

**Audit Committee**

Thursday, March 4, 2010

**MINUTES**

**CALL TO ORDER**

The Regular Meeting of the Audit Committee was called to order at 4:08 p.m. by Chairperson Gage in Room 157, County Government Center, 70 West Hedding Street, San Jose, California.

**1. ROLL CALL**

<b>Attendee Name</b>	<b>Title</b>	<b>Status</b>
Don Gage	Chairperson	Present
Rose Herrera	Vice Chairperson	Present
Chuck Page	Member	Present
Nancy Pyle	Member	Absent

**A quorum was present.**

**2. PUBLIC PRESENTATIONS**

There were no Public Presentations.

**3. ORDERS OF THE DAY**

Michael T. Burns, Staff Liaison and General Manager, provided background information on the formation of the VTA Audit Committee.

Mr. Burns reported in March 2007, the Organizational Financial Assessment recommended the formation of an Audit Committee of the VTA Board of Directors. The Assessment recommended that an Independent Auditor General assist the Board of Directors in fulfilling its fiduciary responsibilities by overseeing risks and controls, financial reporting and integrity, and program activities.

In May 2008, the Board of Directors formally amended VTA's Administrative Code to add the Audit Committee as one of its Standing Committees. The Committee was charged to review and recommend to the Board of Directors policy decisions required to fulfill the Board of Directors' oversight responsibilities for: 1) integrity of VTA financial statements; 2) compliance with legal and regulatory requirements; and 3) ensure effective system of internal management and financial controls.

Mr. Burns noted the Audit Committee meets quarterly and the Chairperson serves a two-year term.

In December 2008, the Audit Committee recommended that VTA contract for the Auditor General services. VTA conducted a competitive bid process and selected Deloitte & Touche, LLP, to provide services for a two-year period with three one-year options.

Mr. Burns noted that Pat Hagan of Deloitte & Touche was appointed to serve as the Auditor General. He has since retired and has been replaced by Mr. Greg Thomas, a Principal in the firm's Enterprise Risk Services Practice.

In May 2009, the Audit Committee reviewed and recommended that Deloitte & Touche conduct the Fiscal Year 2010 Internal Audit Work Plan, which was based on a risk assessment performed by the Auditor General. One internal audit has been completed and was presented to the Audit Committee and Board of Directors. The second internal audit will be presented to the Committee today under Agenda Item #11. SVRT Soft Cost Internal Audit.

The following persons introduced themselves: 1) Farah Faruqui, Partner; and Greg Thomas, Auditor General, Deloitte & Touche, LLP; and 2) Leonard Danna, Partner, Vavrinek, Trine, Day and Co., LLP.

**The Agenda was taken out of order.**

## **REGULAR AGENDA**

### **5. Elect Standing Committee Vice Chairperson**

Chairperson Gage opened the nominations from the floor for the position of Audit Committee Vice Chairperson for 2010.

Member Page nominated Member Herrera to serve as the Vice Chairperson for 2010.

M/S/C (Page/Gage) to close the nominations and elect Member Herrera as Audit Committee Vice Chairperson for 2010.

## **CONSENT AGENDA**

### **4. Minutes of October 1, 2009**

M/S/C (Herrera/Page) to approve the Minutes of October 1, 2009.

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

## **REGULAR AGENDA** (continued)

### **6. 2010 Audit Committee Meeting Schedule**

Chairperson Gage reported the Audit Committee meets quarterly at 4:00 p.m., with the exception of the December 9, 2010 Committee meeting, which meets immediately following the VTA Board of Directors meeting scheduled at 9:00 a.m.

**M/S/C (Herrera/Page)** to approve the 2010 Audit Committee Meeting Schedule.

**Agenda Items #7 and #8 were heard together.**

### **Agenda Items #7 to #8**

### **7. Fiscal Year 2009 Comprehensive Annual Financial Report for the Santa Clara Valley Transportation Authority, and the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan Report**

### **8. Audited Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits (OPEB) Trust Financial Report for Fiscal Year 2009**

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. An audit of VTA finances for fiscal year ended June 30, 2009 (FY 2009), was conducted by Vavrinek, Trine, Day & Company, LLP (VTD). The audited financial statements are required to be submitted to the State Controller, Metropolitan Transportation Commission (MTC), various Federal and State agencies, as well as other parties, such as bondholders.

Vice Chairperson Herrera expressed concern regarding the untimely receipt of the reports and requested that information be provided in a timely manner.

Leonard Danna, VTD, provided an overview of the audited Fiscal Year 2009 Comprehensive Annual Financial Report (CAFR) for VTA, 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.

Mr. Danna also provided an overview of the audited VTA Amalgamated Transit Union Pension Plan Report for Fiscal Year 2009 and VTA Retiree's Other Post Employment Benefits (OPEB) Trust Financial Report for Fiscal Year 2009, highlighting: 1) Audit Results; and 2) Financial Highlights.

Upon query of Vice Chairperson Herrera, Mr. Smith reported on VTA's contributions to its employees' retirement funds.

**M/S/C (Page/Herrera)** to approve Agenda Items #7 through #8 as follows:

7. **M/S/C (Page/Herrera)** 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 Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan Report for Fiscal Year 2009.
8. **M/S/C (Page/Herrera)** to approve submitting a recommendation to the Board of Directors to review and receive the Audited Financial Report for Fiscal Year 2009 of the Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits Trust (Trust).

9. **Financial Audit Services Contract**

Joseph T. Smith, Chief Financial Officer, reported VTA's contract with Vavrinek, Trine, Day and Co., LLP is for a five-year term and expires at the end of Fiscal Year (FY) 2010. VTA will be issuing a Request for Proposal for financial audit services for FY 2011 and will bring forward a recommendation to award a contract in December 2010.

Michael T. Burns, Staff Liaison and General Manager, noted the Board of Directors could defer the award of the contract to the Audit Committee.

**On order of Chairperson Gage** and there being no objection, the Committee received a report on the Current Financial Audit Service Contract.

10. **Internal Audit Work Plan**

Greg Thomas, Auditor General, Deloitte & Touche, provided background information on his experience, noting he is the Enterprise Risk Services Leader for the State of California.

Mr. Thomas referenced the presentation entitled, "Review Status of Internal Audit Work Plan," and provided an overview, highlighting: 1) The Role of Internal Audit at VTA; 2) Overview of Internal Audit Process; 3) Background and Historical Timeline; 4) Risk Assessment Methodology; 5) Risk Assessment Results (from March 2009); 6) Revised Audit Plan FY 2010 and FY 2011, noting the FY 2011 Internal Audit Work Plan will be updated and presented at the June 3, 2010 Audit Committee meeting; 7) Revised Timeline of Internal Audit Activities; and 8) Security Guard Qualification and Training – Remediation, noting VTA Management completed remediation plans and the Auditor General has confirmed management remediation plans were completed and has considered the audit closed.

Vice Chairperson Herrera queried if cost savings was one of the goals associated with the audit. Mr. Thomas indicated one of the goals is to look for operational efficiencies. Farah Faruqui, Partner, Deloitte & Touche, noted some of their projects are compliance focused and some are operational efficiencies focused.

Member Page queried about the timeframe an internal audit is completed. Ms. Faruqui indicated the size of the project is dependent upon the scope to be covered, noting the

Silicon Valley Rapid Transit (SVRT) Soft Cost Internal Audit was one of the largest projects of the year. Deloitte & Touche works with VTA management to set the appropriate scope and makes sure the risks are addressed.

Michael T. Burns, Staff Liaison and General Manager, noted the contracts are task order contracts, so each audit is an individual task order.

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

#### **11. SVRT Soft Cost Internal Audit**

Denise Martini, Director, Deloitte & Touche, provided background information on her experience.

Ms. Martini referenced the presentation entitled, "SVRT Program Soft Costs Internal Audit," and provided an overview, highlighting: 1) Audit Objectives & Scope; 2) Internal audit team's observations (a. SVRT Soft Cost Trends; b. SVRT Root Cause; and c. SVRT Policies and Procedures); 3) Risk rating associated with each observation; 4) Recommendation for addressing each observation; and 5) VTA management's response to each observation.

Upon query of Chairperson Gage, Michael T. Burns, General Manager, reported that VTA staff would be developing policies and procedures to address the issues identified by the Internal Auditor.

Ms. Martini commented all of the recommendations were well received by VTA management and that many of the Internal Auditor's recommendations were already on the way to being implemented.

Ms. Martini also reported on the following observations, noting the recommendation for addressing each observation: 1) SVRT Ongoing Project Risks: a. Third Party Entities; b. Design Changes, and c. BART.

Upon query of Chairperson Gage, Carolyn Gonot, Chief SVRT Officer, reported on the value engineering efforts that have been undertaken. She also reported on the steps taken and that will be taken to address the Internal Auditor's observations and recommendations.

**On order of Chairperson Gage** and there being no objection, the Committee received a report on the Silicon Valley Rapid Transit (SVRT) Soft Cost Internal Audit.

### **OTHER ITEMS**

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

There were no Items of Concern and Referral to Administration.

**13. Committee Work Plan**

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

**14. Committee Staff Report**

Michael T. Burns, Staff Liaison and General Manager, reported the following: 1) In July 2008, the California Bureau of State Audits released its report on VTA and VTA developed an action plan to address each of the findings/recommendations; and 2) In February 2010, the California Bureau of State Audits issued a special report confirming that VTA had adequately addressed their findings and recommendations.

**On order of Chairperson Gage** and there being no objection, the Committee Staff Report was received.

**15. Chairperson's Report**

There was no Chairperson's Report.

**16. Determine Consent Agenda for the April 1, 2010 Board Meeting**

**CONSENT: Agenda Item #7.** Review and receive the audited Comprehensive Annual Financial Report for the Santa Clara Valley Transportation Authority, and the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan Report for Fiscal Year 2009; **Agenda Item #8.** Review and receive the Audited Financial Report for Fiscal Year 2009 of the Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits Trust (Trust); and **Agenda Item #11.** Receive a report on the Silicon Valley Rapid Transit (SVRT) Soft Cost Internal Audit.

**REGULAR:** None

**17. Announcements**

There were no Announcements.

**18. Adjournment**

**On order of Chairperson Gage** and there being no objection, the meeting was adjourned at 5:16 p.m.

Respectfully submitted,

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