



FINAL REPORT

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# Santa Clara Valley Transportation Authority

## 2016 MEASURE B PERFORMANCE AUDIT FOR FISCAL YEAR 2022-2023

March 21, 2024

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**March 21, 2024**

2016 Measure B Citizens' Oversight Committee  
Santa Clara Valley Transportation Authority  
3331 North First Street  
San Jose, CA 95134

Subject: 2016 Measure B Sales Tax Performance Audit Report for Fiscal Year 2022–2023

Dear Members of the Committee:

Thank you for the opportunity to perform the performance audit relating to the Santa Clara Valley Transportation Authority (VTA) 2016 Measure B Sales Tax Program (2016 Measure B, or the Program), as required by the ballot language mandating that annual audits be conducted by an independent auditor. Requirements specify that proceeds are to be expended consistent with the approved 2016 Measure B ballot language, and that program categories will be administered in accordance with program guidelines and policies to be developed and approved by the VTA Board of Directors (the Board). This report summarizes the results of our review.

Moss Adams LLP conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), as outlined in our agreement. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and audit results based on our audit objectives. The scope of this engagement is outlined in the body of our report. We developed this report based on information from our review of 2016 Measure B records for fiscal year 2022–2023.

We would like to express our appreciation to the committee and all members of VTA's staff for their cooperation throughout this performance audit. We appreciate the opportunity to help you monitor and continuously improve your oversight of program performance. Please do not hesitate to contact us if you have any questions or need further assistance regarding this important matter.

Very truly yours,

Moss Adams LLP  
Campbell, CA

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# I. EXECUTIVE SUMMARY

Moss Adams LLP (Moss Adams) conducted this 2016 Measure B performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS and 2016 Measure B documents, that for fiscal year (FY) 2022–2023 (July 1, 2022 through June 30, 2023), 2016 Measure B tax revenues were expended only on costs identified in the voter-approved 2016 Measure B ballot.

Based on our procedures, we identified several commendable practices at VTA that should be celebrated:

- Expenditure and proceeds issuance documentation was effectively sourced, maintained, and managed.
- Public meetings of the 2016 Measure B Citizens' Oversight Committee (MBCOC) were held to provide the forum to receive public input.
- MBCOC meeting minutes were posted on the VTA website.
- 2016 Measure B policies and procedures that define approval authority for invoices, contracts, and change orders to ensure appropriate review and controls were in place.
- Dashboards showing year-to-date 2016 Measure B spending by program category are on the VTA website.
- Strong collaboration among 2016 Measure B personnel and accounting was observed.

In addition, we evaluated the effectiveness and efficiency of internal controls based on our objectives to provide an analysis of 2016 Measure B, so that those charged with governance and oversight can use the information to improve 2016 Measure B performance and operations. We identified the following expenditure management and control observations related to compliance with 2016 Measure B requirements, policies and procedures, effectiveness, and efficiency of operations:

- **Transit Operations Actual Costs Isolation Methodology:** VTA continues to take steps to address the prior year audit recommendation to document and establish a methodology to isolate and report on the actual expenditures of 2016 Measure B's Transit Operations funds in support of bus operations to serve underserved and transit-dependent populations in Santa Clara County. However, the Enhance Core Frequent Network and Expand Mobility and Affordable Fares methodology did not define the allowable and unallowable cost elements or the appropriate level of expenditure approval. Additionally, we were unable to identify formalized approval of the methodology (see Observation No. 1a in the report body for further information).

We also noted the following opportunities for VTA to consider additional actions to further enhance program transparency, efficiency, and effectiveness:

- Conduct audits of grantees to ensure that grantees procure goods and services funded by 2016 Measure B revenues in accordance with public contracting code and expended in conformance with VTA budget authorizations and 2016 Measure B requirements.
- Conduct construction and professional services compliance reviews on Guaranteed Maximum Price, or Not-to-Exceed contract types to support cost compliance and overall program cost management.

- Conduct lease agreement cost compliance assessments to confirm compliance, transparency, and adequate controls on lease relocations for impacted companies related to BART Phase II.

The following table provides 2016 Measure B revenue earned, income earned, expenditures by program category, and administrative costs for FY 2022–2023.

**TABLE 1: 2016 MEASURE B REVENUE EARNED, INCOME EARNED, EXPENDITURES BY PROGRAM CATEGORY, AND ADMINISTRATIVE COSTS FOR FY 2022–2023**

Revenue, Income, and Expenditures Category	FY 2021–2022 Amount [A]	FY 2022–2023 Amount [B]	Year over Year Change (%) [C] = ([B] – [A]) / [A]
Revenue Earned	\$258,000,059	\$272,987,913	5.81%
Interest Earned & Realized Investment Gain/(Loss)	\$7,080,418	\$16,212,004	128.97%
Unrealized Investment Gain/(Loss)	(\$28,222,407)	\$2,754,547	(109.76%)
<b>Expenditure by Program Category:</b>			
VTA's BART Silicon Valley Phase II	–	\$46,370,085	
Bicycle and Pedestrian Program	\$1,873,821	\$3,624,074	93.41%
Caltrain Corridor Capacity Improvements	\$519,270	\$1,586,717	205.57%
Caltrain Grade Separation	\$111,904	\$263,534	135.50%
County Expressways	\$10,135,047	\$10,121,038	(0.14%)
Highway Interchanges	\$43,430,995	\$32,017,130	(26.28%)
Local Streets and Roads	\$43,790,591	\$38,115,224	(12.96%)
Transit Operations	\$23,788,299	\$19,085,929	(19.77%)
State Route 85 Corridor	\$1,395,607	\$927,976	(33.51%)
Administrative Cost	\$2,081,040	\$2,469,146	18.65%
<b>Total Expenditures</b>	<b>\$127,126,574</b>	<b>\$154,580,853</b>	<b>21.60%</b>

We reconciled revenue and expenditure amounts to the Annual Comprehensive Financial Report (ACFR) for Fiscal Year Ended June 30, 2023, according to the “Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds” schedule for 2016 Measure B, found on pages 2–28. Sales tax revenue and investment earnings were compared to the amounts reported by VTA. Total expenditures align with sum of the “Total Expenditure” and “Transfers out” lines.

## II. BACKGROUND INFORMATION

### A. VTA'S 2016 MEASURE B PROGRAM

In 2016, voters approved 2016 Measure B for VTA “to repair potholes and fix local streets; finish the BART extension through downtown San Jose and to Santa Clara; improve bicycle and pedestrian safety; increase Caltrain capacity, in order to ease highway congestion, and improve safety at crossings; relieve traffic on the expressways and key highway interchanges; and enhance transit for seniors, students, low-income, and disabled” by imposing a \$0.005 (one-half of one-cent) retail transactions and use tax upon every retailer in Santa Clara County that will be in effect for 30 years. As of April 2017, the present value of 2016 Measure B’s Program Tax Revenues was forecasted to be approximately \$6.3 billion.

The 2016 Measure B ballot specifies VTA as the administrator of the sales tax. It further specifies that VTA administers this tax by establishing a program and developing guidelines to allocate 2016 Measure B tax revenues to the following categories of transportation projects:

- BART Silicon Valley Phase II
- Bicycle and Pedestrian Program
- Caltrain Corridor Capacity Improvements
- Caltrain Grade Separations
- County Expressways
- Highway Interchanges
- Local Streets and Roads
- State Route 85 Corridor
- Transit Operations

The VTA Board of Directors adopted guidelines for overall program administration for each of these nine program categories at the October 2017 and November 2017 meetings and revised them in August 2022. These guidelines are intended to direct the implementation of each program category and propose how the program category funds should be allocated.

VTA accounting records for FY 2022–2023 showed 2016 Measure B tax expenditures of \$154,580,853. We verified this amount to expenditures reported on the 2023 ACFR to verify the completeness and accuracy of records provided.

### B. ACCOUNTABILITY REQUIREMENTS

2016 Measure B ballot language requires VTA to appoint an independent citizen’s oversight committee. The independent 2016 Measure B citizens oversight committee (MBCOC) was established to fulfil this requirement. The MBCOC is responsible for ensuring that funds are expended consistent with the approved program and associated expenditure guidelines. On an annual basis, the MBCOC organizes an independent audit to review the receipt of revenue and expenditure of funds. The MBCOC also holds public hearings and issues an annual report to inform Santa Clara County residents how the funds are being spent.

### III. OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of this performance audit was to verify VTA's compliance with 2016 Measure B, which requires its tax revenues be allocated and used for the nine approved program categories, as defined in ballot language. Our performance audit procedures cover the period of July 1, 2022 through June 30, 2023.

The full list of performance audit objectives (as specified by VTA and agreed upon for this performance audit), scope of our audit, and methodology applied included the following.

#### A. OBJECTIVES

##### **Objective No. 1: Conduct an Annual Compliance Performance Audit**

We conducted an annual performance audit of 2016 Measure B revenues and expenditures to render our opinion on whether expenditures during the audit period were spent in conformance with 2016 Measure B requirements. We reviewed 2016 Measure B's financial records and expenditures for FY 2022–2023 to verify that funds were used for approved purposes, as set forth in the ballot language and Board-approved expenditure guidelines.

We reviewed 2016 Measure B's financial records and expenditures by obtaining the ACFR and comparing the balances to VTA's detailed accounting records. We analyzed control processes, tested the 2016 Measure B expenditure cycle, and sampled supporting documentation to validate internal controls. We used Audit Command Language (ACL) to select a statistical, monetary unit sample to provide confidence that expenditure transactions from 2016 Measure B were compliant with program and legal requirements. We tested 61 expenditures totaling \$116,369,971.82, or 75.3% of the total expenditures (\$116,369,971.82/\$154,580,852.84). These transactions were comprised of payments to partner agencies (including local cities, County of Santa Clara, and other regional transportation agencies such as Caltrain) and vendors, journal entries of interfund transfers, and program administrative costs. We tested to verify that:

- Expenditures aligned with one of the nine program categories, as outlined in the 2016 Measure B ballot language
- Expenditures were allowable according to applicable expenditure guidelines approved by the VTA Board of Directors

We interviewed VTA and program administration personnel and analyzed key documentation to assess the design of controls over 2016 Measure B expenditures. This included the review, authorization, and oversight of expenditures, contracts executed with other regional stakeholders including VTA Member Agencies, accounting for sales and use tax proceeds issued, and payments made and recorded for FY 2022–2023. The documents we analyzed to assess 2016 Measure B risk and control design included:

- 2016 Measure B ballot language
- 2016 Measure B expenditure guidelines
- VTA Board-approved budget memos
- MBCOC meeting agendas and minutes

- Applicable partner agency contract documentation (e.g., local cities, County of Santa Clara, BART, Caltrain)
- Accounting for 2016 Measure B proceeds and supporting documentation for expenditures taken from VTA's books and records
- Review of 2016 Measure B expenditures (for FY 2022–2023) and voter-approved ballot language

**Objective No. 2: Report 2016 Measure B Revenue Earned, Income Earned, Expenditures by Program Category, Administrative Cost, and Debt Service and/or Costs of Borrowing**

We reported 2016 Measure B's revenue earned, income earned, expenditures by program category, administrative cost, and debt service and/or costs of borrowing. We made note of any changes to program categories and/or the maximum approved allocations therein based on 2016 Measure B's financial records.

**B. SCOPE AND METHODOLOGY**

The performance audit covered the most recently completed fiscal year (2022–2023). Moss Adams attended the MBCOC meeting on October 26, 2023, presented the proposed audit plan and deliverables schedule, and addressed MBCOC member questions and concerns. We coordinated with VTA on the specific schedule for conducting audit fieldwork. We conducted an exit meeting with VTA staff (February 16, 2024) and the MBCOC (February 28, 2024) to review preliminary issues and obtain further information as necessary.

Moss Adams prepared a draft audit report based on our findings and auditor opinions and provided it to VTA management on February 15, 2024 and the MBCOC on February 28, 2024. Following exit meetings, Moss Adams will incorporate changes as appropriate to the draft report, and the draft report will be finalized and electronically submitted to VTA. Moss Adams will present the final audit report to the MBCOC at its March 27, 2024 meeting. The final report will be provided for inclusion on VTA's website as well as the 2016 Measure B Transparency website. We were prepared to evaluate and report on specific areas or items or to provide specific metrics requested by MBCOC, if applicable; however, no specific areas or items were requested. A log of unaddressed observations and recommendations from prior audits is included in Appendix A of this report.

We also interviewed key personnel responsible for administering 2016 Measure B, including senior management and staff from the VTA. The individuals interviewed are listed in Appendix B. We provided interviewees with an opportunity to provide feedback on whether fraud, waste, and/or other misconduct may be occurring and to provide insight on potential areas for improvement for 2016 Measure B.

**C. STATEMENT OF COMPLIANCE WITH GAGAS**

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Because GAGAS performance audit procedures require reasonable assurance and do not require detailed examination of all transactions and activities, there is a risk that compliance errors, fraud, or illegal acts may exist that we did not detect. Based on the performance audit procedures performed and the results obtained, we have met our audit objective.

Management remains responsible for proper implementation and operation of an adequate internal control system. Due to the inherent limitations of any internal control structure, errors or irregularities may occur and not be detected. This performance audit did not constitute an audit of financial statements in accordance with GAGAS. Moss Adams was not engaged to and did not render an opinion on VTA's internal controls over financial reporting or financial management systems.

## IV. AUDIT RESULTS

### A. OBJECTIVE NO. 1: CONDUCT AN ANNUAL COMPLIANCE PERFORMANCE AUDIT

Moss Adams conducted this performance audit in accordance with GAGAS issued by the Comptroller General of the United States. We reviewed the 2016 Measure B financial records and expenditures for FY 2022–2023 to verify that funds were used as set forth in the 2016 Measure B ballot language. We identified the following two observations and recommendations over the course of our audit.

#### Observation 1A: Transit Operations Actual Costs Isolation Methodology

VTA has taken steps to address the prior year audit recommendation to document and establish a methodology to isolate and report on the actual expenditures of 2016 Measure B's Transit Operations funds in support of bus operations to serve underserved and transit-dependent populations in Santa Clara County. VTA issued revised guidelines for the Transit Operations program category and submitted them to the VTA Board for approval in August 2022. The approved revisions included updates to the following guidelines: defined total funding of program tax revenues, program type, the distribution of funds methodology, and the implementation of the four eligible categories. Additionally, the Enhance Core Frequent Network and Expand Mobility and Affordable Fares methodology did not define the allowable and unallowable cost elements and what level of approvals may be required for expenditures.

Per the ACFR for the Fiscal Year Ended June 30, 2023, the Transit Operations and Operating Projects expenses totaled \$765,828,000. The allocation from 2016 Measure B funds to Transit Operations for the FY totaled \$17,500,000 (Enhance Core Bus Network + Expand Mobility & Fares), or 2.29% of the total Transit Operations and Operating Projects expenditures for the FY.

The 2016 Measure B Transit Operations program category was established to increase ridership, improve efficiency, enhance mobility services, and improve the affordability of bus transportation. According to the Transit Operations expenditure guidelines, funding should be allocated for the following purposes:

- Enhance the Frequent Core Bus Network by increasing core bus route service frequencies and expanding or adding additional evening, late-night, and weekend service (73% of program category funding)
- Expand mobility services and affordable fare programs for seniors, disabled, students, and low-income riders (8% of program category funding)
- Support new/innovative transit service models to address first/last-mile connections and transit services for the transit-dependent, vulnerable populations, and paratransit users that are safe and accountable (15% of program category funding)
- Improve amenities at bus stops to increase safety, security, and access with lighting and access improvements (4% of program category funding)

The Transit Operations program category is administered by VTA as the service provider of bus operations; therefore, there is a regularly scheduled interfund transfer from 2016 Measure B funds to

the Transit Operations account. According to VTA management, the new and innovative transit service model sub-program is a competitive grant program, and bus stop amenity improvement charges are tracked as a separate project. Therefore, both programs operate on a reimbursement basis and no expenditures for these sub-categories were incurred during the audit period. However, since the Transit Operations Division bus operations budgets are over \$200 million annually, it is unlikely that 2016 Measure B expenditures exceeded operating costs for any particular purpose within the applicable Transit Operations sub-categories.

**Recommendation:** As required by the ballot language, VTA should continue to update and implement Transit Operations Fund Expenditure Guidelines to define what elements are allowable or unallowable and obtain appropriate approval from key stakeholders. Expenditure Guidelines should be updated to address how any unallowable charges are excluded from the current allocation methodology and process. The enhanced guidelines will support transparency, accountability, and alignment with the Program and voter-approved ballot language. In addition, and as a best practice, VTA should establish performance metrics to assess impact and success of these funds in accordance with the ballot language, specifically Attachment D Transit Operations Candidate Projects and Programs List.

### **Observation 1B: Administration Expenditure Guidelines (No Exception)**

In July 2021, VTA established an administration expenditure policy that defined the allowability of specific administration costs such as investment fees and associated allocations, personnel charges, and sales tax forecast costs, as required by the 2016 Measure B ballot language. VTA revised, and implemented, the administration expenditure guidelines during the fiscal year and finalized approval of the updates in September 2023. While the approval occurred after our audit period, the updated guidelines addressed the prior year personnel recommendation. During our review of the sampled labor, all personnel positions were included within the updated administration expenditure guidelines resulting in no exception.

## **B. OBJECTIVE NO. 2: REPORT 2016 MEASURE B REVENUE EARNED, INCOME EARNED, EXPENDITURES BY PROGRAM CATEGORY, ADMINISTRATIVE COST, AND DEBT SERVICE AND/OR COSTS OF BORROWING (NO EXCEPTION)**

As a component of this performance audit, Moss Adams reported the 2016 Measure B revenue earned, income earned, expenditures by program category, and debt service and/or cost of borrowing. Figures were provided by VTA and validated through the review of Board-approved budget memos and VTA's audited financial statements; amounts that appear in the tables may be rounded. There were no debt service costs for the current audit period.

The following table reports annual revenues for the most recent FY as well as all FYs since 2016 Measure B inception, including revenue earned through sales and use tax receipts as well as income generated through investments.

**TABLE 2: PROGRAM REVENUE AND INCOME FOR FY 2022–2023 AND INCEPTION TO FY 2023<sup>[1]</sup>**

	FY 2022–2023	Inception to FY 2023 (4/1/2017–6/30/2023)
Revenue Earned	\$272,987,913	\$1,453,428,119
Interest Earned and Realized Investment Gain/(Loss)	\$16,212,004	\$57,110,101
<b>Program Revenue, Interest Earned and Realized Investment Gain/(Loss)</b>	<b>\$289,199,917</b>	<b>\$1,510,538,220</b>
Unrealized Investment Gain/(Loss)	\$2,754,547	(\$29,657,523)

<sup>1</sup> Table was updated to further break down Revenue, Interest Earned, and Realized and Unrealized Gains to increase transparency.

VTA allocates 2016 Measure B budgets and monitors expenditures on an annual or biennial basis, depending on the program category and associated expenditure guidelines. Budget allocations for 2016 Measure B do not expire and can be rolled into future FYs. Expenditures are reimbursed rather than provided in advance. Three program categories (Local Streets and Roads, Transit Operations, and Administration) are allocated budgets on an annual basis. The following table summarizes the budget allocation and expenditure information for FY 2022–2023 and the inception to FY 2023 period.

**TABLE 3: ALLOCATIONS AND EXPENDITURES FOR PROGRAM CATEGORIES WITH ANNUAL BUDGETING**

Program Category	FY 2022–2023		Inception to FY 2023 (4/1/2017–6/30/2023)	
	Allocation	Expenditures	Allocation	Expenditures <sup>[1]</sup>
Local Streets and Roads	\$47,740,000	\$38,115,224	\$270,700,000	\$156,578,338
Transit Operations	\$19,090,000	\$19,085,929 <sup>3</sup>	\$112,780,000	\$101,016,534
Administration	\$1,000,000 <sup>2</sup>	\$2,469,146	\$15,200,000	\$10,279,980
<i>Subtotal Annual Budget Cycle Expenditures</i>	\$67,830,000	\$59,670,299	\$398,680,000	\$267,874,852

<sup>1</sup> Inception to FY 2023 amounts reflect an update made to the prior year accrual allocation, resulting in updated reporting on program category expenses.

<sup>2</sup> Due to the lawsuit, there was a balance of available allocation for administration of the Program, therefore, only \$1,000,000 was allocated in FY23.

<sup>3</sup> Transit Operations allocation included the following four categories: Enhance Core Bus Network, Expand Mobility, Support New/Innovative Transit Service, Improve Amenities at Bus Stops.

The following table outlines the allocation and expenditures for the remaining program categories in FY 2022–2023 and the inception to FY 2023 period. These expenditures are allocated on a biennial basis in alignment with VTA’s budget cycle.

**TABLE 4: ALLOCATIONS AND EXPENDITURES FOR PROGRAM CATEGORIES WITH BIENNIAL BUDGETING**

Program Category	FY 2022–2023		Inception to FY 2023 (4/1/2017–6/30/2023)	
	Allocation	Expenditures	Allocation	Expenditures <sup>[1]</sup>
VTA's BART Silicon Valley Phase II	-	\$46,370,085	\$150,000,000	\$46,370,085
Bicycle and Pedestrian Program	\$1,490,000	\$3,624,074	\$56,390,000	\$5,874,037
Caltrain Corridor Capacity Improvements	\$17,010,000	\$1,586,717	\$42,450,000	\$5,045,748
Caltrain Grade Separations	-	\$263,534	\$71,000,000	\$780,067
County Expressways	-	\$10,121,038	\$50,000,000	\$26,553,145
Highway Interchanges	-	\$32,017,130	\$364,790,000	\$131,410,309
State Route 85 Corridor	-	\$927,976	\$14,500,000	\$3,564,179
<i>Subtotal Biennial Budget Cycle Expenditures</i>	\$18,500,000	\$94,910,554	\$749,130,000	\$219,597,570
<b>Total Program Expenditures (including Annual Budget Cycle Expenditures shown in Table 4)</b>	\$86,330,000	\$154,580,853	\$1,147,810,000	\$487,472,422

<sup>1</sup> Inception to FY 2023 amounts reflect an update made to the prior year accrual allocation, resulting in updated reporting on program category expenses.

According to these records, all program categories are currently operating within their respective budget allocations. 2016 Measure B expended \$154,580,853 in FY 2022–2023, which includes \$59,670,299 in Annual Budget Cycle Expenditures and \$94,910,554 for Biennial Budget Cycle Expenditures.

# APPENDIX A – AUDIT RESOLUTION LOG

The following table summarizes the expenditure management and control recommendations included in this report for future reporting.

Source	Recommendation	Management Response	Status of Resolution	Planned Resolution Date
<p><b>Observation 1A:</b> Transit Operations Actual Costs Isolation Methodology (Objective 1A from the Moss Adams 2017–2019 Report; 2020–2021 Report, and current year report)</p>	<p>As required by the ballot language, VTA should continue to update and implement Transit Operations Fund Expenditure Guidelines to define what elements are allowable or unallowable and obtain appropriate approval from key stakeholders. Expenditure Guidelines should be updated to address how any unallowable charges are excluded from the current allocation methodology and process. The enhanced guidelines will support transparency, accountability, and alignment with the Program and voter-approved ballot language. In addition, and as a best practice, VTA should establish performance metrics to assess impact and success of these funds in accordance with the ballot language, specifically Attachment D Transit Operations Candidate Projects and Programs List.</p>	<p>The 2016 Measure B Program will continue to review and update the validation processes.</p>	<p>Open – Steps have been taken</p>	<p>We'll review annually.</p>
<p><b>Observation 1B:</b> Administration Expenditure Guidelines (Objective 1B from the Moss Adams 2017–2019 report, 2020–2021 report, and current year report)</p>	<p>Closed</p>	<p>Closed</p>	<p>Closed</p>	<p>Closed</p>

## APPENDIX B – INTERVIEWS

We interviewed the following VTA personnel:

- Audit Program Manager
- Deputy Director, Grants & Allocations
- 2016 Measure B Program Manager
- Assistant Controller
- Financial Accounting Manager
- Accountant
- MBCOC Committee Members (6)

