

**Audit Committee**

Thursday, June 3, 2010

**MINUTES**

**CALL TO ORDER**

The Regular Meeting of the Audit Committee was called to order at 4:04 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	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 4, 2010**

**M/S/C (Herrera/Pyle)** to approve the Minutes of March 4, 2010.

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

## REGULAR AGENDA

### 5. Review and Approve FY 2011 Internal Audit Plan

Greg Thomas, Auditor General, provided a presentation highlighting the following: FY 10 risk assessment and its results; proposed internal audit plan for FY 11, timeline and reporting activities; and FY 11 audit plan and fee estimates. The internal audit projects include: SAP Audit; Information Technology Audit; Silicon Valley Rapid Transit (SVRT) contract compliance; and Investment Control Design Assessment.

Upon inquiry of Member Herrera, Mr. Thomas defined risks as activities that may lead to fraud, abuse, and waste. Farah Faruqui, Partner, Deloitte, added risks are also defined as anything that can jeopardize the achievement of goals.

Chairperson Gage noted the auditors should provide a quarterly report identifying areas where there is fraud, abuse, and waste. Staff and the auditors can provide recommendations to the Audit Committee regarding areas that should be further investigated for possible cost savings. Member Herrera added the report should highlight recommendations or strategies to save money. The report should also include an evaluation of the implementation of the recommendations and its financial impacts.

Member Herrera stated she will bring to the Ad-Hoc Financial Recovery Committee samples of how other Committees she serves on increased their efficiencies through the audit functions.

Member Herrera inquired if it is possible for the Ad-Hoc Financial Recovery Committee to ask auditors to look into a certain area of the organization. Michael T. Burns, General Manager, stated the auditors work through task orders. The work scope must be evaluated to determine if it is included in the task order and determine whether Deloitte is the appropriate auditing firm to conduct the work.

**M/S/C (Pyle/Herrera)** to approve 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 2011 internal audit work plan, in an amount not to exceed \$160,000, for a new total contract value of \$420,000.

### 6. Investment Controls Internal Audit

Ms. Faruqui reviewed the results of the internal controls for investment of restricted and unrestricted funds. Ms. Faruqui noted the key controls tested were operating effectively as designed but there were two minor issues related to documentation identified.

Vice Chairperson Page noted VTA's internal staff should apply the methodologies used by the auditors and the lessons learned and apply it to the other parts of the organization. Joseph Smith, Chief Financial Officer, responded VTA's staff applied the same type of analysis to 20 other processes.

M/S/C (**Herrera/Page**) to approve submitting a recommendation to the Board of Directors to receive a Report on the Investment Controls Internal Audit.

## **OTHER ITEMS**

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

Mr. Burns referred to the on-going investigation on Chicago Transit Authority's vacation cash-out scandal and reported he has requested the auditors provide a report on the investigation results. The auditors may recommend a similar audit for VTA if deemed appropriate.

Member Herrera requested the auditors to recommend best practices for internal controls with built-in flags and random checks to prevent these types of abuses.

Mr. Thomas responded it can be added in the work plan without additional funding as the current audit of "segregation of duties within SAP" will reveal if VTA has the same vulnerabilities.

### **8. Committee Work Plan**

Mr. Burns noted the possibility of moving the time of the next Audit Committee meeting closer to the Board Meeting time.

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

### **9. Committee Staff Report**

There was no Committee Staff report.

### **10. Chairperson's Report**

Chairperson Gage reviewed the work that has been done by the Audit Committee in the past year and the work to be done for the next fiscal year. He noted the need for everyone to be aware of the importance of finding ways to reduce costs and increase efficiencies within the organization.

### **11. Determine Consent Agenda for the August 5, 2010 Board Meeting**

**CONSENT:** **Agenda Item #6.** Receive a Report on the Investment Controls Internal Audit.

**REGULAR:** **Agenda Item #5.** Authorize the General Manager to execute one or more task orders with Deloitte & Touche LLP, to conduct the Fiscal Year 2011 internal audit work plan, in an amount not to exceed \$160,000, for a new total contract value of \$420,000.

**12. Announcements**

Members of the Committee expressed the importance of asking stakeholders and employees regarding their suggestions to reduce costs and increase efficiencies within VTA.

**13. Adjournment**

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

Respectfully submitted,

Elaine F. Baltao, Board Assistant  
VTA Office of the Board Secretary