

## **AUDIT COMMITTEE**

Thursday, February 2, 2012  
4:30 PM

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**

#### **4. Chairperson's Report. (Herrera)**

### **CONSENT AGENDA**

#### **5. Approve the Regular Meeting Minutes of May 5, 2011.**

#### **6. Approve the Regular Meeting Minutes of November 3, 2011.**

#### **7. ACTION ITEM - Approve the 2012 Audit Committee Meeting Schedule.**

#### **8. INFORMATION ITEM - Review the Audit Committee's mission, responsibilities and background.**

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## **REGULAR AGENDA**

9. ACTION ITEM - Conduct voting to determine the Committee's vice chairperson for calendar year 2012.
10. ACTION ITEM - Review and receive the Auditor General's report on leading practices and recommendations for implementing an Integrity Helpline.
11. ACTION ITEM - Review and receive the Auditor General's report on the VTA Record Retention Program Assessment.
12. ACTION ITEM - Review and receive the Auditor General's report on the Investment Controls Internal Audit.
13. ACTION ITEM - Review and receive the Auditor General's report on the FY 2013 VTA Risk Assessment Refresh.
14. ACTION ITEM - Amend the FY 2012 Internal Audit Work Plan to add a high-level risk assessment of the BART extension project to identify the project's various key components and evaluate their relative risk. This project will be accomplished using the existing FY 2012 Internal Audit Work Plan budget; no new funding is required.
15. INFORMATION ITEM - Receive an update from Auditor General staff on the status of the audits in the current Internal Audit Work Plan.
16. ACTION ITEM - Authorize the General Manager to exercise the second one-year option to extend the task order contract with Deloitte & Touche LLP for Auditor General services, in amount not to exceed \$175,000 as specified in the contract, for a new contract term to July 8, 2013 and a revised maximum contract value of \$950,500.

## **OTHER ITEMS**

17. Items of Concern and Referral to Administration.
18. Review Committee Work Plan. (Burns)
19. Committee Staff Report. (Burns)
20. Determine Consent Agenda for future Board of Directors meeting.
21. ANNOUNCEMENTS
22. ADJOURN

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](mailto:board.secretary@vta.org), TDD (408) 321-2330. VTA's Homepage is located on the Web at: <http://www.vta.org/> or visit us on Facebook <http://www.facebook.com/scvta>.

Disclosure of Campaign Contributions to Board Members (Government Code Section 84308) In accordance with Government Code Section 84308, no VTA Board Member shall accept, solicit, or direct a contribution of more than \$250 from any party, or his or her agent, or from any participant, or his or her agent, while a proceeding involving a license, permit, or other entitlement for use is pending before the agency. Any Board Member who has received a contribution within the preceding 12 months in an amount of more than \$250 from a party or from any agent or participant shall disclose that fact on the record of the proceeding and shall not make, participate in making, or in any way attempt to use his or her official position to influence the decision. A party to a proceeding before VTA shall disclose on the record of the proceeding any contribution in an amount of more than \$250 made within the preceding 12 months by the party, or his or her agent, to any Board Member. No party, or his or her agent, shall make a contribution of more than \$250 to any Board Member during the proceeding and for three months following the date a final decision is rendered by the agency in the proceeding. The foregoing statements are limited in their entirety by the provisions of Section 84308 and parties are urged to consult with their own legal counsel regarding the requirements of the law.

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, May 5, 2011

### MINUTES

#### CALL TO ORDER

The Regular Meeting of the Audit Committee was called to order at 4:04 p.m. by Chairperson Herrera in Room 157, County Government Center, 70 West Hedding Street, San Jose, California.

#### 1. ROLL CALL

Attendee Name	Title	Status
Rose Herrera	Chairperson	Present
Sam Liccardo	Member	Present
Chuck Page	Member	Present
Ken Yeager	Vice Chairperson	Present

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

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

#### 7. Review Status of Internal Audit Work Plan

**On order of Chairperson Herrera** 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.

Chairperson Liccardo took his seat at 4:09 p.m. and a quorum 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. Minutes of February 3, 2011

**M/S/C (Page/Liccardo)** to approve the Minutes of February 3, 2011.

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

## REGULAR AGENDA

### 5. Internal Audit Report on Information Technology Network Security

Greg Thomas, Auditor General, provided an overview of the report highlighting the findings of the audit and noted VTA's overall level of risk was medium.

Gary Miskell, Chief Information Officer, provided background information on major projects which were undertaken in 2009 and 2010 to upgrade servers and processes and network re-engineering. He noted security upgrades with the servers are 85-90 percent complete and the network upgrade is 60-65 percent complete, but funding has not been secured to complete the projects. He provided information on updates that have been completed and plans to address the areas of concern as identified in the audit report, including upgrading firewalls, installation of software applications for management of servers and the network, and updating passwords.

Member Yeager took his seat at 4:17 p.m.

**M/S/C (Page/Liccardo)** to review and receive the Auditor General's internal audit report on Information Technology Network Security.

### 6. SAP Governance Risk and Compliance (GRC) Segregation of Duties (SOD) Report

Mr. Thomas provided an overview of the report as contained in the Agenda Packet.

**M/S/C (Page/Liccardo)** to review and receive the Auditor General's follow-up report on the implementation status of management's action plans contained in the SAP Governance Risk and Compliance (GRC) Segregation of Duties (SOD) and Sensitive Access Internal Audit Report.

## OTHER ITEMS

### 8. Items of Concern and Referral to Administration

Member Liccardo recognized the value of having a separate Audit Committee but questioned its purpose if the Administration and Finance Committee (A&F) sees many of the same issues.

Michael Burns, General Manager, noted the need for the Auditor General function to be independent and commented on the different level of responsibility of Audit Committee members. He indicated a problem may be created if the Committees are combined and there is a conflict.

Joe Smith, Chief Financial Officer, reported that for best practices, the trend has been to have an Audit Committee for independent reporting to the Board and not to staff. He noted A&F has a full agenda which would make it difficult to focus on audit items.

Member Yeager questioned the advantages of having an Audit Committee.

Member Page addressed the turnover of the Audit Committee Members and noted the difficulty of not seeing the items from beginning to end.

Chairperson Herrera noted the Committee looks at vulnerabilities and provides oversight.

**9. Review Committee Work Plan**

Mr. Burns called attention to the Recommended Internal Audit Workplan for FY12. He indicated the item was scheduled to go to the May Board but will be deferred until the June 2011 Board meeting. He indicated the items from the May Audit meeting will be placed on the Agenda for the June Board meeting as well.

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

**10. Committee Staff Report**

There was no staff report.

**11. Chairperson's Report**

There was no Chairperson's report.

**12. Items for the Consent Agenda for the June 2, 2011 Board of Directors' meeting.**

**CONSENT**

**Agenda Item #5.,** Review and receive the Auditor General's internal audit report on Information Technology Network Security.

**Agenda Item #6.,** Review and receive the Auditor General's follow-up report on the implementation status of management's action plans contained in the SAP Governance Risk and Compliance (GRC) Segregation of Duties (SOD) and Sensitive Access Internal Audit Report.

**17. ANNOUNCEMENTS**

There were no announcements.

**18. ADJOURNMENT**

On order of Chairperson Herrera and there being no objection, the Committee meeting was adjourned at 4:40 p.m.

Respectfully submitted,

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



## AUDIT COMMITTEE

Thursday, November 3, 2011

### MINUTES

#### CALL TO ORDER

The Regular Meeting of the Audit Committee was called to order at 4:40 p.m. by Chairperson Herrera in Room 157, County Government Center, 70 West Hedding Street, San Jose, California.

#### 1. ROLL CALL

Attendee Name	Title	Status
Rose Herrera	Chairperson	Present
Sam Liccardo	Member	Present
Chuck Page	Member	Absent
Ken Yeager	Vice Chairperson	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. Regular Meeting Minutes of May 5, 2011

**On order of Chairperson Herrera** and there being no objection, the Committee of the Whole deferred the regular meeting Minutes of May 5, 2011.

#### REGULAR AGENDA

#### 5. 2012 Audit Meeting Schedule

**On order of Chairperson Herrera** and there being no objection, the Committee of the Whole deferred the 2012 Audit Committee Meeting Schedule.

**Agenda Items #6 and #7 were heard together.**

#### Agenda Items #6 through #7

6. **Comprehensive Annual Financial Report and Amalgamated Transit Union Pension Plan**

7. **Other Post Employment Benefits**

Leonard Danna, Vavrinek, Trine, Day & Company, LLP (VTD), provided a brief report on the Comprehensive Annual Financial Report, Amalgamated Transit Union Pension (ATU) plan and the Other Post Employment Benefits (OPEB) report. The Committee of the Whole discussed and provided comment on the following: 1) ATU and OPEB pension funding, 2) Surplus income, 3) AdHoc Committee recommendations and Harvey Rose Audit, 4) Ratio of retirees to workforce, and 5) Proprietary funds.

The Committee of the Whole reviewed Agenda Items #6 through #7 as follows:

**On order of Chairperson Herrera** and there being no objection, the Committee of the Whole approved 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 2011.

**On order of Chairperson Herrera** and there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to review and receive the Audited Financial Report for Fiscal Year 2011 of the Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits Trust (Trust).

8. **Fraud Risk Assessment**

Greg Thomas, Auditor General, Deloitte & Touche, provided an overview of the Fraud Risk Assessment report.

**The Committee of the Whole** reviewed and received the Auditor General's report on Fraud Risk Assessment.

9. **Silicon Valley Rapid Transit (SVRT) Contract Compliance Internal Audit**

Mr. Thomas provided an overview of the SVRT Contract Compliance Internal report.

**On order of Chairperson Herrera** and there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to review and receive the Auditor General's follow-up report on the implementation status of management's action plans contained in the SVRT Contract Compliance Internal Audit.

10. **Paratransit Provider Contract Compliance.**

Farah Faruqui, Partner, Deloitte & Touche, provided a brief report on the Paratransit Provider Contract Audit.

Jim Unites, Deputy Director Operations, referred to the recommendation that staff provide the Board with information to benchmark Outreach Paratransit's performance versus its peers. He clarified peer group analysis information was provided to the Board during the previous contract negotiation.

Ms. Faruqui stated the report was completed before auditors were made aware of the discrepancy, and it will be corrected before the item is presented to the Board.

**On order of Chairperson Herrera** and there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to review and receive the Auditor General's internal audit report on Paratransit Provider Contract Compliance.

**11. Internal Audit Work Plan**

Mr. Thomas provided a brief overview of the Internal Audit Work Plan report.

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

**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 Herrera** and there being no objection, the Committee of the Whole reviewed the Committee Work Plan.

**14. Committee Staff Report**

There was no Staff Report.

**15. Chairperson's Report**

There was no Chairperson's Report.

**16. Items for the Consent Agenda**

**Items forwarded to the December 8, 2011 Board of Directors' meeting:**

**CONSENT**

**Agenda Item #6.,** 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 2011.

**Agenda Item #7.,** Review and receive the Audited Financial Report for Fiscal Year 2011 of the Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits Trust (Trust).

**REGULAR**

None

**Items forwarded to the February 2, 2012 Board of Directors' meeting:**

**CONSENT**

**Agenda Item #8.**, Review and receive the Auditor General's report on Fraud Risk Assessment.

**Agenda Item #9.**, Review and receive the Auditor General's follow-up report on the implementation status of management's action plans contained in the SVRT Contract Compliance Internal Audit.

**Agenda Item #10.**, Review and receive the Auditor General's internal audit report on Paratransit Provider Contract Compliance.

**REGULAR**

None

**17. ANNOUNCEMENTS**

There were no announcements.

**18. ADJOURNMENT**

On order of Chairperson Herrera and there being no objection, the Committee meeting was adjourned at 5:25 p.m.

Respectfully submitted,

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



Date: January 9, 2012  
 Current Meeting: February 2, 2012  
 Board Meeting: N/A

## **BOARD MEMORANDUM**

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

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

**FROM:** Board Secretary, Sandra Weymouth

**SUBJECT:** 2012 Audit Committee Meeting Schedule

**Policy-Related Action:** No

**Government Code Section 84308 Applies:** No

## **ACTION ITEM**

### **RECOMMENDATION:**

Approve the 2012 Audit Committee Meeting Schedule.

### **BACKGROUND:**

The VTA Board of Directors Audit Committee generally meets quarterly on the first Thursday of the month prior to the Board of Directors meeting. The following meeting dates are proposed for 2012. The Audit Committee meets at the county Government Center, 70 West Hedding Street, Room 157, at 4:30 p.m., or as otherwise posted.

Thursday, February 2, 2012	4:30 p.m.
Thursday, May 3, 2012	4:30 p.m.
Thursday, August 2, 2012	4:30 p.m.
Thursday, November 1, 2012	4:30 p.m.

### **FISCAL IMPACT:**

There is no Fiscal Impact.

Prepared by: Menominee McCarter  
 Memo No. 3035



Date: January 18, 2012  
 Current Meeting: February 2, 2012  
 Board Meeting: N/A

## **BOARD MEMORANDUM**

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

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

**SUBJECT:** Audit Committee Mission and Responsibilities

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### **FOR INFORMATION ONLY**

This brief overview of the Audit Committee's history, mission and responsibilities is provided annually to help new Committee members better understand their charge. It also serves to educate the public on the Audit Committee's charter and responsibilities.

#### **BACKGROUND:**

VTA standing committees, which serve in an advisory capacity to the Board and are comprised of Board members, study in-depth, prepare recommendations and report to the Board on matters within their respective assigned areas of responsibility.

VTA's Organizational & Financial Assessment (Assessment), issued in March 2007, strongly recommended establishing an independent Audit Committee. This was pointed out as a good governance practice through which VTA could incorporate the spirit of the Sarbanes-Oxley Act. The Assessment was prepared by a national team of consultants possessing a broad range of experience and technical expertise in transportation and governance. The Assessment pointed out that most public sector agencies, while not required to implement Sarbanes-Oxley, are modifying their practices to incorporate the spirit of this legislation. The Assessment further recommended that the Audit Committee specifically be responsible for assisting the Board in fulfilling its fiduciary obligations for safeguarding VTA's financial, operational and brand integrity.

In August 2008, the VTA Board of Directors amended the VTA Administrative Code to formally establish the Audit Committee as VTA's fourth standing committee, specifying that, among other factors, it would be comprised of four Board members and meet at least quarterly.

#### **DISCUSSION:**

The Audit Committee fulfills an important function by protecting the fiscal and operational

integrity of VTA as well as its reputation. In brief, the Audit Committee charter is to review and recommend to the Board policy decisions required to fulfill the Board's oversight responsibilities for ensuring: (1) the integrity of VTA financial statements; (2) compliance with legal and regulatory requirements; and (3) assuring an effective system of internal management and financial controls.

To this end, the VTA Administrative Code and the Rules of Conduct define that the Audit Committee oversees the activities of the Auditor General, the internal audit function and the public accounting firm that conducts the annual financial audit. They also define the following areas of responsibilities and specific tasks:

- Review and approve the annual VTA Internal Audit Work Plan prepared by the Auditor General.
- Review the results of individual audits and ensure that management's responses to audit findings are implemented.
- Recommend for Board approval an accountant to conduct VTA's annual financial audit.
- Review with the external auditors the results of the financial audit. Also review significant accounting and reporting issues and understand their impact on the VTA financial statements.
- Review and recommend to the VTA Board approval of the Annual Financial Report.
- Review VTA enterprise risk management reports and findings.
- Review the effectiveness of VTA's system for monitoring compliance with laws and regulations and the results of management's action concerning any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies
- Monitor compliance with VTA's Code of Ethics and obtain regular updates from management and VTA legal counsel regarding compliance matters.

The Board of Directors has also delegated certain discretion to the Audit Committee:

- Authority to approve scope modifications and cost adjustments for items in Internal Audit Work Plans to respond to scope changes as internal audits progress. However, increases to the overall Work Plan budget still require Board of Directors' approval as do the addition or deletion of individual audits contained in the Work Plans.
- Sole discretion for exercising any option years on the contract with Auditor General.

The Organizational & Financial Assessment also recommended that VTA establish an independent Auditor General function to assist the Board in fulfilling its fiduciary responsibilities by overseeing risks and controls in financial reporting, financial integrity, and program activities. As now established, VTA's Auditor General's Office is, among other duties, responsible for:

- Developing and recommending the Annual Internal Audit Work Plan.
- Assigning and managing the audit resources required to conduct each internal audit.
- Providing audit results and progress reports to the Audit Committee.

The Auditor General has a direct reporting relationship to the Audit Committee and the Board of

Directors and an administrative reporting relationship to the General Manager.

In January 2009, the Board of Directors awarded a contract to Deloitte & Touche, LLP to provide Auditor General and internal audit services. This task order contract was for a two-year base term with three additional one-year options. In September 2010, the Audit Committee exercised the first option year (through January 2012). Additionally, the General Manager, utilizing his Board-approved authority, extended the contract by 6-months in order to align the contract with the time period covered by the Internal Audit Work Plans and VTA annual budgets. The revised contract period now runs until early July 2012.

In summary, the Audit Committee, as currently constructed and utilizing the internal audit function, helps VTA accomplish its objectives by bringing an independent, systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes

Prepared By: Stephen Flynn, Audit Committee Coordinator  
Memo No. 3493



Date: December 20, 2011  
 Current Meeting: February 2, 2012  
 Board Meeting: N/A

## BOARD MEMORANDUM

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

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

**FROM:** Board Secretary, Sandra Weymouth

**SUBJECT:** Elect Standing Committee Vice Chairperson

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**Policy-Related Action:** No

**Government Code Section 84308 Applies:** No

## ACTION ITEM

### RECOMMENDATION:

Conduct voting to determine the Committee's vice chairperson for calendar year 2012.

### BACKGROUND:

The VTA Administrative Code has established four board standing committees that review items and provide recommendations to the full board on matters within their respective assigned areas of responsibility. The four standing committees are: Administration and Finance (A&F); Transit Planning and Operations (TPO); Congestion Management Program and Planning (CMPP); and Audit.

The VTA Board Chairperson nominates, for Board approval, committee members for each standing committee chairperson position. The Board approves the appointment of the standing committee chairpersons at its first meeting of the calendar year, which is normally January. Standing committee chairpersons serve a one-year term, except for the Audit Committee, where the chairperson serves for two years.

At the first meeting of the calendar year, each standing committee elects from its membership a vice chairperson. The vice chairperson performs the duties of the chairperson in the event of the chairperson's absence or inability to act, and while so acting, has all of the authority of the chairperson. The vice chairperson position serves a one-year term, which coincides with the calendar year and the Committee chairperson's term. The vice chairperson is eligible for election to successive terms and only members, not alternates, are eligible to serve. The affirmative vote of a majority of the total authorized committee membership, which is three

members, is required to elect the vice chairperson. The term of office for the newly elected vice chairperson commences immediately following completion of the voting.

**FISCAL IMPACT:**

There is no financial impact.

Prepared by: Stephen Flynn, Advisory Committee Coordinator  
Memo No. 3248



Date: January 20, 2012  
 Current Meeting: February 2, 2012  
 Board Meeting: February 2, 2012

## BOARD MEMORANDUM

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

**FROM:** Auditor General, Greg Thomas

**SUBJECT:** Leading Practices and Recommendations for Implementing an Integrity Helpline

**Policy-Related Action:** No

**Government Code Section 84308 Applies:** No

## ACTION ITEM

### RECOMMENDATION:

Review and receive the Auditor General's report on leading practices and recommendations for implementing an Integrity Helpline.

### BACKGROUND:

The VTA Board of Directors in January 2009 approved the contract with Deloitte & Touche LLP to provide Auditor General and internal audit services to VTA.

In June 2011, the Board approved the FY 2012 Internal Audit Work Plan developed by the Auditor General. Fraud Risk Assessment was project in this work plan. In August 2011, a fraud risk assessment was conducted by management and facilitated by the Auditor General's Office to consider the various means that fraud and misconduct can potentially occur by and against VTA. The results of this assessment were presented to the Audit Committee at its November 2011 meeting, and are scheduled for Board consideration at its February 2012 meeting.

As part of the Fraud Risk Assessment project, the Auditor General's Office provided information on leading practices for implementing an integrity helpline (typically known as a whistleblower) to report fraud, waste, abuse and other misconduct as a potential tool to strengthen VTA's overall fraud risk management program. Due to volume and timing concerns with the November Audit Committee meeting, VTA staff requested that the Integrity Helpline portion of the Fraud Risk Assessment project be deferred to the February meeting in order to balance the Committee's workload and ensure adequate time for members to discuss this item.

## **DISCUSSION:**

An integrity helpline is a mechanism for an organization's employees and stakeholders to report suspected acts of impropriety such as fraud, waste, abuse, misconduct or violation of company policies, laws, or regulations anonymously and confidentially. VTA currently does not have such a mechanism or formalized process.

The Auditor General's Office gained an understanding of the existing mechanisms in place to report fraud, waste, and abuse through interviews with select VTA chiefs and officers. It was determined that the primary reporting mechanism is informal through the employee's direct supervisor; however, the employee does have the ability to raise concerns through Human Resources, Legal or directly with the General Manager, but these mechanisms are neither anonymous nor confidential.

The Board of Directors and VTA management have expressed interest in implementing a formal reporting mechanism as a way to strengthen VTA's overall fraud risk management. Implementing an integrity helpline and process would reflect the organization's commitment to ethical behavior by providing an anonymous mechanism for its employees, customers, and vendors to report potential fraud, waste, abuse, or other misconduct, whether committed internally or externally. Among many other benefits, an integrity helpline would help maintain VTA employee and public trust as well as help protect VTA's public reputation.

Key considerations for VTA when implementing an Integrity Helpline are:

- Internal or external helpline provider
- Target audience
- Scope and the development of the helpline policy
- Accessibility
- Communication and awareness plan and the primary endorser
- Reporting and case management
- Monitoring

The Auditor General's Office recommendations for VTA consideration for implementing an integrity helpline are summarized as follows:

- Develop a formal policy, with an anti-retaliation provision, that is promulgated to staff, vendors and customers.
- Helpline should be hosted by an independent third-party provider with trained interviewers available to handle complaints.
- 7 day/24 hour availability, be in multiple languages consistent with ridership, and accept information through emails, phone, fax, regular mail, and face to face (if feasible).
- Employees should be involved in the initial implementation to increase ownership and acceptance.
- General Manager and executive management should be responsible for primary endorsement and continuous promotion.
- Develop an Integrity Helpline Committee (consisting of Human Resources, Legal,

Finance, and Auditor General) that triages allegations as appropriate. Provide periodic status reports from the Integrity Helpline Committee on the helpline performance, including number, type and resolution of allegations.

- Perform continual monitoring of external benchmarking data to assess the effectiveness of the helpline system, including anonymous employee surveys.
- For effective oversight, summary and trend reports should be provided at prescribed intervals to the Audit Committee and Board of Directors.

These recommendations, the rationale, as well as additional information on industry leading practices for integrity helplines, are discussed in greater detail in the attached report.

Recommendations for improvement or efficiency opportunities contained in this report are presented for the consideration of VTA management, which is responsible for the effective implementation of any action plans.

Receipt of the report does not indicate that VTA's Board of Directors or Audit Committee agrees with or endorses the findings. Instead, it signifies that the report was provided for their use.

**FISCAL IMPACT:**

There is no financial impact associated with acceptance of this report.

Prepared by: Greg Thomas, Auditor General and Stephen Flynn, Auditor Committee Coordinator  
Memo No. 3398



## **Santa Clara Valley Transportation Authority**

February 2, 2012 Audit Committee Meeting

# **VTA Whistleblower / Integrity Helpline Recommendations**

### **Auditor General's Office**

Greg Thomas, Principal

Farah Faruqui, Partner

Erick Bell, Senior Manager

# Project Objective, Procedures and Current State

## Objective:

- Provide information to VTA on implementing and maintaining a whistleblower/integrity helpline, a mechanism for an organization's employees and stakeholders to report suspected acts of impropriety such as fraud, waste, abuse, misconduct or violation of company policies, laws, or regulations.

## Procedures:

- Obtain an understanding of the existing mechanisms to report fraud, waste, and abuse through interviews with select VTA personnel.
- Obtain an understanding of available resources and expectations of a whistleblower/integrity helpline through discussions with select VTA Chiefs and other management.

## Current State:

- The organization currently does not have an anonymous mechanism for its employees, customers, or vendors to report potential fraud, waste, abuse, or other misconduct whether committed internally or externally.
- The organization is considering implementing a whistleblower/integrity helpline in fiscal year 2013.

# Purpose of a Whistleblower/Integrity Helpline

- Mechanism for an organization's employees and stakeholders to report suspected acts of impropriety such as fraud, waste, abuse, misconduct or violation of company policies, laws, or regulations.
- Means for an organization's employees and stakeholders to submit anonymous reports with increased security.
- Methodical approach for an organization to monitor anonymous reports and distribute summary of remedial actions to the governing body.

*This report is intended solely for the information and internal use of VTA's Board of Directors, Audit Committee and management and should not be used or relied upon by anyone else than those specified parties.*

# Benefits of Implementing a Whistleblower/Integrity Helpline

- The reporting system reflects the agency's commitment to ethical behavior through web pages and printed materials made available to employees, customers, vendors and the public.
- Maintains public trust and public reputation.
- Earlier detection of fraudulent activities is the ideal approach to limiting the potential financial and reputational loss.
- According to the Association of Certified Fraud Examiners ("ACFE"), 47% of fraud and misconduct is uncovered by tips for organizations that have helplines, as compared to only 34% of fraud and misconduct that is uncovered by tips for those organizations without helplines.

*This report is intended solely for the information and internal use of VTA's Board of Directors, Audit Committee and management and should not be used or relied upon by anyone else than those specified parties.*

# American Institute of CPAs (AICPA) Recommendations

- The solution should be operated by an independent third party.
- The system should have trained interviewers available to handle complaints.
- The solution should have a dedicated phone number, and further accept complaints using fax, website, email address, and regular mail.
- The solution should have multilingual capability to support complainants with different ethnic backgrounds.
- Complainants should have a means that allows them to either call back later, or otherwise provide responses to follow-up questions from investigators.
- The solution should have protocols for distribution of each type of complaint to appropriate individuals within the company based on the nature of the complaint.
- The existence of the system should be made known to employees, vendors, and other stakeholders in public documents.
- The effectiveness of the system should be periodically evaluated.

<sup>1</sup> **Audit Committee Considerations for Whistleblower Hotlines, AICPA Antifraud Programs and Controls Task Force, Journal of Accountancy, June 2010**

# Key Choices to Consider When Implementing a Whistleblower/Integrity Helpline

- Internal or external helpline provider
- Target audience
- Scope and the development of the helpline policy
- Accessibility
- Communication and awareness plan and the primary endorser
- Reporting and case management
- Monitoring

# Internal or External Helpline Provider

- Employees are more willing to report inappropriate or unethical behavior if the organization responsible for operating the helpline is an independent third party
- External providers have specialized skills to take reports of misconduct and gather the necessary information that is available
- Minimizes the administrative time and effort needed by the agency
- Maintains confidentiality and supports the anti-retaliation policy

***Recommendation: Engage a third party provider***

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# Target Audience

- Helpline should be available to all employees who may become aware of misconduct whether committed internally or externally.
- Make available to third parties, such as vendors, suppliers and customers. The ACFE found up to 20% of all helpline tips were from customers, vendors, and other anonymous out-of-company sources.
- Information on the helpline should be included in standard communications to each group.

***Recommendation:*** Promote to employees in the initial phase of implementation. Include information about whistleblower/integrity helpline on agency's website and include reference to helpline in purchasing contracts

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# Scope and the Development of the Helpline Policy

- Determine goals and objectives of the helpline:
  - Fraud, waste and abuse
  - Environmental, health and safety
  - Quality control issues
  - Human Resources
  - Compliance with other relevant laws and regulations
- Develop easy-to-comprehend helpline policy, including guidance on procedures, legal obligations, and anti-retaliation policies

***Recommendation: Develop helpline policy that encourages calls related to fraud, waste, and abuse and other legal and human resource matters***

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# Accessibility

- 24-hour, seven-day a week external telephone helpline. Ability to report across a variety of mediums creates an interactive format and gives a greater sense of security and confidentiality.
- According to research by the Network, Inc., nearly 50% of all helpline calls are made at night or weekends
- Capability to support helpline callers from different ethnic backgrounds (e.g., multiple languages, cultural sensitivity)
- The helpline should have a dedicated phone number and provide multiple means of communication.

***Recommendation:*** Available 7 days a week 24 hours a day, in multiple languages consistent with the ridership. Accept information through emails, phone, fax, regular mail, and face to face.

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# Communication and Awareness Plan and the Primary Endorser

- Top management should demonstrate a strong commitment to encouraging the use of the helpline.
- Top management should make every effort to talk about the commitment to ethical behavior in memos, newsletters, and speeches.
- Ongoing training, communication and education.
- Fraud awareness training for employees.

***Recommendation:*** Designate VTA General Manager as the primary endorser responsible for implementation and continuous promotion. Create training materials for all employees that addresses the appropriate use of helpline. Require new employees and vendors to acknowledge awareness of the whistleblower/integrity helpline.

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# Reporting and Case Management

- Tips from the anonymous helpline must be handled discreetly and in accordance with established protocols. Report dissemination procedures should be designed to protect employees from retaliation.
- Procedures can be put in place to route reports automatically to the appropriate recipients immediately for prompt analysis and action.
- The system facilitates the collection, management and retention of information concerning reported matters, and helps organize follow-up investigative activity and associated details through case management tools.

***Recommendation:*** Leverage the case management resolution process provided by the third party helpline. Develop a Whistleblower/Integrity Helpline Committee (consisting of Human Resources, Legal, Finance, and/or Auditor General) that triages allegations as appropriate. Provide periodic status reports from the Integrity Helpline Committee on the helpline performance, including number, type and resolution of allegations.

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# Monitoring

- The system should generate summary and trend reports for the Audit Committee and Board of Directors for effective oversight.
- Perform continual monitoring of external benchmarking data to assess the effectiveness of the helpline system (e.g., call volumes as a percentage of total employees) and anonymous employee surveys.
- The system should facilitate review of reports to determine next steps, such as follow up with the reporter for more details, closing a non-actionable report, or starting an investigation

***Recommendation:*** Continuous promotion by the General Manager and comparing results to benchmarking studies to assess the effectiveness of the whistleblower/integrity helpline. Emphasize the anti-retaliation policy.

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Date: January 20, 2012  
 Current Meeting: February 2, 2012  
 Board Meeting: May 3, 2012

## **BOARD MEMORANDUM**

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

**FROM:** Auditor General, Greg Thomas

**SUBJECT:** Record Retention Assessment

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**Policy-Related Action: No**

**Government Code Section 84308 Applies: No**

## **ACTION ITEM**

### **RECOMMENDATION:**

Review and receive the Auditor General's report on the VTA Record Retention Program Assessment.

### **BACKGROUND:**

The VTA Board of Directors in January 2009 approved the contract with Deloitte & Touche LLP to provide Auditor General and internal audit services to VTA.

In June 2011, the Board approved the FY 2012 Internal Audit Work Plan developed by the Auditor General. In August of that year, Deloitte & Touche LLP, in its capacity as VTA's Internal Auditor, initiated a project from this plan: Records Retention Assessment.

### **DISCUSSION:**

The purpose of the Records Retention Assessment was to perform a design assessment of VTA's existing records and information management (RIM) program and provide recommendations based on leading practices to further build out the program. RIM programs help organizations mitigate risk, increase operational efficiency by identifying and removing redundancies, and reduce cost associated with litigation and the discovery of electronically stored information.

In December 2011, the Auditor General's Office completed the Records Retention (RIM) Assessment. The results of this assessment are presented in Auditor General Report No. 2012-06 (see Attachment A). This report describes in detail the objectives established for this assessment, its scope, the approach used, the results, and the Auditor General Office's recommendations for

improvement. It also includes information on leading practices for effective RIM programs, and the Auditor General Office's specific recommendations for implementing a RIM program at VTA.

Overall, the assessment determined that VTA does not currently have a comprehensive, organization-wide RIM Program, and as a result, the organization could be at risk including potential noncompliance with certain legal and/or regulatory obligations. Additionally, there is cost and other risks associated with processes, practices, or activities that are not executed efficiently.

The report noted that VTA is making strides to move from a paper based to a more electronic environment, the effectiveness of which is being impaired by the lack of a formal organization-wide RIM program. Several issues were identified that hamper effective records management. One is that VTA does not have groups assigned to execute, govern and monitor the RIM Program, likely resulting in redundant work efforts, cost inefficiencies and increased organizational risk. Another is the absence of formal RIM policies, guidance and training, which is especially important for transitioning from paper-based to more electronic storage and management. Lastly, there are no formal storage security requirements for vital and confidential records, which are critical to the continued functioning of VTA operations during a disaster.

Recommendations for improvement or efficiency opportunities contained in this report are presented for the consideration of VTA management, which is responsible for the effective implementation of any action plans.

Receipt of the report does not indicate that VTA's Board of Directors or Audit Committee agrees with or endorses the findings. Instead, it signifies that the report was provided for their use.

### **Management Response**

VTA concurs with the finding in the Record Retention Assessment. Staff is in process of developing the Record Management Program including a Record Management Policy, Retention Schedule, and supporting procedures along with resources and budget. The Record Management Policy, Retention schedule, and required budget request will go the Administrative & Finance Committee in the next few months, and staff will provide a progress report at the May Audit Committee meeting.

### **FISCAL IMPACT:**

There is no financial impact associated with acceptance of this report.

Prepared by: Greg Thomas, Auditor General and Stephen Flynn, Auditor Committee Coordinator  
Memo No. 3394

**AUDITOR GENERAL REPORT No. 2012-06**

**TO:** Rose Herrera, Chairperson  
Audit Committee, VTA Board of Directors

**FROM:** Greg Thomas  
Auditor General's Office

**DATE:** January 17, 2012

**SUBJECT: Records and Information Management (RIM) Assessment Report**

Attached is our report for Records and Information Management assessment.

Our engagement was performed in accordance with the terms of the agreement between Santa Clara Valley Transportation Authority ("VTA") and Deloitte & Touche LLP ("Deloitte & Touche") for Auditor General Services, Contract No. SO9022 dated January 9, 2009 and its amendment dated March 25, 2011, 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 VTA's Board of Directors, Audit Committee and management and is not intended to be used by anyone other than these specified parties. Recommendations for improvement are presented for management's consideration, and management is responsible for the effective implementation of corrective action plans.

Questions or concerns should be addressed to Greg Thomas in the VTA Auditor General's Office at: [Auditor.General@VTA.org](mailto:Auditor.General@VTA.org).

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## AUDITOR GENERAL REPORT No. 2012-06

**Records and Information Management (RIM) Assessment Report**

January 17, 2012

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## I. EXECUTIVE SUMMARY

A formal, standardized records and information management (RIM) Program helps organizations to mitigate risk, increase operational efficiency by identifying and removing redundancies, and reduce cost associated with litigation and the discovery of electronically stored information, otherwise referred to as e-discovery.

The purpose of this project was to assess VTA's RIM program and provide recommendations to consider going forward. Six (6) criteria were used to evaluate the RIM Program: (1) RIM Program Governance, (2) Policies, Procedures and Practices, (3) Retention and Disposition, (4) E-discovery and Legal Hold Readiness, (5) Information Technology, and (6) Training and Communication.

Based on assessment results, a comprehensive, organization-wide RIM Program does not exist currently at VTA. However, VTA is making strides to move from a paper based to a more electronic environment. The effectiveness of these efforts appears to be impaired by the lack of a formal organization-wide RIM program. While VTA has a draft RIM Policy and Records Retention Schedule, the documents are not yet approved or implemented organization-wide.

Specifically, VTA does not have groups assigned to execute, govern and monitor the RIM Program. This lack of direction and oversight may create redundant work efforts, cost inefficiencies and increased risk for the organization. There appears to be an absence of policies and guidance implemented throughout the organization. Specifically, there is no specific formalized guidance to employees on how to manage records required for litigation purposes. Likewise, there are no formal storage security requirements for vital and confidential records, which are critical to the continued functioning of VTA's operation and service in the event of a disaster. Lastly, there is no formal RIM related training to help with the transition to a standardized RIM Program and from a paper-based organization to one that uses more technology to help manage its records and information. In addition to training and in order to maintain consistency and success in effectively managing its records, VTA should have a well thought-out and regular compliance and monitoring program to determine employee compliance with RIM guidelines.

The absence of these key components places the organization at risk including potentially exposing itself to noncompliance with certain legal and/or regulatory obligations. Additionally, there is cost and other risks associated with processes, practices, or activities that are not executed efficiently.

VTA's current RIM Program can be improved upon with the implementation of additional governance, policies and guidance, information technology and training recommendations.

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## II. OBJECTIVE, SCOPE, & APPROACH

### A. Objective

The objective of the Records and Information Management (RIM) Assessment was to assess the effectiveness of VTA's RIM program based on six dimensions as described in the "Approach" section below, and provide recommendations to VTA management based on leading practices.

### B. Scope

Based on discussions with key VTA management, the scope of the assessment included a review of:

- Existing RIM program governance and retention and disposition policies, procedures and practices
- Technology used to implement the RIM program
- Training and communication of the RIM program
- Legal Hold process as a part of RIM practices.

### C. Approach

We used the following six criteria to assess VTA's RIM program:

1. RIM Program Governance — Governance exists that defines goals, staff roles and responsibilities and drives the development of effective, repeatable and auditable RIM processes.
2. Policies, Procedures and Practices — Supporting policies, procedures and practices exist to help carry out the program as part of the normal course of the organization's operations. Also, those policies and procedures are readily available for use by staff and third parties who manage organization records.
3. Retention and Disposition — A records retention policy exists that is easy for staff to understand and use. The policy identifies the records types created, received, managed, and used by the organization regardless of the record's media. The policy contains retention based on relevant legal, fiscal, and business requirements and is used in a systematic way by staff in the normal course of business operations.
4. E-discovery and Legal Hold Readiness — E-discovery and legal hold workflows and processes are in place to meet Federal Rules of Civil Procedure (FRCP) and other federal and state regulatory requirements. Responsibilities have been assigned to assist in identifying, preserving, collecting, reviewing and producing relevant documents/Electronically Stored Information (ESI) in a timely and cost-efficient manner.

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5. Information Technology —Technology practices and tools are available to enable compliance with records retention, ESI management, legal hold readiness and preservation and collection. Records and information is systematically backed up for disaster recovery and business continuity purposes and the data retained only for those purposes.
6. Training and Communication — Training is provided to staff to help them in understanding program requirements, desired behaviors and leading practices. Communications are systematically issued to foster staff awareness of program policies, procedures and practices with an emphasis on their roles and responsibilities.

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### III. OBSERVATIONS AND RECOMMENDATIONS

The following observations and recommendations are the result of the assessment of VTA's current RIM Program as measured against the criteria noted above:

#### A. RIM Program Governance

VTA does not have a formal staff committee to develop, implement and oversee VTA's RIM Program or a designated resource in charge of records and information management. Currently, the IT department, in conjunction with Legal, is responsible for records and information management; however, based on work performed, not all departments appear to be aware of this functional group and its purpose. Moreover, there is no single point of contact to manage the RIM Program and its activities. A formally established RIM Staff Committee and a resource or group assigned to manage the RIM Program would allow for a standardized program to be implemented and enforced throughout the organization.

#### *Comments/Recommendations:*

VTA should develop a RIM Staff Committee comprised of cross-functional groups to develop, oversee and enforce a RIM Program across the organization. The committee should consist of representatives from various groups including Legal, IT groups, and other key stakeholders and should establish standards and procedures and enforce strategic plans. VTA should also consider identifying a resource or group and assigning them to records management. For examples of the roles and responsibilities of a Records Management resource/group, refer to Appendix A – Records Management Roles and Responsibilities.

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## **B. Policies, Procedures and Practices**

VTA does not appear to have formal, consistent organization-wide policies, procedures and practices around the RIM Program including records retention, disposition, compliance and legal hold requests for litigation. Specifically:

- A formally documented RIM policy to address its records program, including both hard copy and electronic documents
- A formalized written email policy to help reduce the risks associated with creating, sending, receiving and storing emails
- A compliance policy to establish the importance of VTA’s commitment to its records management program to its employees
- Disposition guidelines to identify records outside of their retention period to reduce costs associated with on- and off-site storage and e-discovery
- Formal guidelines adopted throughout the organization on how to treat/store confidential/vital records at VTA in a protective manner in the event of a disaster
- A legal hold policy to establish a framework for identifying, preserving, collection, and processing of relevant information needed for litigation or investigatory purposes and the roles and responsibilities of the employees who have access to those records in a consistent and effective manner
- A clearly defined written retention schedule to address regulatory and business retention requirements.

The development of formal policies, schedules and guidelines is important for establishing the high-level tenants of a records program.

### ***Comments/Recommendations:***

VTA should develop and adopt the following policies and guidelines to enhance the RIM Program:

1. A formal RIM Policy across the organization to govern VTA’s RIM program. Refer to section 1 of Appendix B – Policy Guidance. The Policy should include RIM Program roles and responsibilities to provide more detail on governance framework of the RIM Program. For illustrative descriptions of roles and responsibilities, refer to section 2 of Appendix B – Policy Guidance. The RIM Policy should also include guidelines relating to confidential/vital records that need to be stored and address the storage/handling of these records. VTA should consider identifying an appropriate storage location that meets the requirements needed for storing confidential/vital records to protect them from fire, water, and unauthorized access. VTA should also consider using the “Comments” column of the Schedule to designate record types that are considered vital/or contain confidential information so that proper storage and handling is performed.

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2. An email strategy to be reflected in a written Email Management and Retention Policy. The policy should: 1.) designate who generally is responsible for keeping the official copy of an email that is an organization record (recipient or sender), 2.) address email retention and how and where users are to store emails that are organization records with a retention period longer than 90 days, and 3.) reference proper email management in language contained in other organization policies, such as: Records Retention, Legal Hold, Acceptable Computer Use, Privacy, Business Code and Conduct.
3. Disposition guidelines to address the destruction of records after the expiration of the retention period. The policy should address:
  - Those responsible for making the final decision on the destruction of records.
  - Address acceptable methods of destruction, including shredding, burning, and utilization of a corporate record destruction service.
  - Define requirements specific to disposition of structured and semi structured, and unstructured electronic records and non-records.

For additional guidance, refer to section 3 of Appendix B – Policy Guidance.
4. VTA should develop a written Legal Hold Policy that provides an overview of the process. For additional guidance, refer to section 4 of Appendix B – Policy Guidance.

Once drafted, policies should be reviewed and approved, finalized, and distributed throughout the organization for implementation. RIM Policy and practices should be approved and enforced by the RIM Committee, as mentioned above.

Lastly, VTA should also create an organization-wide Records Retention Schedule. Currently, VTA is in the process of drafting a records retention schedule. However, based on work performed, a complete records inventory was not conducted when identifying records created and maintained in each area of the organization. Thus, there are no assurances that the important records and their disposition dates are accounted for in the Schedule. For additional guidance, refer to “Appendix C – Records Retention Schedule Guidance”.

### **C. Information Technology**

Information Technology does not currently have a centralized records management system for its records and documents. A records management system can help the organization to organize and reduce time associated with retrieving documents, and assist VTA in its efforts to convert select portions of that paper into electronic format. Currently, some departments utilize an Open Text EDMS application (“Edoc”) as an electronic records management tool. However, employees may not be aware of what information is kept on what system, and Edoc users appear to find the search functionality difficult due to inconsistent document naming conventions.

#### ***Comments/Recommendations:***

VTA should evaluate existing information technology tools to determine if they can help with the implementation of the RIM policies, procedures and practices recommended above. During the assessment, we noted that VTA is currently considering migrating to a SharePoint 2010 Collaboration / Document Management / Record Management environment. For considerations when evaluating information technology tools, refer to Appendix D – Information Technology Considerations.

### **D. Training and Communication**

VTA does not appear to have a formal RIM training program for its employees. A formal training program will inform staff on how to comply with RIM program, procedures, and practices. Training may also help secure employee buy-in and necessary to carry out the goals of the RIM Program for standard, consistent records management throughout the organization.

#### ***Comments/Recommendations:***

VTA should develop and execute a Change Management/Training Communications (CTC) Plan to help deliver specific content on records retention and disposition, legal hold, readiness, email management, and other related policies and procedures. For sections to consider including in the CTC Plan, refer to Appendix E – Sections to Consider Including in the CTC Plan.

## APPENDIX A – Records Management Roles and Responsibilities

Records Management should be responsible for: helping staff implement and maintain the VTA program, including records retention and disposition; legal hold and e-discovery readiness; inactive records storage; training and communication; and conducting auditing activities to monitor staff compliance to policies, procedures, and processes. The following activities may be included in the roles and responsibilities of Records Management:

- Provide input on policies, procedures and guidance related to the RIM Program
- Provide timely support and training to staff
- Monitor records for compliance with legal and business requirements
- Establish expected performance levels in:
  - Applying approved retention periods to paper and electronic records
  - Complying with legal holds
  - Managing email
  - Sending records to off-site storage
  - Securing privacy-protected and vital records and information
- Undertake data collection activities in targeted departments and areas and measure against expected performance levels
- Note deficiencies and bring to the attention of department leaders and affected staff, and provide a time period for remediation

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## APPENDIX B – Policy Guidance

### 1. RIM Policy Guidance

A RIM Policy should provide explicit guidelines around roles and responsibilities for leaders, managers, and staff so that, where a specific records management need is identified, it is clear who is responsible for taking the necessary action.

**Purpose:** This policy statement defines and provides general guidelines concerning the administration and implementation of the VTA’s Records Program (Program).

**Program definition:** Program provides advice and assistance for creating, maintaining, storing, and disposing of the records for VTA.

**Definition of a record:** A record is defined as any recorded information on electronic, paper, photographic, or any other media that is created, prepared, executed, produced, received, distributed, or maintained pursuant to law, regulation, and/or in the normal course of doing VTA business and is kept as evidence of that activity.

**Record retention:** Records are to be retained and disposed of in accordance with a Program-approved Records Retention Schedule.

**Record disposition:** Provides guidance to employees as to how to review their records periodically and dispose of their records and information in adherence to the applicable Schedule as long as the record is not subject to a Legal Hold.

**Legal hold:** Provides guidelines for departments and employees with respect to handling legal hold matters.

**Vital records:** Vital Records are defined as records that contain information critical to the continued functioning of a VTA’s operation or service during or immediately following an event disrupting normal operations.

**Protection of confidential information:** General guidelines around identification and measures to secure records that contain confidential and privacy-protected information.

**Policy publication, distribution, and revision:** Directions with respect to publishing and disseminating program policies, procedures, and guidelines so that departments and employees are aware of their duties and responsibilities.

### 2. Illustrative Descriptions of Roles and Responsibilities

Below are some illustrative descriptions of roles and responsibilities:

- The Board is responsible for supporting the application of RIM policies and practices throughout the organization.
- Department heads/managers are responsible for assisting in implementing the program, including assigning one or more staff members to help carry out the program within the department/area.

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- The Legal Department (General Counsel) is responsible for advising on the implementation of the VTA RIM program, including reviewing organization policies and procedures, assisting in determining records retention periods, and overseeing the e-discovery and legal hold readiness processes.
- The IT Department is responsible for retaining accurate system documentation, assisting in the management of electronic records, and working with the Legal Department to comply with legal hold requests.
- The Records Management Lead is responsible for: helping staff implement and maintain the VTA program, including records retention and disposition; legal hold and e-discovery readiness; inactive records storage; training and communication; and conducting auditing activities to monitor staff compliance to policies, procedures, and processes.
- VTA employees are personally responsible and accountable for managing the records they create and maintain and for following the RIM policies, procedures, and processes.
- Third parties are to follow organization instructions for the management of VTA's records and information.

### **3. Disposition Guidelines**

Disposition guidelines should address the destruction of records after the expiration of the retention period. Guidelines should:

- Identify those responsible for making the final decision on the destruction of records
- Address acceptable methods of destruction, including shredding, burning, and utilization of a corporate record destruction service
- Define requirements specific to disposition of structured and semi structured, and unstructured electronic records and non-records.

In addition, VTA should also adopt a records destruction log template to contain a description of the documents destroyed, the date destroyed, and the signatures of the person who witnessed the destruction. VTA should add language on the retention of drafts and copies of records kept elsewhere at VTA in order to reduce paper and electronic storage costs.

### **4. Legal Hold Policy, Template and Guidance**

Sections of the policy may include: Policy Objectives, Staff Responsibilities, Notification Process, Maintaining the Hold, and Hold Release. Additionally, VTA should adopt a template legal hold notification form as well as:

- Develop supporting internal procedures for IT to use when capturing potentially relevant data to a legal hold that may be contained in organization electronic storage locations, including email mailboxes, network servers, desktop computers, laptops, personal digital assistants (i.e., Blackberries), and other storage locations and devices.

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- Develop a Discovery Manual that can assist VTA in better meeting the challenges throughout each phase of the legal hold and e-discovery processes, with sections that may include: Introduction, Roles and Responsibilities, Discovery Process Flows and Checklists, Guidelines (such as instructions to recipients concerning responding to a legal hold notification form), Templates, Forms, and Standardized Responses, Information Catalog and Data Maps.
- Develop a Legal Hold tracking log or tool to help manage legal holds, including: Date of hold, Attorney assigned, Matter name, Description, Custodians notified, Current status in the hold, Date hold was released.
- Standardize legal hold language across VTA policies by adding language to the organization policies and procedures to help highlight staff obligations and VTA's commitment to identify and preserve information requested for investigatory, litigation, and other legal and regulatory purposes.
- Develop training and/or communications that explain the importance of legal hold obligations and details an individual's duties and responsibilities in carrying out the process at VTA.

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## APPENDIX C – Records Retention Schedule Guidance

When developing a records retention schedule, the following considerations should be made:

- Work with the departments to identify official records
- Validate with the departments that the records previously identified are still in line with the records that the department creates, receives, and maintains, including those kept electronically
- Create a retention schedule and align record categories with legal requirements by vetting the retention periods with a working group and receiving legal buy in
- Reformat the retention schedule to make it easier for staff to use and understand
- Include record location and media type in retention schedule
- Establish process for quarterly review and update of the retention schedule

Reformatting the retention schedule may include the following:

- Adding an introductory section to the Schedule that describes its scope and purpose, an explanation of which each column contains, and when does the clock begin on the retention period (for example, date of creation or January 1 of the following year the record was created).
- Adding a General or Administrative section containing record types maintained commonly by departments.
- Adding specific functional areas to help organize the record types contained in the retention schedule, such as Accounting, Legal, Human Resources, and Information Technology.
- Provide a unique alpha/numeric identifier for each record type contained to help differentiate one from another.
- Adding additional information to help staff to better understand what record is being referred to and how to properly retain and manage it. This may include a short description of the record, which department maintains the official copy of the record for VTA, and a remarks column providing whether it is a vital record or is privacy-protected and confidential.
- Consider spelling out the retention terms in clear, concise language rather than using abbreviations.

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## APPENDIX D – Information Technology Considerations

The following information technology considerations should be made:

- Identify electronic records and locations within applications and data stores.
- Conduct an inventory of electronic systems and storage locations, including data stores and active and legacy systems, as part of the review of the current retention schedule. This is to gain a better understanding of what information is currently being retained, identify records kept on each system, their age, and the ease of accessing them for e-discovery and legal hold readiness. The results will be used to:
  - Monitor to confirm that obligations for ESI under the federal and state Rules of Civil Procedure are met.
  - Apply the retention schedule to electronic files and system holdings so to delete files and data that are no longer needed.
  - Collect and retain and/or reconstruct system documentation as may help in authenticating records produced by a system in order to meet court admissibility challenges.
- Develop requirements for a RIM system to support the retention schedule.
- Continue to monitor business processes and conditions within the organization to help determine when new technology may be considered.
- Provide training on the importance of metadata (descriptive information about a particular data set) management to enhance searching capabilities when a new tool is rolled-out.

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## APPENDIX E – Sections to Consider Including in the CTC Plan

Sections to be considered including in a CTC Plan:

- Identifying goals, learning objectives, and outcomes that foster the implementation of uniform practices at VTA
- Determining specific audiences to train, such as department heads and/or department records contacts and liaisons
- Developing specific content for the training sessions that is taken from leading practices and relevant organization policies, procedures, and processes
- Assigning staff roles and responsibilities, including the use of available VTA and outside resources to help deliver the training
- Instituting evaluation and feedback processes on the effectiveness of conducted training
- Developing a program Intranet page that would provide easy access to training information and reinforce its importance. Items contained may include:
  - Policies, procedures, and processes, such as a searchable version of the retention schedule.
  - Instructions and forms to use, such as a storage box content listing when sending records to off-site storage.
  - Articles on leading practices in e-discovery and legal hold readiness, email management, information security, privacy, and other topics.
  - Frequently asked questions (FAQs).
  - Names and contact numbers for those responsible for administering e-discovery and legal hold readiness, email management, records retention, or other aspects of the program.
- Conducting pilot staff training sessions to gain feedback and revise content as needed before rolling out training to general audiences

*This report is intended solely for the information and internal use of VTA's Board of Directors, Audit Committee and management and should not be used or relied upon by anyone else than those specified parties.*



Date: January 20, 2012  
 Current Meeting: February 2, 2012  
 Board Meeting: May 3, 2012

## **BOARD MEMORANDUM**

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

**FROM:** Auditor General, Greg Thomas

**SUBJECT:** Investment Controls Internal Audit

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**Policy-Related Action:** No

**Government Code Section 84308 Applies:** No

## **ACTION ITEM**

### **RECOMMENDATION:**

Review and receive the Auditor General's report on the Investment Controls Internal Audit.

### **BACKGROUND:**

The VTA Board of Directors in January 2009 approved the contract with Deloitte & Touche LLP to provide Auditor General and internal audit services to VTA.

In June 2011, the Board approved the FY 2012 Internal Audit Work Plan developed by the Auditor General. In November of that same year, Deloitte & Touche LLP, in its capacity as VTA's Internal Auditor, performed the Investment Controls internal audit from this plan.

### **DISCUSSION:**

The objective of the Investment Controls Internal Audit was to assess the operating effectiveness of key internal controls over VTA's investment program of restricted and unrestricted funds. Internal controls help safeguard VTA assets and are required by VTA's Board-adopted investment policy (FRS-PL-07-01, dated 2/5/2009); the policy also requires an annual review of the controls by the internal auditor. The audit was performed in accordance with the Standards for Consulting Services issued by the American Institute for Certified Public Accountants.

In November 2011, the Auditor General's Office performed testing of key investment program internal controls to assess their operating effectiveness. The results of this internal audit are presented in Auditor General Report No. 2012-05 (see Attachment A). This report describes in detail the objectives established for this audit, its scope, the approach used and the results of the internal audit.

Based on the work performed and the samples selected, the key controls tested appeared to be operating effectively. Our overall assessment of the relative risk related to the identified internal control observations is **Low**. The Low rating, which represents an estimated level of risk exposure to the VTA organization, is based on three individual observations rated Low. No high or medium risk issues were identified. VTA agreed with these findings, and all recommendations will be targeted for implementation by February 28, 2012.

Recommendations for controls improvement or efficiency opportunities contained in this report are presented for the consideration of VTA management, which is responsible for the effective implementation of any action plans.

Receipt of the report does not necessarily mean that VTA's Board of Directors or Audit Committee agrees with or endorses the findings. Instead, it signifies that the report was provided for their use.

**FISCAL IMPACT:**

There is no financial impact associated with acceptance of this report.

Prepared by: Greg Thomas, Auditor General and Stephen Flynn, Auditor Committee Coordinator  
Memo No. 3393

**AUDITOR GENERAL REPORT No. 2012-05**

**TO:** Rose Herrera, Chairperson  
Audit Committee, VTA Board of Directors

**FROM:** Greg Thomas  
Auditor General's Office

**DATE:** January 19, 2012

**SUBJECT: Investment Controls Internal Audit**

Attached is our report for the Investment Controls Internal Audit.

Our internal audit was performed in accordance with the terms of the agreement between Santa Clara Valley Transportation Authority ("VTA") and Deloitte & Touche LLP ("Deloitte & Touche") for Auditor General Services, Contract No. SO9022 dated January 9, 2009 and its amendment dated March 25, 2011, 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 VTA's Board of Directors, Audit Committee and management and is not intended to be used by anyone other than these specified parties. Recommendations for improvement are presented for management's consideration, and management is responsible for the effective implementation of corrective action plans.

Questions or concerns should be addressed to Greg Thomas in the VTA Auditor General's Office at: [Auditor.General@VTA.org](mailto:Auditor.General@VTA.org).

*This report is intended solely for the information and internal use of VTA's Board of Directors, Audit Committee and management and should not be used or relied upon by anyone else than those specified parties.*

## AUDITOR GENERAL REPORT No. 2012-05

**Investment Controls Internal Audit**

January 19, 2012

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## I. EXECUTIVE SUMMARY

The Investment Controls Internal Audit is performed annually in accordance with the "Investment of Unrestricted and Restricted Funds Policy" (the Policy), adopted by the Board of Directors. The Policy indicates that "all funds shall be invested in accordance with this Investment Policy and California Government Code Section 53601 et seq. related to the investment of public funds." Investments activities are managed by third-party servicers and monitored daily by VTA.

Monitoring and oversight controls performed by VTA's Investments group have been identified by management and formally documented in a risk and controls matrix modeled after the approach that many companies use to demonstrate their compliance with the Sarbanes-Oxley Act Section 404 requirements. Internal Audit obtained the risk and controls matrix which included 13 controls mapped to risks identified by management. Internal controls include the areas of:

- Investment Policy establishment and review
- Third-party servicer report reviews
- Journal entry and reconciliation preparation and review
- Investment reporting, communicating and monitoring with key executives.

Internal control, no matter how well designed and operated, can provide only reasonable assurance of achieving VTA's control objectives. The likelihood of achievement is affected by limitations inherent to internal control. These include the realities that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes. Additionally, controls, whether manual or automated, can be circumvented by the collusion of two or more people or inappropriate management override of internal control.

Auditor General staff performed testing of the internal controls to assess their operating effectiveness. Based on the work performed and the samples selected for the period January 1, 2011 to November 28, 2011 we did not note any instances in which the key controls tested appeared to not be operating effectively.

Our overall assessment of the relative risk related to the identified internal control observations is Low. The Low rating, which represents an estimated level of risk exposure to the VTA organization, is based on three individual observations rated Low. No high or medium risk issues were identified.

Auditor General staff recommends that to better utilize internal audit resources while still maintaining acceptable risk, VTA give consideration to lengthening the interval between required internal audit reviews of investment internal controls from an annual to bi-annual basis. The VTA Auditor General function was initiated over three years ago, and during that time Auditor General staff have performed internal audits of the investments area each year whereby

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no high or medium risk observations were identified and reported. If the frequency is modified, management should also revise the frequency of the internal audit in the “Unrestricted and Restricted Funds Investment Policy” accordingly.

VTA has agreed with these findings, and has targeted all recommendations for implementation by February 28, 2012. More detailed observations and recommendations are provided in the main body of the report.

We would like to acknowledge VTA staff for their cooperation and professionalism throughout the process.

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## II. BACKGROUND, OBJECTIVE, SCOPE & APPROACH

### A. Background

Santa Clara Valley Transportation Authority (VTA) has a Treasury function which is responsible for managing VTA's investment portfolio in unrestricted and restricted operating and capital funds and is governed by VTA Board-adopted policy. The investment program is required to comply with the California Government Section 53601 et seq. and VTA's internal policy entitled 'Investment of Unrestricted and Restricted funds' (the Policy) to enhance opportunities for a prudent and systematic investment program and to organize and formalize investment-related activities. The Policy, Section 7 – 'Internal Controls,' states that 'The internal controls shall be reviewed with the Auditor General and the independent external auditor. The Auditor General shall perform a review of the internal controls at least on an annual basis.'

VTA's investment program (operating) includes investments in four portfolios: investments with the State of California Local Agency Investment Fund (LAIF) and three investment accounts, based on short, medium and long term strategies, with fixed income investment managers. VTA outsources the investment management activities to Payden & Rygel ("Payden").

In line with leading practice, management has established monthly reporting as well as quarterly touch point meetings in order to oversee and monitor the activities and performance of Payden. To evaluate the performance of the investment manager, each portfolio (short, medium and long term) has been assigned a corresponding industry index as benchmark. In addition, VTA has appointed an external consultant, Mercer, to perform an independent and comprehensive assessment of the investment manager's performance.

### B. Objective

The objective of the investment controls testing is to assess whether treasury controls over investment transactions are operating as intended.

### C. Scope

Based on discussions with VTA, the scope of the internal audit included an assessment of the operating effectiveness of the 13 key internal controls, as identified by management, in the investment process for the period January 1, 2011 through November 28, 2011.

### D. Approach

The Auditor General's office:

- Inspected existing investment policy, procedures and reporting
- Interviewed appropriate members of the Investments team involved in executing, confirming, approving, managing and monitoring VTA's managed investments
- Tested key controls identified by management, on a sample basis, to determine whether they were operating effectively.

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### III. RATINGS

Risk ratings have been assigned to each individual observation to provide VTA Management with a better understanding of the estimated risk and potential impact of each observation. Additionally, an Overall Risk Rating has been provided herein to help Management understand the overall risk and impacts of the observations combined. The risk rating definitions are:

- ❖ High – Significant control weakness presents a high likelihood of the event occurring, potentially exposing VTA to significant financial loss, business or service interruption, and/or an impact to the VTA brand or public perception. This control weakness should be addressed immediately.
- ❖ Medium – Significant control weakness presents a possibility the event will occur potentially exposing VTA to moderate levels of financial loss, short term disruption to operations, short term impact to VTA brand or public perception and/or not making optimal use of human or system resources. This control weakness should be addressed in the near term.
- ❖ Low – Control weakness, if corrected or mitigated, will further strengthen the system of internal control. Likelihood of occurrence and impact if the event did occur are rated as low.
- ❖ Other Opportunities (No Rating) – Opportunity to improve efficiency or profitability of operations, but does not indicate an internal control weakness.

An **Overall Risk Rating** has been provided to help Management understand the overall risk and impacts of the observations combined:

***Overall Risk Rating:*** Low

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#### IV. RESULTS

Based on the work performed and the samples selected for the period January 1, 2011 to November 28, 2011, we did not note any instances in which the key controls tested appeared to not be operating effectively. However, there are three observations that will help to enhance documentation of the investments controls. More information is provided in the table below.

Risk Description *	Key Control Description *	Observation	Recommendation	Management Response
Securities and or payments are not received timely and accurately during purchase or sale of stocks/bonds and/or not secured properly	All securities received and delivered by the Custodial bank follow the delivery versus payment procedure	Per the "Unrestricted & Restricted Funds" Policy," the delivery versus payment procedure is the responsibility of the custodial agent, Union Bank. Responsibilities of third-parties should be included in the agreement or contract with the party, in addition to controls addressed in the SAS70 or SSAE16 reports. Additionally, the control activity and risk do not appear to address the third-party's responsibility to perform the procedures and management's responsibility of monitoring and oversight.	VTA should monitor third-party activities by reviewing the SAS70 or SSAE16 report obtained from the custodial agent annually and assessing the controls. Additionally, management should re-visit the control and risk verbiage in the VTA Risk Control Matrix and modify it as appropriate.	VTA concurs. Management will continue to receive and review the custodial agent's SAS70 (or SSAE16) in order to assess controls and will implement documentation of such review by 1/31/12.  Amendment to Risk Control Matrix will be also be completed by 1/31/12.
Investment portfolios are not monitored regularly leading to potential loss due to risky investments and/or underperforming	Memo and Monthly Investment Report are reviewed by FR Manager	Internal Audit noted that while the Fiscal Resource (FR) Manager performs a review of the monthly Investment Report, evidence of the review in "Minute Traq" (VTA's agenda management workflow tool) could not be furnished. Based on inquiry with management, the use of tracking actions within the "Minute	VTA should utilize the workflow and audit trail set-up in "Minute Traq" to consistently track actions of documents within the application.	VTA concurs. Recommendation will be implemented with the next monthly investment report (for month of

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Risk Description *	Key Control Description *	Observation	Recommendation	Management Response
portfolios		Traq” application is inconsistent.		December 2011), and will be completed by 2/28/12.
<p>Policy is not reviewed periodically leading to investments in products not authorized by applicable CA Govt Code, resulting in exposure to volatile market conditions and investment portfolios losing money.</p> <p>Investment portfolios are not monitored regularly leading to potential loss due to risky investments and/or underperforming portfolios</p>	<p>Investment Policy is reviewed annually for compliance with applicable CA Govt Code / Amended if required for Board Approval</p> <p>Every quarter, CFO, FR Manager and Investments Manager meet with the GM to review the Monthly Investment Report, Memo and Holdings Report</p>	<p>Based on observation of various documents prepared in the investments process, Internal Audit noted the following:</p> <ul style="list-style-type: none"> <li>The title of the investment policy differs across two controls in the Investment Controls Matrix. One control activity indicates the “Investment Policy” and a separate control activity titles it the “Unrestricted &amp; Restricted Funds” Policy”. The policy title should be presented consistently across documentation.</li> <li>The Unrestricted &amp; Restricted Funds Policy is reviewed by the General Manager and approved by the Board of Directors annually. The Policy template includes a column to document the date that the Policy was reviewed. However, this column is not complete to evidence the date of review. Evidence of management’s review including sign-offs and dates should be formally documented.</li> <li>The Chief Financial Officer, Fiscal Resources Manager and Investments Manager meet with the General Manager quarterly to review the Monthly Investment Report, Memo and Holdings Report. Evidence of the quarterly</li> </ul>	<p>Management should revise the Policy titles for consistency, and complete the review date column in the Policy to evidence the date that the review took place. Additionally, evidence of management meetings including a listing of participants, the date the meeting occurred and topics of discussion should be formally documented.</p>	<p>Risk matrix will be modified by 1/31/12.</p> <p>Review column will be implemented by 1/31/12 and utilized to document annual review at the next annual review cycle (one year from adoption of revised policy).</p> <p>Sign in sheet for quarterly investment meeting has already been implemented and is on file with the report covered in meeting (implemented for reporting period ending 9/30/11).</p>

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Risk Description *	Key Control Description *	Observation	Recommendation	Management Response
		meeting could not be furnished by management. Evidence of management meetings including a listing of participants, the date the meeting occurred and topics of discussion should be formally documented. Beginning in Q3, a sign-in sheet to list meeting participants was implemented. Management plans to use it going forward.		

\* Source -- VTA's risk and controls matrix



Date: January 24, 2012  
 Current Meeting: February 2, 2012  
 Board Meeting: May 3, 2012

## **BOARD MEMORANDUM**

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

**FROM:** Auditor General, Greg Thomas

**SUBJECT:** FY 2013 VTA Risk Assessment Refresh

**Policy-Related Action:** No

**Government Code Section 84308 Applies:** No

## **ACTION ITEM**

### **RECOMMENDATION:**

Review and receive the Auditor General's report on the FY 2013 VTA Risk Assessment Refresh.

### **BACKGROUND:**

The VTA Board of Directors in January 2009 approved the contract with Deloitte & Touche LLP to provide Auditor General and internal audit services to VTA.

In June 2011, the Board approved the FY 2012 Internal Audit Work Plan developed by the Auditor General. In December of that year, the Auditor General's Office performed the FY13 Risk Assessment Refresh from this plan.

### **DISCUSSION:**

To develop its recommended annual internal audit plans, the Auditor General's Office annually facilitates a high-level risk assessment of significant current or future potential financial and business risks to VTA, which are derived from interviews with key management, working knowledge of the organization, and solicited input from the General Manager and senior staff. The auditable risks are then identified, prioritized and considered for potential projects in the recommend audit plan for the upcoming fiscal year.

In January 2012, the Auditor General's Office completed its FY 2013 Risk Assessment Refresh, the results of which are presented in Attachment A. One of the themes identified during the interviews was the significance of the BART extension project. The BART extension project is one of the largest, most complex, highest profile and risky projects undertaken by the organization. Due to this, and given its design/build component, an organizational/structural

design assessment in addition to periodic assessments throughout various stages of the project should be performed by Internal Audit. Additional projects are also proposed for Audit Committee consideration including:

- Review of the procurement card process
- Pre- and post-implementation reviews of the Trapeze System upgrade
- Contract compliance review of the sheriff contract
- Audit of the cash fare collection to reconciliation processes.

More detailed observations and recommendations are provided in the main body of the report.

Following review and direction by the Audit Committee, cost estimates for each potential project will be developed and the recommended plan finalized. The Auditor General's recommended FY 2013 Internal Audit Work Plan will be submitted for Audit Committee approval at its May 2012 meeting, and to the Board for final adoption at its June 2012 meeting.

Recommendations for improvement or efficiency opportunities contained in this report are presented for the consideration of VTA management, which is responsible for the effective implementation of any action plans.

**FISCAL IMPACT:**

There is no financial impact associated with acceptance of this report.

Prepared by: Greg Thomas, Auditor General and Stephen Flynn, Auditor Committee Coordinator  
Memo No. 3392



# **Santa Clara Valley Transportation Authority**

February 2, 2012 Audit Committee Meeting

## **FY13 Risk Assessment Refresh**

### **Auditor General's Office**

Greg Thomas, Principal

Farah Faruqui, Partner

Hilary J. Cabodi, Manager

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# Risk Assessment Refresh

## Scope and Approach

Internal Audit (IA) had discussions with key VTA personnel to understand any significant changes to the risks within their respective organizations. The risks were assessed and prioritized to develop a proposed list of projects for consideration for the FY13 and FY14 Internal Audit (IA) Work Plans.

Specifically, Internal Audit performed the following:

- Conducted interviews with approximately 20 key personnel to understand any new risks, significant changes to the strategic, financial and operational risks within their respective organizations since the last risk assessment refresh update in March 2009.
- Identified, assessed and prioritized key risk themes and determined the impact on risk areas identified in prior years.
- Developed a list of projects for consideration for the proposed FY13 and FY14 Internal Audit Work Plan and discussed the plan with the General Manager.

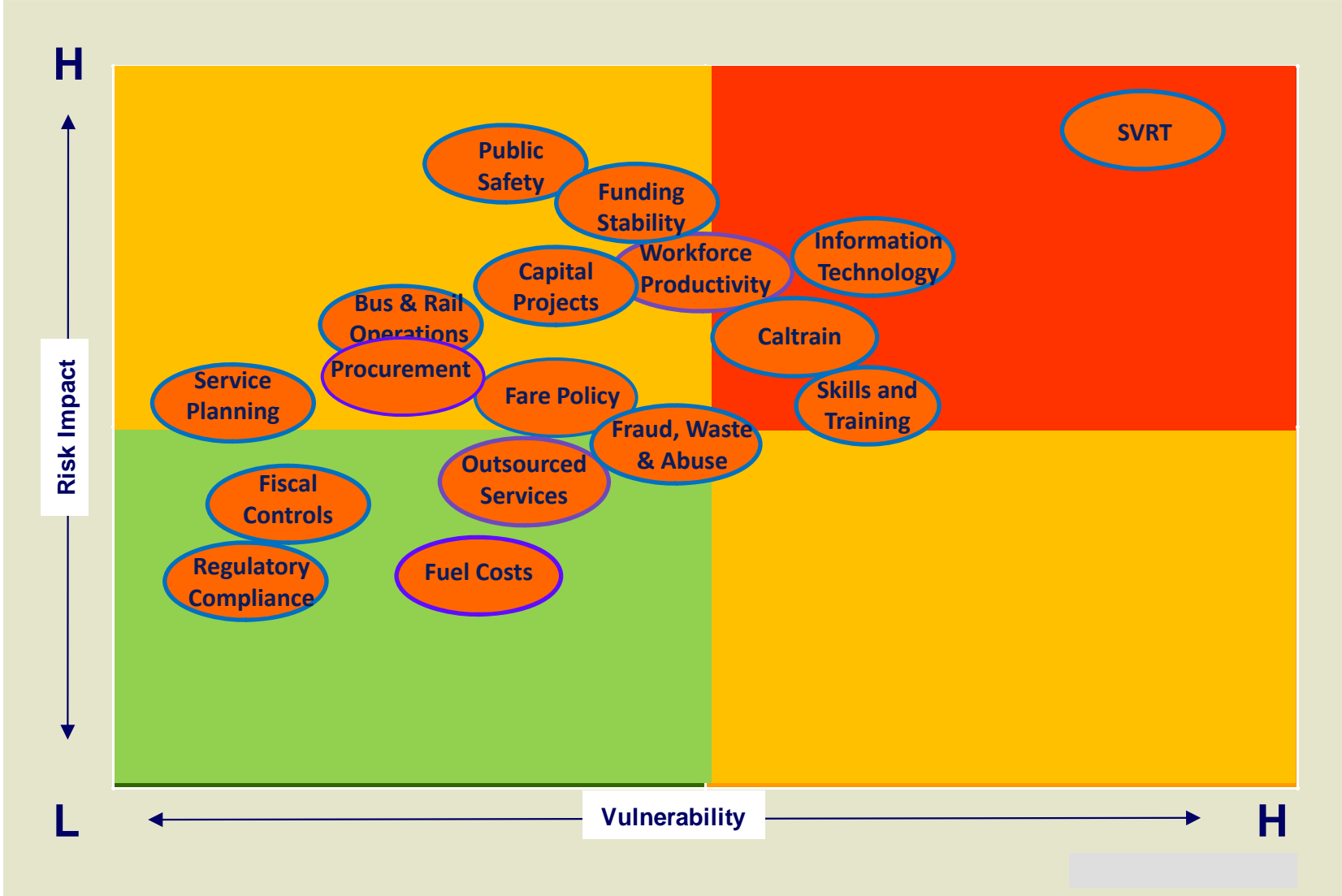
In addition, we are seeking input from the members of the Audit Committee on our proposed lists of projects for consideration for the FY13 and FY14 IA Work Plan.

# Risk Assessment Refresh – Themes

Key themes were identified in the Risk Assessment Refresh interviews. Themes in the areas of capital projects, operations, information technology, and finance were noted as follows:

- ✓ The BART extension project is one of the largest, most complex, risky and visible projects undertaken by the organization and presents risks around contract management roles and responsibilities, contract compliance monitoring and oversight and communications.
- ✓ There is an increase in the use of purchases made by procurement cards (P-cards), which increases risk of non-compliance around spend (e.g. inappropriate usage).
- ✓ Information Technology is planning for a number of upgrades including the Trapeze system (timekeeping system) which will have a large impact on the organization and business processes.
- ✓ The fare (cash) collections process is an inherently risky area.
- ✓ The impact of new accounting standard (Governmental Accounting Standards Board) exposure draft on pension accounting is being researched.
- ✓ The future relevance of the EcoPass program is questioned.
- ✓ Future impact of the Clipper program.
- ✓ The IT network is slow at certain remote sites, impacting operations productivity.

# Risk Assessment Refresh Results



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# Projects Proposed for the FY13 and FY14 IA Work Plans

Audit Project	Description	Type of Audit	Risk Area
BART Project Design Assessment	Assess the infrastructure of the BART project with respect to monitoring vendors, managing and tracking key aspects of the project, and evaluating reporting roles and responsibilities.	Operational/ Compliance	SVRT
BART Project – periodic assessments	Periodic (e.g. quarterly) reviews of the BART project to assess the key aspects of the project through the various phases of construction.	Operational/ Compliance	SVRT
Procurement Cards (P-cards)	Conduct an assessment of the design and operating effectiveness of controls in the P-cards process including data analytics to assist in detecting inappropriate usage.	Compliance	Process / Fiscal Controls
Review of Trapeze implementation	Perform pre-implementation and/or post-implementation reviews of the Trapeze system (timekeeping) upgrade.	Operational	Information Technology

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# Projects Proposed for the FY13 and FY14 IA Work Plans, cont'd

Audit Project	Description	Type of Audit	Risk Area
Cash collections process - Fare Revenue	Conduct an internal audit of the collection to reconciliation processes for cash fare collections.	Operational	Process / Fiscal Controls
Sheriff Contract Compliance Review	Perform a contract compliance review of the sheriff contract.	Compliance	Outsourced Activities
ATU Pension	Test for the accuracy of the step-down payments to retirees to ensure proper payment, and assess the process for granting of disability benefits and for when recipients die.	Financial	Process / Fiscal Controls
Anti-fraud Controls	Test operating effectiveness of the key mitigating controls identified in the Fraud Risk Assessment.	Governance	Fraud, Waste & Abuse

# Projects Proposed for the FY13 and FY14 IA Work Plans, cont'd

Audit Project	Description	Type of Audit	Risk Area
Investment Controls	Annual requirement to test for operating effectiveness.	Annual Compliance Requirement	Fiscal Controls
Bus Rapid Transit (BRT) Project	Assess key process and controls of the project(s).	Value-Add Audit	Operations

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# Additional Projects for Consideration

Audit Project	Description	Type of Audit	Risk Area
Disaster Recovery Preparedness	Assess the disaster recovery process for VTA's key systems.	Value-Add	Information Technology
External Penetration Testing	Conduct and assessment of potential security vulnerabilities in key systems at VTA including the SCADA system.  <i>Note: If performed, this project may require additional contract terms</i>	Value-Add	Operations / Information Technology



Date: January 24, 2012  
 Current Meeting: February 2, 2012  
 Board Meeting: March 1, 2012

## BOARD MEMORANDUM

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

**FROM:** General Manager, Michael Burns and Auditor General, Greg Thomas

**SUBJECT:** Modify FY 2012 Internal Audit Work Plan to Add BART Silicon Valley Risk Assessment

**Policy-Related Action:** Yes

**Government Code Section 84308 Applies:** No

## ACTION ITEM

### RECOMMENDATION:

Amend the FY 2012 Internal Audit Work Plan to add a high-level risk assessment of the BART extension project to identify the project's various key components and evaluate their relative risk. This project will be accomplished using the existing FY 2012 Internal Audit Work Plan budget; no new funding is required.

### BACKGROUND:

VTA's Auditor General is responsible for assisting the Board of Director in fulfilling its fiduciary responsibilities of overseeing risks and controls in financial reporting, financial integrity, reputation and public perception of the organization, and program activities. The Auditor General has a direct reporting relationship to the Audit Committee and Board and an administrative reporting relationship to the General Manager.

The VTA Board of Directors in January 2009 approved the contract with Deloitte & Touche LLP to provide Auditor General and internal audit services to VTA.

In June 2011, the Board approved the FY 2012 Internal Audit Work Plan developed by the Auditor General. This plan specified eight separate projects, as well as ongoing auditor general activities, for a maximum amount of \$338,000.

Also in June 2011, the Board delegated to the Audit Committee limited authority to make scope and budget changes to existing audits in Internal Audit Work Plans, subject to remaining within the Board-defined overall maximum for that Work Plan. This change was made to allow

adjustments to be made as the audits progress, in order to better align the audit to the identified risk areas. However, addition or deletion of individual audits or any increase to the overall Work Plan budget still requires Board of Directors' approval.

### **DISCUSSION:**

Annually, the Auditor General's Office facilitates a high-level risk assessment of significant current or future potential financial and business risks to VTA. In January 2012, the Auditor General's Office completed its FY 2013 Risk Assessment Refresh. The key theme identified during the refresh was the significance of the Bay Area Rapid Transit (BART) extension project to Silicon Valley (BART Silicon Valley).

The BART Silicon Valley project (Project) is the largest, most complex, and visible project undertaken by VTA. The risks associated with this type of project span across multiple business processes throughout VTA in addition to risks associated with third-parties and stakeholders involved with the Project. Specific risks for this project may include contract management roles and responsibilities, monitoring for contract compliance, project oversight and communications. Due to this, and given the project's design/build component, it is prudent that VTA identify, assess and evaluate the infrastructure of the BART project early-on and periodically throughout various phases of the project.

The Auditor General's Office recommends that a high-level risk assessment of the BART Silicon Valley project be performed to identify and evaluate its various key components and their relative risk. Although this item would have been included in the Auditor General's recommended FY 2013 Internal Audit Work Plan, due to the recent award of the design-build contract combined with the size and scope of the project, it would be most prudent to initiate this assessment as soon as possible, instead of waiting four months until the start of FY 2013 (July 1, 2012). Audit Committee Chairperson Rose Herrera and General Manager Michael Burns concur and asked that amendment of the FY 2012 Internal Audit Work Plan to include this item be submitted for Board approval as soon as possible.

The approach of the risk assessment would include interviews with key VTA staff throughout the agency involved in the BART project including, but not limited to: operations; finance; construction; grants; environmental; and legal, as well as SVRT Program and SVBX Project staff. The assessment will identify potential key risks areas within the Project and provide a relative ranking of these risks. This will allow VTA to develop a plan to mitigate those risks early on and help to put in place the appropriate infrastructure for the project. In addition, it will provide the Auditor General's Office with a good understanding of the overall project and will facilitate the development of the appropriate scope for future internal audits in this area. The maximum cost of this assessment is set at \$60,000.

To fund the BART Silicon Valley Risk Assessment, VTA staff recommends that a combination of available FY 2012 Internal Audit Work Plan funds be used; no budget augmentation is required:

- The Work Plan contains a project budget of \$65,000 for assessing the Ad Hoc Financial Recovery Committee's recommendations to determine, on an as-needed basis, potential cost savings, implementations strategies and leading practices. It was thought this would provide valuable and timely information to the Board and staff for negotiations with VTA's bargaining units, implementing the FY12 & FY13 Biennial budgets, and other structural deficit-reduction endeavors. To date, this assessment has not been needed nor is projected to be, given that labor agreements have been approved and the FY12 Budget implemented. Given this, it is recommended that \$50,000 from this project be reallocated to the proposed BART Silicon Valley Assessment, with \$15,000 retained should the original purpose arise.
- Reallocation of \$10,000 of savings from Auditor General completed projects and services.

### **ALTERNATIVES:**

The Board could choose to not modify the FY 2012 Internal Audit Work Plan to include the BART Silicon Valley Risk Assessment, or it could set the maximum cost for this assessment at a different level.

### **FISCAL IMPACT:**

This action will authorize reallocation of \$60,000 of existing funds specified for completion of FY 2012 Internal Audit Work Plan projects and services to the BART Silicon Valley Risk Assessment. Appropriation for these expenditures is included in the FY12 Adopted VTA Transit Fund Operating Budget; no additional appropriation is required.

Prepared by: Greg Thomas, Auditor General and Stephen Flynn, Auditor Committee Coordinator  
Memo No. 3503



Date: July 20, 2011  
Current Meeting: February 2, 2012  
Board Meeting: N/A

## **BOARD MEMORANDUM**

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

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

**FROM:** Auditor General, Greg Thomas

**SUBJECT:** Review Status of Internal Audit Work Plan

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### **FOR INFORMATION ONLY**

VTA's Auditor General is responsible for developing and recommending the annual Internal Audit Work Plan, assigning and managing the audit resources required to conduct each internal audit, and providing audit results and progress reports to the Audit Committee.

To keep the members informed, staff from Deloitte & Touche LLP, the independent auditing firm selected by the VTA Board of Directors to provide Auditor General services to VTA, provides a report at each Audit Committee meeting on the current status of the internal audit work plan and its component audits.

Prepared By: Greg Thomas, Auditor General  
Memo No. 1896



## **Santa Clara Valley Transportation Authority**

February 2, 2012 Audit Committee Meeting

### **FY2012 Internal Audit Work Plan Status Update**

#### **Auditor General's Office**

Greg Thomas, Principal

Farah Faruqui, Partner

Hilary J. Cabodi, Manager

# Timeline & Reporting of IA Activities

Internal Audit (IA) Project	FY2011			FY2012												
	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Apr	May	June	
Paratransit Program Contract Compliance IA							Completed									
Fraud Risk Assessment				Completed							Helpline Recomm.					
Investment Controls IA									Completed							
Record Retention Assessment								Completed								
FY13 Risk Assessment Refresh									Completed							
Proposed FY13 Internal Audit Plan												Planned				
IT Organizational Assessment											In Progress					
Follow up Activities							Completed			Planned			Planned			
Efficiency Assessment from Ad-hoc FR Committee				As Requested by VTA												

*This report is intended solely for the information and internal use of VTA's Board of Directors, Audit Committee and management and should not be used or relied upon by anyone else than those specified parties.*



Date: January 19, 2012  
 Current Meeting: February 2, 2012  
 Board Meeting: N/A

## BOARD MEMORANDUM

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

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

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

**SUBJECT:** Exercise Second Option Year on Contract with Deloitte & Touche LLP for Auditor General Services

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**Policy-Related Action:** No

**Government Code Section 84308 Applies:** Yes

## ACTION ITEM

### RECOMMENDATION:

Authorize the General Manager to exercise the second one-year option to extend the task order contract with Deloitte & Touche LLP for Auditor General services, in amount not to exceed \$175,000 as specified in the contract, for a new contract term to July 8, 2013 and a revised maximum contract value of \$950,500.

### BACKGROUND:

VTA's Auditor General is responsible for assisting the Board of Director in fulfilling its fiduciary responsibilities of overseeing risks and controls in financial reporting, financial integrity, reputation and public perception of the organization, and program activities. As now established, VTA's Auditor General's Office is, among other duties, responsible for:

- Developing and recommending the Annual Internal Audit Work Plan.
- Assigning and managing the audit resources required to conduct each internal audit.
- Providing audit results and progress reports to the Audit Committee and Board of Directors.

The Auditor General has a direct reporting relationship to the Audit Committee and Board and an administrative reporting relationship to the General Manager.

In January 2009, the Board of Directors awarded a contract to Deloitte & Touche LLP to provide

Auditor General and internal audit services. This task order contract was for a two-year base term with three additional one-year options, to be exercised at the sole discretion of VTA, at a maximum amount of \$350,00 for the base period and \$175,000 for each option year. The Board action awarding the contract to Deloitte & Touche LLP vested sole discretion to exercise the option years with the Audit Committee.

Since award, the following actions have been made to the contract:

- In September 2010, the Audit Committee exercised the first option year (through January 2012).
- To reduce administrative burden, the General Manager, utilizing his Board-approved authority, extended the contract by 6-months (through July 2012) in order to align the contract with the time period covered by the Internal Audit Work Plans and VTA annual budgets.
- In June 2011, the Board approved the Audit Committee's recommendation to increase the maximum contract value by \$163,000 in order to enable completion of additional items contained in the FY 2012 Internal Audit Work Plan that exceeded the \$175,000 annual target.

As revised, the contract presently has a maximum value of \$775,500 and is valid until July 8, 2012.

### **DISCUSSION:**

Since the first option year of the contract will be completed in early July 2012, the Audit Committee will need to decide whether to exercise one or both of the remaining one-year options to extend the contract, or initiate a competitive procurement process to solicit proposals from additional qualified independent certified public accounting (CPA) firms to provide auditor general services and internal auditing services.

Staff recommends that the Audit Committee approve exercising the next one-year option with Deloitte & Touche, due to that firm's: (1) demonstrated high-quality work and responsiveness to Board and VTA management concerns; (2) ability to conduct the audits and assessments cost-effectively and in a manner that minimizes disruption to ongoing VTA operations; and (3) ability to add high-quality consultative, value-added services, especially regarding industry best practices. Examples of Deloitte's high quality work to date include: (1) developing and recommending goals and objectives for the internal audit program; (2) developing and recommending three annual internal audit plans, which included conducting a risk assessment of potential financial and business risks; and (3) completing nine internal audits and two consultative assessments, with a third underway:

#### **Internal Audits Completed**

1. Security Guard Qualifications & Training
2. Silicon Valley Rapid Transit (SVRT) Project Soft Costs
3. Investment Controls Effectiveness (FY 10)
4. SAP Access Control
5. SVRT Contract Compliance

6. Investment Controls Design (FY 11)
7. Information Technology (IT) Network Security
8. Paratransit Program Contract Compliance
9. Investment Controls Testing (FY 12)

#### **Consultative Assessments Completed**

1. Fraud Risk (includes recommendations for Integrity Hotline)
2. Records Retention (Records & Information Management)

#### **Consultative Assessments Underway**

1. IT Organizational Assessment

The Audit Committee has concurred with the risk prioritization and internal audit focus areas identified by Deloitte & Touche, and the both the Audit Committee and the Board approved the resulting FY10, FY11 and FY12 Internal Audit Work Plans. Deloitte & Touche's performance in providing these services has been very good, and all projects have been completed on schedule and within budget.

If the Committee chooses to not to exercise one or more of the remaining option years with Deloitte & Touche LLP, government contracting code requires that a competitive procurement process be conducted to select a new vendor for Auditor General services, which would take two to four months to complete. Given that the current contract expires in early July 2012, the competitive procurement process would have to be initiated in February 2012 to ensure that a new CPA firm would be under contract by early July in order to provide uninterrupted Auditor General services to the Board.

#### **ALTERNATIVES:**

The Audit Committee could choose to exercise both remaining option years at this time, or it could initiate a competitive procurement process to solicit proposals from additional qualified independent certified public accounting (CPA) firms for auditor general services. It should be noted that this last option does not guarantee that overall costs for a replacement firm would be similar to or less than for the current vendor.

#### **FISCAL IMPACT:**

This action will authorize up to an additional \$175,000 of expenditures for Auditor General/internal audit service for the next option year (July 2012 – June 2013). Appropriation for these expenditures is included in the FY13 Adopted VTA Transit Fund Operating Budget.

Prepared by: Stephen Flynn, Advisory Committee Coordinator  
Memo No. 2784

**VTA Auditor General Services**  
**One-Year Contract Extension with Deloitte & Touche LLP**  
**Effective July 9, 2012**

<b>Firm &amp; Location</b>	<b>Contact Name</b>	<b>Role</b>
Deloitte & Touche 555 Mission Street San Francisco, CA 94105-2238	Greg Thomas Denise Martini	Principal – Auditor General Director
Deloitte & Touche 225 West Santa Clara St. Suite 600 San Jose, CA 95113	Farah Faruqui Sandra Koenig	Project Co-Leader Manager
Deloitte & Touche 980 9th Street Suite 1800 Sacramento, CA 95814	Hilary J. Cabodi	Manager