

TO: Regional Transportation Commission  
FROM: Linda Wilshusen, Executive Director  
RE: Response to SCCRTC *2003 Triennial Performance Audit*

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**RECOMMENDATION:**

The Budget and Administration/Personnel Committee and staff recommend that the Regional Transportation Commission:

1. Approve the responses to the *2003 Triennial Performance Audit* recommendations and authorize staff to initiate implementation.
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**BACKGROUND**

The Commission and transit operators receiving Transportation Development Act (TDA) funds are required by state law to have an independent performance audit of their operations conducted every three years. The objective of the audits is to determine compliance with state requirements and to evaluate the efficiency, effectiveness and economy of their operations. The audited agency must respond to any recommendations in the audits. The Commission contracted with the firm of Moss, Levy and Hartzheim, CPAs to perform the audits covering fiscal years 00-01, 01-02, 02-03 (three years ending June 30, 2003).

The Commission received the *2003 Triennial Performance Audit* of the SCCRTC at its June 3, 2004 Commission meeting. The Santa Cruz Metro Board has also received the triennial performance audit for its agency. Both audits concluded that the agencies are “managed and operated in an effective, efficient and economical manner”.

The Commission forwarded the *2003 Performance Audit* to the Budget and Administration/Personnel Committee to review the recommendations and make recommendations to the RTC on any follow up activities. At its October 22<sup>nd</sup> meeting, the Committee considered staff’s recommended responses and voted to forward them to the RTC, with one addition as noted below.

**DISCUSSION**

The executive summary of the SCCRTC *2003 Performance Audit* is attached ([Attachment 1](#)). Recommendations for action are made in only one of the five functional areas examined, Administration and Management. The Auditors make the following recommendations:

*“Our recommendation is to review the salary cap policy imposed by the County, explore options to become independent from the County’s Compensation Policy, and perform a cost benefit analysis in conjunction with improving the salary structure.”*

*“We recommend that the SCCRTC become an autonomous entity from the County or to implement an accounting system that is able to integrate both the County’s and the SCCRTC’s reporting systems.”*

*“We recommend that the SCCRTC explore options of becoming fully independent from the County and/or of crafting more limited operational arrangements with the County or another governmental entity.”*

### **Prior 2000 Triennial Performance Audit Recommendations and Follow Up**

The recommendations of the 2000 *Performance Audit* are summarized and the current status of follow up on these recommendations is noted in Attachment 1. The 2000 *Audit* recommendations echoed the same theme as prior year audits regarding separation of the RTC from the County’s administrative and personnel structure.

In 2002, responding to 2000 and prior performance audit recommendations, staff, with consultant assistance, prepared and the RTC considered a comprehensive report entitled: “Costs of Administrative Options for the RTC Establishing Itself as an Autonomous Government Employer” (3/02). After providing additional information to the Budget & Administration Committee, including a cost-benefit analysis which showed that an autonomous organization would be cost-effective, in mid-2003, citing competing priorities, the Committee declined to make recommendations to the RTC regarding this option.

### **Current 2003 Triennial Performance Audit Recommendations and Proposed Follow Up**

The recommendations in the current performance audit again echo the recommendations in prior audits. Substantive information has been developed which supports the cost-effectiveness of separating the RTC from the County administrative and personnel structure. Much of this cost-effectiveness is a consequence of the County’s disinclination to deviate from its standard Departmental administrative and operating structure in its relationship with the RTC, except as required by the Memorandum of Understanding between the RTC and the County.

The decision to follow through with current & earlier *Performance Audit* recommendations to establish an autonomous agency rests with the Commission. In lieu of considering staff recommendations to move ahead with this significant and overdue organizational adjustment, the B&A committee agreed with the following staff recommendations, with one addition as shown.

### **Proposed Responses to 2003 Performance Audit Recommendations (in lieu of establishing an autonomous agency):**

**Recommendation:** *“Our recommendation is to review the salary cap policy imposed by the County, explore options to become independent from the County’s Compensation Policy, and perform a cost benefit analysis in conjunction with improving the salary structure.”*

**Response:** By Spring 2005, the RTC will collect data and perform a compensation analysis of all positions using information from similar Regional Transportation Planning Agencies, and provide the results along with any recommendations to the RTC Budget & Administration Committee, with the intent that the Committee shall be authorized to communicate any recommendations it may have to the County Personnel Director prior to County labor contract negotiations, expected during the Summer of 2005. It is the RTC's objective that its employees are compensated in a manner consistent with like agencies in California.

**Recommendation:** *"We recommend that the SCCRTC become an autonomous entity from the County or to implement an accounting system that is able to integrate both the County's and the SCCRTC's reporting systems."*

**Response:** By mid-2005, the RTC, in consultation with the Auditor-Controller, will contract with an accounting consultant to review the RTC's accounting and budgeting systems including their interface with the County system, and make recommendations on improving efficiency and eliminating redundancy. It is the RTC's objective that a modified and improved accounting and budgeting system be in place by the start of FY06-07.

**Recommendation:** *"We recommend that the SCCRTC explore options of becoming fully independent from the County and/or of crafting more limited operational arrangements with the County or another governmental entity."*

**Response:** By the end of 2005, the RTC will analyze and investigate alternatives to all remaining services provided by the County, and will continue to contract with the County for those services which are cost-effective for the RTC. The RTC will also update its survey of other local governmental and transportation entities regarding potential administrative services they may be able to provide, *and will update its Memorandum of Understanding with the County of Santa Cruz, as appropriate*[added by Budget & Administration Committee 10/22/04]. It is the RTC's objective to operate in a manner which is cost-effective and administratively efficient.

### **SCMTD Response to its 2003 Performance Audit**

SCMTD has prepared its response to the one recommendation in its performance audit; that response is attached ([Attachment 2](#)).

### **SUMMARY**

The *2003 Triennial Performance Audit* for the RTC echoes prior audit recommendations that the RTC explore alternatives to the current administrative arrangement with the County in order to improve efficiency and achieve equitable compensation for its staff. The Budget & Administration Committee and staff recommend approval and implementation of the proposed responses.

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Prepared by Linda Wilshusen, Executive Director

Attachment 1: Excerpts from *2003 Triennial Performance Audit* of the SCCRTC

Attachment 2: SCMTD's Response to its *2003 Triennial Performance Audit*

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