs. unrestricted program resources including Measure A restricted funds." Vice Chairperson Casas focused on sales tax, and indicated Governor Arnold Schwarzenegger is trying to convene a new special session to address sales tax collection. He asked what impact this may have on VTA. Mr. Danna indicated whatever was proposed or to be proposed was not pertinent to the June 30th audit. He noted the reason sales tax is a risk, was because it is a significant revenue source.

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

8. Internal Audit Work Plan

Pat Hagan, Auditor General, Deloitte & Touche, LLP, directed attention to the presentation entitled, "Review Status of Internal Audit Activities," and provided a summary, highlighting: 1) Audit Plan FY 2010 and FY 2011 (presented May 2009); 2) Timeline of Internal Audit Activities (presented May 2009); and 3) Silicon Valley Rapid Transit (SVRT) Project Status. In reference to SVRT, Mr. Hagan noted a report containing the risk ranking would be presented at the next scheduled Audit Committee meeting.

Vice Chairperson Casas queried if the next Audit Committee meeting was scheduled for December 10, 2009 at 1:00 p.m. Michael T. Burns, General Manager, indicated "yes."

On order of Chairperson Gage and there being no objection, the Committee received a verbal report on the Status of Internal Audit Work Plan.

OTHER ITEMS

9. Items of Concern and Referral to Administration

There were no Items of Concern and Referral to Administration.

10. Committee Work Plan

Michael T. Burns, General Manager, directed attention to the items to be presented at the Thursday, December 10, 2009, Audit Committee Meeting.

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

11. Committee Staff Report

There was no Committee Staff Report.

12. Chairperson's Report

There was no Chairperson's Report.

13. Determine Consent Agenda for the November 5, 2009 Board Meeting

CONSENT:

Agenda Item #6. Review the Security Guard Qualification and Training Internal Audit Report

REGULAR:

None

M/S/C (Pyle/Sellers) to approve placing Agenda Item #6. Review the Security Guard Qualification and Training Internal Audit Report, on the November 5, 2009 Board of Directors Consent Agenda.

14. Announcements

Vice Chairperson Casas referenced Attachment 6.a, Auditor General Report No. 2009-01, Security Guard Qualification and Training Internal Audit, charts summarizing the internal audit observations, individual area's risk rating, Auditor General's recommendation, and management's response. He requested the charts be formatted into an easy to read document prior to the November 5, 2009 Board of Directors Meeting.

Michael T. Burns, General Manager, acknowledged the accomplishments of the Audit Committee, including the appointment of the Auditor General and conclusion of the first Internal Audit Report.

15. Adjournment

On order of Chairperson Gage and there being no objection, the meeting was adjourned at 5:13 p.m.

Respectfully submitted,

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