

**Audit Committee**

Thursday, September 2, 2010

**MINUTES**

**CALL TO ORDER**

The Regular Meeting of the Audit Committee was called to order at 4:03 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 June 3, 2010**

**M/S/C (Herrera/Pyle)** to approve the Minutes of June 3, 2010.

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

## REGULAR AGENDA

### 5. Task Order Contract with Deloitte & Touche

Michael T. Burns, General Manager, provided background information on the contract with Deloitte and Touche noting the two-year contract included three additional one-year options with discretion on exercising the options resting with the Audit Committee. Mr. Burns stated staff recommends the extension of the contract through January 2012 to allow Deloitte to complete the remaining internal audits contained in the FY11 Internal Audit Work Plan.

**M/S/C (Herrera/Page )** to approve submitting a recommendation to the Board of Directors to Approve exercising the first one-year option to extend the task order contract with Deloitte & Touche, LLP for Auditor General services, for amount not to exceed \$175,000 as specified in the contract. Exercising this option will extend the contract term to January 8, 2012 and increase the maximum contract value to \$525,000.

### 6. SAP Governance Risk and Compliance Report

Greg Thomas, Auditor General, provided background information on Deloitte's audit on the access control of VTA's SAP financial system and the installation of the Governance Risk and Compliance (GRC) monitoring tool which reports on segregation of duties conflicts. He provided a presentation on the GRC Segregation of Duties Design Assessment Internal Audit highlighting the audit objective and scope and the summary results.

Mr. Thomas indicated three low risk observations were identified relating to VTA customized transaction codes, segregation of owners and approvers of rule sets, and monitoring of the segregation of design and access conflicts. He noted none of the issues were significant.

Chairperson Gage questioned if the tool was modified for VTA. Mr. Thomas indicated there were some specific customizations when installed but it was implemented as is.

Member Page questioned if there are experts in the utilization of the GRC tool and if recommendations are made as to who should be analyzing the reports.

Mr. Thomas noted the individual conducting the fieldwork of the audit has expertise in configuration and set up of the tool. Emily Kwan, Manager, Deloitte, stated higher level employees who are able to evaluate whether the users and conflicts are appropriate should analyze the reports. Mr. Thomas added they will verify who is reviewing reports and confirm they are appropriate.

Member Herrera commented she is impressed with process rules and access controls of the GRC tool and is pleased VTA is ahead of the game and focused on prevention.

**On order of Chairperson Gage** and there being no objection, the Committee received the Auditor General's report on the SAP Governance Risk & Compliance (GRC)

Segregation of Duties and Sensitive Access Controls Internal Audit.

**7. Scope of Work for Annual Financial Audit Services**

Leonard Danna, Partner, Vavrinek, Trine, Day and Co., LLP (VTD), provided a presentation on the audit plan for year end June 30, 2010, highlighting the following: 1) Scope of Changes for 2009-2010; 2) 2009-2010 Fee analysis; 3) Significant new accounting pronouncements; 4) Timetable: interim, final, and completion; 5) Interim work completed to date; and, 6) Final audit work. Mr. Danna added there were no significant changes in audit scope for the current year but noted management requested a review of controls in place against fictitious employees and employee vacation payout.

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

**8. Contract with Vavrinek, Trine, Day and Co.**

Joseph Smith, Chief Financial Officer, provided background information on the Contract with Vavrinek, Trine, Day and Co., LLC (VTD) which expires at the end of the present fiscal year. A Request for Proposal was issued and after completion of evaluations and interviews, staff recommended the retention of VTD. He noted they had the lowest cost, their past performance of duties was done with objectiveness, and deliverables were received on time. VTD also specializes in governmental accounting and was instrumental with VTA receiving a financial accounting certificate of excellence.

**M/S/C (Herrera/Pyle)** to authorize the General Manager to execute a contract with Vavrinek, Trine, Day and Co. to provide financial and compliance audit services to Santa Clara Valley Transportation Authority (VTA) for three years starting July 1, 2011 at a cost of \$375,000 and two additional one-year extensions at a cost of \$125,000 for each year. The total value of the contract for the five year period ending June 30, 2016 is \$625,000.

**9. Internal Audit Workplan**

Greg Thomas, Auditor General, provided a presentation on the status of the internal Audit Work Plan highlighting, the proposed timeline and reporting of internal activities, and the Silicon Valley Rapid Transit Project (SVRT) Contract Compliance Internal Audit. He noted the fieldwork of the evaluation and assessment of the contract between Hatch-Mott McDonald/Bechtel is nearly complete and an update will be provided at next Audit Committee Meeting.

**On order of Chairperson Gage** and there being no objection, the Committee received an update from Auditor General staff on the status of the audits in the current Internal Audit Work Plan.

**OTHER ITEMS**

**10. Items of Concern and Referral to Administration**

There were no Items of Concern and Referral to Administration.

**11. Committee Work Plan**

Mr. Burns noted several important items are scheduled for the November Agenda including review of the Comprehensive Annual Financial Report (CAFR) and ATU Pension Plan report, Contract Compliance Audit, and approving the Committee schedule for 2011.

Member Page requested the CAFR and Pension plan be distributed as soon as possible to give the Committee time to review.

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

**12. Committee Staff Report**

There was no Committee Staff report.

**13. Chairperson's Report**

Chairperson Gage noted the Board adopted the Auditor General's recommended FY11 Internal Audit Workplan which continues the previous strategy of including both compliance and management audits. The first audit is scheduled to be received at the November meeting.

Chairperson Gage announced his final meeting as Chairperson and a member of the Committee will be in November. He stated he looks forward to receiving the results of the SVRT Compliance Audit at that meeting. He thanked the Committee for their role in helping the Board fulfill its obligations for safeguarding VTA's financial integrity.

**14. Determine Consent Agenda for the October 7, 2010 Board Meeting**

**CONSENT: Item # 6,** SAP Governance Risk & Compliance (GRC) Segregation of Duties and Sensitive Access Controls Internal Audit; and,

**Item #8,** Authorize the General Manager to execute a contract with Vavrinek, Trine, Day and Co. to provide financial and compliance audit services to Santa Clara Valley Transportation Authority (VTA) for three years starting July 1, 2011 at a cost of \$375,000 and two additional one-year extensions at a cost of \$125,000 for each year. The total value of the contract for the five year period ending June 30, 2016 is \$625,000.

**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 4:47 p.m.

Respectfully submitted,

Menominee L. McCarter, Board Assistant  
VTA Office of the Board Secretary