

ATTACHMENT 1

SANTA CRUZ COUNTY REGIONAL TRANSPORTATION FY2006 TRIENNIAL AUDIT SCOPE OF WORK

PHASE ONE: Performance Audit of the RTPA

Task 1: Determine Compliance with Legal and Regulatory Requirements

Moore & Associates will examine the RTC's functions and compliance with the Transportation Development Act and relevant sections of the California Code of Regulations. The following compliance requirements will be examined:

- Claim to LTF moneys (PUC 99231),
- Claims for pedestrians and bicycles (PUC 99233.3 and 99234),
- Citizen participation (PUC 99238 and 99238.5),
- Recommendations for operator productivity improvements (PUC 99244),
- Annual certified fiscal and compliance audits (PUC 99245),
- Triennial Performance Audits (PUC 99246 and 99248),
- Rules and regulations for operator revenue ratios (PUC 99270.1 and 99270.2),
- Evaluation of claims for proposed services (PUC 99275.5),
- Allocation of state transit assistance funds (PUC 99310.5, 99313.3 and 99314.3, Prop 116),
- Identification of unmet transit needs (PUC 99401.5), and
- Annual audit and records (California Code of Regulations 6642).

Moore & Associates will employ a three-step process to review compliance requirements.

Step 1: Discuss compliance with RTC management. These discussions will determine where the responsibility for compliance resides and provide an understanding of the transit operator's systems and procedures.

Step 2: Investigate evidence of compliance. Moore & Associates will determine the objective evidence required to demonstrate compliance from the initial interviews. Our project team will investigate and collect the appropriate documentation to include annual reports, fiscal and

compliance audits, CHP certifications, capital and operational budgets, calculated measures, or other data meeting the provisions in Chapter 6: “Fieldwork Standards for Performance Audits” of the most recent edition of the *Government Audit Standards*.

Step 3: Disclose results of the compliance review. Our audit team will produce a written summary of the tests that were made of compliance and their results. If an indication of non-compliance with any of the statutory requirements is discovered, we will discuss the findings with the RTC’s project manager, and then provide a detailed review of the findings in the audit report with conclusions and appropriate recommendations.

Task 2: Follow-up on Prior Performance Audit Recommendations

To ensure the proposed audit is both effective and valuable, Moore & Associates will review and evaluate the implementation of the prior Triennial Performance Audit recommendations. This objective assessment will provide assurance the RTPA has made quantifiable progress towards improving both the efficiency and effectiveness of its operation.

This task is comprised of four subtasks: Obtain and review key documents, assess progress of implementation of prior recommendations, document evidence of implementation of recommendations, and discuss results of follow-up review. These are outlined below as Tasks 2A through 2D.

Task 2A: Obtain and Review Key Documents

By reviewing key documents relating to planning and performance, our team can evaluate where the RTPA stands in terms of implementing recommendations.

The documents we will review include:

- Prior performance audits (two most recent);
- Recommendations made in management letters that may have accompanied prior RTC fiscal audits;
- Other RTPA-produced performance evaluation data which document improvement; and

- Planning or other RTPA-generated documents that demonstrate improvement.

Task 2B: Assess Progress of Implementation of Prior Recommendations

The implementation status of each recommendation in the prior performance audit will be determined. If implementation has been completed, the effectiveness and benefits, as well as the difficulties and costs, involved in implementing the recommendation will be determined. If the implementation is underway, the initiation and expected completion dates, current status, difficulties, and costs will be addressed. If the implementation of the recommendation has not commenced, Moore & Associates will examine the reasons why the recommendation has not been implemented and assess if it remains relevant or feasible to implement.

Task 2C: Document Evidence of Implementation of Recommendation

Using provided documents, observed practices, and other data that meets the standards outlined in Chapter 6: “Fieldwork Standards for Performance Audits,” our audit team will obtain evidence to validate the implementation status of each recommendation in prior audit reports.

Task 2D: Discuss Results of Follow-up Review

Uncorrected significant or material findings and recommendations from prior audits, as well as notable accomplishments in implementing prior recommendations, will be included in the administrative draft report.

Task 3: Detailed Review of RTPA Functions

The specific activities to be included in the proposed functional review include:

Administration and management: general administration, internal planning and achievements, governing board activities, and personnel.

Transportation planning and regional coordination: Regional Transportation Plan, RTP topics, RTP implementation, information generation and distribution, and information collection.

Claimant relationships and oversight: technical and managerial assistance to operators, communication of TDA reporting and information, and TDA claim processing.

Marketing and transportation alternatives: marketing and public relations and public information and transportation alternatives.

Grant applications and management: grant applications and coordination, grant application assistance, and grant management and compliance.

In conducting a functional review of the RTC, Moore & Associates will identify and determine the extent and efficiency of its RTPA functions using several sources. We will conduct interviews with RTC staff, governing board members, Social Services Transportation Advisory Council members, and transit claimant personnel. To streamline the interview process, we will submit a list of interview questions to the RTC's project manager. Interviews may be conducted during site visits and/or by telephone. Supplemental interviews with other regional agencies and/or Caltrans may be appropriate to gather more in-depth information regarding potential areas of concern. We will also use documentation gathered in the background phase including the Regional Transportation Plan, the Overall Work Program, and adopted policies and procedures. Our team will follow up on prior performance audits and review operator compliance with statutory and regulatory requirements.

There are fewer performance measures for an RTPA than the standardized performance indicators used to assess transit operator performance. Therefore, our functional review will rely heavily upon comparisons of RTPA achievements relative to RTC adopted goals and objectives. The functional review will also rely upon the audit team's professional and objective judgment.

Task 4: Review Financial Records Management

Moore & Associates will also analyze the methods used in managing the RTC's financial records. Some of the more specific areas our audit team will evaluate include whether or not grant application and compliance responsibility is clearly assigned within the RTC. Our team will also analyze any current systems being used to provide accurate performance and financial data to the operator's management and governing board. This will ensure that all data is being recorded as efficiently and as accurately as possible enhancing the effectiveness of the audit process.

Task 5: Preliminary and Final Audit Report

Using the data gathered in connection with previous tasks, Moore & Associates will create a matrix summarizing the significant issues and concerns identified during the evaluation of the RTC. Any concerns of inefficient or ineffective performance will be investigated thoroughly. A detailed investigation of functional concerns, problems, and potential areas of improvement will form the basis of the audit conclusions and recommendations.

Working with the RTC, Moore & Associates will develop specific strategies and recommendations to address each of the issues and concerns identified. Alternatives to meeting the intent of the recommendations will be explored to determine an implementation strategy that is appropriate to the individual transit operator's environment. Our recommendations will include desired resolution/implementation timeline, anticipated costs associated with each strategy/recommendation, and a most likely responsible party.

Finally, using lessons learned from similar assignments, our audit team will identify possible institutional hurdles to the implementation of the proposed recommendations and strategies. Moore & Associates will review the preliminary findings and recommendations with RTC's project manager before completing our Administrative Draft. A copy of our Administrative Draft will be provided for review and comment prior to report finalization.

Our administrative draft will include the following components:

- Letter of Transmittal
- Table of Contents
- Executive Summary
- Introduction
- Audit Results, and
- Conclusions and Recommendations

All comments and concerns will be reviewed and discussed with the RTC's project manager. Following this discussion, any resulting changes deemed appropriate to the

factual content of the report and/or the audit conclusions and recommendations will be incorporated into the final report.

Once our audit team has made any necessary changes to its Administrative Draft, we will finalize the audit reports and transmit the final report to the Santa Cruz County RTC.

The final elements of the proposed audit will consist of presentations to the Santa Cruz County RTC's Plans and Programs Committee, Transit Policy Committee, as well as its Board of Directors. All work will be completed no later than three calendar months following project initiation.

PHASE TWO: Transit Operator Audit

Task 6: Compliance with Legal and Regulatory Requirements

The second phase of the project is the Triennial Performance Audit of the Santa Cruz Metropolitan Transit District. An annual certified fiscal audit confirms TDA funds were apportioned in conformance with applicable laws, rules, and regulations. At a minimum, the following operator compliance aspects will be examined:

- Submission of Annual Reports (PUC 99243),
- Submission of Annual Fiscal and Compliance Audits (PUC 99245),
- CHP Inspection and Certification (PUC 99251),
- Claims for TDA Funding (PUC 99261),
- Vehicle Staffing (PUC 99264),
- Changes in Operating Budget, Scope of Operations, and Capital Budget (PUC 99266),
- Ratio of Fare Revenue to Operating Cost (PUC 99268.2, 99268.3 and 99268.5),
- Ratio of TDA Operator Funding (PUC 99268),
- Funding of Retirement System (PUC 99271),
- Contracting Restrictions (PUC 99314.5), and
- Urban Mass Transportation Act Funding (California Code of Regulations 6754).

Moore & Associates will employ a three-step process to review compliance requirements.

Step 1: Discuss Compliance with Key Personnel. These discussions will determine where the responsibility for compliance resides and provide an understanding of the operator's systems and procedures.

Step 2: Investigate Evidence of Compliance. Moore & Associates will determine the objective evidence required to demonstrate compliance from the initial interviews. The project team will investigate and collect the appropriate documentation to include annual reports, fiscal and compliance audits, CHP certifications, capital and operational budgets, calculated measures, or other data meeting the provisions in Chapter 6: "Fieldwork Standards for Performance Audits" in the most recent edition of the *Government Audit Standards*.

Step 3: Disclose Results of the Compliance Review. The audit team will produce a written summary of the tests that were made of compliance and their results. If an indication of non-compliance with any of the statutory requirements is discovered, we will discuss the findings with the RTC's project manager and the transit operator, and then provide a detailed review of the findings in the audit reports with conclusions and appropriate recommendations.

Task 7: Progress Toward RTP Goals

Our audit team will review actions taken by SCMTD to achieve the goals set out by the 2005 Regional Transportation Plan. Progress will be analyzed in order to ensure that all tasks in the plan are underway and that the manner in which they are being completed is effective and efficient. If progress is not being made, Moore & Associates will develop a guide to keep SCMTD on track throughout the year in order to ensure all deadlines are being met and all deliverables are in progress.

Task 8: Assess Prior Performance Audit Recommendations

To ensure the proposed audit is both effective and valuable, Moore & Associates will review and evaluate the implementation of the prior Triennial Performance Audit recommendations. This objective assessment will provide assurance the operator has made quantifiable progress towards improving both the efficiency and effectiveness of its operation.

This task is comprised of four subtasks: Obtain and review key documents, assess progress of implementation of prior recommendations, document evidence of implementation of recommendations, and discuss results of follow-up review. These are outlined below as Tasks 8A through 8D.

Task 8A: Obtain and Review Key Documents

By reviewing key documents relating to planning and performance, our audit team will evaluate where the operator stands in terms of implementing recommendations. The documents we will review include:

- Prior performance audits;
- Recommendations made in management letters that may have accompanied fiscal audits;
- Other transit operator-generated performance evaluation data which document improvement; and
- Planning or other transit operator-generated documents demonstrating improvement.

Task 8B: Assess Progress of Implementation of Prior Recommendations

The implementation status of each recommendation in the prior performance audit will be determined. If implementation has been completed, the effectiveness and benefits, as well as the difficulties and costs, involved in implementing the recommendation will be determined. If the implementation is underway, the initiation and expected completion dates, current status, difficulties, and costs will be addressed. If the implementation of the recommendation has not commenced, Moore & Associates will examine the reasons why the recommendation has not been implemented and assess if it remains relevant and/or feasible to implement.

Task 8C: Document Evidence of Implementation of Recommendations

Using provided documents, observed practices, and other data that meets the standards outlined in Chapter 6: “Fieldwork Standards for Performance Audits,”

our audit team will obtain evidence to validate the implementation status of each recommendation in prior audit reports.

Task 8D: Discuss Results of Follow-up Review

Uncorrected significant or material findings and recommendations from prior audits, as well as notable accomplishments in implementing prior recommendations, will be included in our Administrative Draft report.

Task 9: Verify Annual Performance Indicators

Moore & Associates will, at a minimum, calculate, verify, and evaluate the following indicators with respect to the Santa Cruz MTD:

- Operating Cost per Passenger
- Operating Cost per Vehicle Service Hour
- Passengers per Vehicle Service Hour
- Passengers per Vehicle Service Mile,
- Vehicle Service Hours per Employee
- Farebox recovery ratio
- Incidence of customer no-show (demand-response)
- Incidence of trip denial (demand-response)
- Average fare, and
- Vehicle spare ratio.

Performance indicators will be calculated and analyzed on both a system as well as a mode (i.e., demand-response and fixed-route) basis. Additional performance indicators deemed as appropriate will be selected, calculated, and analyzed as part of our functional review.

To assess the validity and use of performance indicators, Moore & Associates will assess internal controls, gather data and test the data collection methods, calculate performance indicators, and evaluate performance indicators. These subtasks are outlined below as Tasks 9A through 9D.

Task 9A: Assess Internal Controls

To ensure the data collected is both reliable and valid, our audit team will assess internal controls over the collection of performance related data. The key steps our audit team will employ in assessing internal controls include:

- Determine the significance and sensitivity of the collected data,
- Assess susceptibility to misuse,
- Identify and understand relevant internal controls,
- Determine what is already known about control effectiveness,
- Assess adequacy of control design,
- Determine, through testing, if controls are effective, and
- Report on internal control assessment and discuss needed corrective actions.

Task 9B: Gather Data and Test the Data Collection Methods

Moore & Associates will gather the following data and verify the data collection method for each item.

Operating Cost. Operating cost will be validated by the SCMTD's use of standardized methodology according to the *Uniform System of Accounts and Records* developed by the State Controller and the California Department of Transportation. Moore & Associates will verify the total actual expenses equal the total expenses presented in audited financial reports. Operating Cost will be computed by deducting all non-operational expenses such as amortization, depreciation, direct charter expense, and lease costs.

Passenger Data. After obtaining passenger counts for the covered reporting period, our audit team will examine the data collection methodology employed to determine if any susceptibility to material error exists. Moore & Associates will observe and verify the passenger data collection process. If significant deviation is observed, the audit team will recalculate and report performance indicators based upon data extrapolated from a representative sample. In such a case, the discrepancy and

adjustment will be noted. Finally, if a deviation in acceptable methodology is noted, our audit team will recommend procedural improvements to prevent recurrence.

Vehicle Service Hours and Miles. Following a review of data relating to vehicle service miles and hours for the audit period, the definition and methodology for calculating Vehicle Service Hours and Miles will be discussed and reviewed with the RTC's project manager and the SCMTD to ensure compliance. Should any material error be discovered, the data will be recreated from primary records such as schedules, dispatch logs, driver logs, and vehicle maintenance records to the extent possible. A notation will be made of any adjustments to the calculation.

Employee Hours. Counts of the total number of employee hours worked will be obtained. Moore & Associates will verify that all transportation-system-related hours worked by persons employed in connection with the system are captured. This includes employees not directly employed by the transportation system and its contractors. If a definition of a full-time-equivalent (FTE) employee (as defined under the TDA) has been employed, the varying standard will be noted.

Fare Revenue. The integrity of the revenue data collection process would be tested by:

- Dividing total fare revenue by passenger counts to obtain average fare per passenger,
- Sampling fare collection data at its source, and
- Comparing the two figures.

Our audit team will seek to identify any deviations or indications of poor internal control to reveal vulnerability to misappropriation of fare revenues.

Task 9C: Calculate Performance Indicators

Using the data described above, Moore & Associates will calculate and verify all TDA-stipulated Performance Indicators.

Task 9D: Evaluate Performance Indicators

Moore & Associates proposes the following methodology to evaluate performance indicators:

- Discussion of the indicators with the SCMTD to confirm the definitions and data gathering methodology used and to understand the reasons for indicator trends and magnitudes;
- Compare the current indicators to those calculated in prior years (both within and prior to the covered audit period) to determine trends, identify improvements and declines, and identify areas for further investigation;
- Compare the indicators among peer operations noting relevant differences; and
- Review adherence to statutory and regulatory requirements. The significance of the trends analysis will be assessed in relationship to the effect of any unusual events or changes (e.g., community demographics and socio-economic, data definition and collection, service quality, technology and management and operating practices).

Task 10: Review Operator Functions

The specific activities to be included in the proposed functional review include:

General management and organization: Administrative oversight, organizational structure and reporting, recent program changes and innovations, and other areas of interest to management and governing board.

Service planning: Strategic planning, short range planning, evaluation of routes, planning for special transportation needs, public participation, and surveys of riders/non-riders.

Scheduling, dispatching and operations: Assignment of drivers; vacation, absences, sick leave; assignment of passengers to demand; part-time and relief drivers; and vehicle assignments.

Personnel management and training: Recruitment, motivation, training and safety, and benefits.

Administration: Budgeting and MIS financial and grants management, risk management, contract management, facility management, accounts payable, procurement, revenue collection and cash management, and payroll.

Marketing and public information: Marketing and public information and intergovernmental communications.

Maintenance: Preventative maintenance, sufficiency of facilities, vehicle condition, repair conditioning, parts management, communication with dispatch, outsourcing, and third-party maintenance.

In conducting the functional review, Moore & Associates will identify and determine the extent and efficiency of the functions using the following sources:

- Interviews with operations contractor management and respective administrative staff using industry established performance inquiries (Pages 48-72 of the *Guidebook*);
- Interviews with SCMTD staff, Transit Advisory Committees, governing members, Caltrans, Social Services Transportation Advisory Council, and other stakeholders as deemed relevant;
- Documentation gathered in the background phase including:
 - Productivity committee reports,
 - Organization charts and job descriptions,
 - User surveys,
 - Short Range Transit Plans/Transit Development Plans,
 - Results of the previous Audit tasks,
 - Review of operator compliance with statutory and regulatory requirements,
 - Follow-up of prior performance audits, and
 - Review and analysis of TDA-required performance indicators.

Moore & Associates will investigate all concerns of inefficient, inadequate, or ineffective performance. This investigation will include a range of additional elements that are relevant to the particular areas of concern. We may calculate additional functional performance indicators to provide additional insight or understanding. Key staff members may be interviewed. We will also undertake a detailed review of relevant documents for the major functions including, but not limited to, budgets, plans, organizational charts, annual reports, short range transit plans, long range transit plans, policies and procedures, service descriptions, prior performance audits, schedules and routes, mission statements marketing materials and other relevant management documentation as needed to provide supporting data in problem areas.

Our investigation of functional concerns along with recommended practices will constitute the basis of most findings in the audit report including any recommendations.

Task 11: Preliminary Management Letters and Final Report

Using the data gathered, Moore & Associates will create a matrix summarizing the significant issues and concerns identified during each of the transit operator evaluations.

Working with the RTC and SCMTD, Moore & Associates will develop specific strategies and recommendations to address each of the issues and concerns identified. Alternatives to meeting the intent of the recommendations will be explored to determine an implementation strategy that is appropriate to the SCMTD's environment. Our recommendations will include desired resolution/implementation timeline, anticipated costs associated with each strategy/recommendation, and a most-likely responsible party.

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