
RECOMMENDED ACTION:

☐ Information Only  ☒ Briefing Item  ☐ Recommended Motion

1. Receive Audit Plan for the FY 2009-10 Financial Audit

Fiscal Impact:
N/A

Background/Discussion:
In accordance with Board Policy No. 308, Accounting Policy, Macias Gini and O’Connell LLP (MGO), an independent firm of Certified Public Accountants (CPAs) shall perform the annual financial audit for the year ending June 30, 2010. Upon completion of their fieldwork, MGO will issue an opinion, which will be incorporated into the Comprehensive Annual Financial Report (CAFR) of the District.

MGO and District Staff held an entrance conference on June 10, 2010. The topics discussed were the Engagement Letter, new audit issues that were relevant to the current fiscal year and the following audit plan elements:

❖ Timeline
❖ Client Participation Schedule
❖ General Matters

As part of the audit planning process, the independent accounting firm reviews the scope of the audit with the Board Finance and Audit Committee. This discussion includes a review of the adequacy and effectiveness of the systems of internal controls over financial reporting and any significant changes in those controls; accounting practices, and disclosure controls and procedures of the entity; and current accounting trends and developments.

Attached please find the required communications letter from Macias Gini & O’Connell, LLP (MGO) for the AC Transit FY 2009-10 audit engagement. As required by professional audit standards, this letter contains communications that are mandatory between the independent
auditor and the auditee on an annual basis. MGO will commence the interim portion of the audit engagement on June 21, 2010 and anticipates completion by July 16, 2010. The audit team will return for approximately four weeks to complete their final fieldwork relative to the audit engagement on September 20, 2010 through October 15, 2010. As part of the audit procedures, MGO will be conducting SAS 99 interviews with various Executive Staff members, the chair of the Finance Committee and other District employees as they deem necessary to assess the risk for potential fraud, and other areas considered as high risk by interviewees.

The FY 2009-10 year-end report, including the final audited set of financial statements, is scheduled for presentation to the Finance and Audit Committee and to the full Board at the December meeting. The year-end report will contain the District’s consolidated financial statements including Paratransit and the AC Transit Financing Corporation. Separate reports will also be presented for the AC Transit Financing Corporation, the Single Audit, the Transportation Development ACT (TDA) Compliance Report, Measures B, J, and BB, compliance with the Appropriations Limit requirements of Section 1.5 of Article XIIIIB of the California Constitution, and the agreed upon procedures review of Special Transit Service Districts 1 and 2. The Comprehensive Annual Financial Report is scheduled for distribution no later than December 31, 2010.

The Board of Director’s Finance and Audit Committee serves as the Audit Committee. The Committee is engaged primarily in an oversight function and is ultimately responsible for the District’s financial reporting processes and the effectiveness over internal controls. The Audit Committee, consistent with the Sarbanes Oxley Act, shall have Board member representation only. However, senior management has the opportunity for significant interaction with the Audit Committee.

Prior Relevant Board Actions/Policies:
Board Policy No. 308 Accounting Policy, Approved 07/2008
Board Policy No. 302 Introduction to Fiscal Policies, 06/2008

Attachments:
1. Audit Engagement Letter
2. Audit Timeline
3. Board Policy No. 308

Approved by: Mary V. King, Interim General Manager
Prepared by: Lewis G. Clinton, Jr., Chief Financial Officer
Date Prepared: June 8, 2010
Board of Directors
Alameda-Contra Costa Transit District
Oakland, California

We are pleased to confirm our understanding of the services we are to provide the Alameda-Contra Costa Transit District (the District) for the fiscal year ended June 30, 2010. We will audit the District’s business-type activity and the pension trust fund, which comprise the District’s basic financial statements, as of and for the year ended June 30, 2010. Our report on the District’s basic financial statements will make reference to the auditors of the District’s pension trust fund not audited by Macias Gini & O’Connell LLP (MGO). As a result, we will make reference to the work performed by the other firm in our audit opinion on the District’s financial statements.

As part of our engagement, we will apply certain limited procedures to the supplementary information required by the Governmental Accounting Standards Board, such as management’s discussion and analysis and the schedule of funding progress. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RS1 or with procedures relating to it, we will disclaim an opinion on it.

Supplementary information other than required supplementary information, such as the introductory section, other supplementary information, the schedule of expenditures of federal awards, and the statistical section also accompanies the District’s basic financial statements. We will subject the other supplementary information and the schedule of expenditures of federal awards to the auditing procedures applied in our audit of the basic financial statements. The introductory section and the statistical section will not be subjected to the auditing procedures applied in our audit of the financial statements, and we will disclaim an opinion on them.

Our engagement will also include the following:

- National Transit Data Report – We will apply agreed-upon procedures, which the Federal Transit Administration (FTA) has specified, to the Federal Funding Allocation Status Form of the District. The Federal Funding Allocation Status Form will be presentation the basis set forth in the FTA’s National Transit Database “Uniform System of Accounts”.

- Transportation Development Act Compliance Report – We will issue a separate compliance report based on audit of the financial statements performed in accordance with Government Auditing Standards and the Transportation Development Act.

- Measure B and J Reports – We will issue separate compliance reports in accordance with the Alameda County Transportation Authority requirements governing the use of the Measure B funds and with Contra Costa Transportation Authority requirements governing the use of the Measure J funds.

- Gann – Our engagement will also include agreed-upon procedures to review compliance with the appropriations limit requirements of Section 1.5 of Article XIIIB of the California Constitution.

- Alameda-Contra Costa Transit Financing Corporation (Financing Corporation) – We will audit and separately report on the Financing Corporation, a component unit of the District.

- Report on Board of Directors and Executive Staff Expenditures – We will apply agreed-upon procedures on compliance that expenditures made by the Board of Directors and Executive Staff complied with the financial related sections of Transit District Law and the District’s Board Policies. We will test a minimum of 25% of the expenditures made by the Board of Directors and Executive Staff.
• Measure BB and Special District 1/2 – We will perform annual Measure BB and Special Transit Service District 1 and 2 compliance examinations for the purpose of expressing an opinion on management’s assertion that the District complied with the requirements governing the use of these funds as specified by the agreements. We will also review the annexation agreements of the Cities of Fremont and Newark and any memorandums of Understanding for Special Transit Districts 1 and 2. Additionally, we will review the cost allocation methodology for Special Transit Districts 1 and 2 and the District’s compilation of supporting documentation.

Audit Objectives
The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on—

• Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.

• Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of the Finance and Audit Committee, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Management Responsibilities
Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met. Management is also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the business-type activity and the pension trust fund of the District and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for federal award program compliance with applicable laws and regulations and the provision of contracts and grants agreements. Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

You are responsible for all management decisions and functions. As part of the audit, we will prepare a draft of your financial statements, schedule of expenditures of federal awards, and related notes. In accordance with Government Auditing Standards, you are to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate an qualified management-level individual to be responsible and accountable for overseeing our services.
Management is responsible for making all financial records and related information available to us, including identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, Government Auditing Standards do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.
Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, Government Auditing Standards, and OMB Circular A-133.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District’s compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of District’s major programs. The purpose of these procedures will be to express an opinion on District’s compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management’s responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors’ reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors’ reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of Macias Gini & O’Connell LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the United State Department of Transportation or its designee, a federal agency providing direct or indirect funding, or the U.S.
Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Macias Gini & O'Connell LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release or for any additional period requested by the United State Department of Transportation. If we are aware that a federal awarding agency, pass-through entity, or audittee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the District in the performance of our services. Any discussion that you have with personnel of Macias Gini & O'Connell LLP regarding employment could pose a threat to our independence. Therefore, you agree to inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence. In addition, if you hire one of our personnel, you agree to pay us a fee of 20% of that individual's base compensation at the District 90 days from the first day of employment.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2009 peer review accompanies this letter.

We appreciate the opportunity to be of service to the District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Macias Gini & O'Connell LLP
Certified Public Accountants

By:

[Signature]

David G. Bullock, CPA
Partner

RESPONSE:
This letter correctly sets forth the understanding of the District.

Signature:

Name:

Date:
SYSTEM REVIEW REPORT

May 14, 2009

To the Partners of
Macias, Gini & O’Connell, LLP
and the Peer Review Committee of the American Institute of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Macias, Gini & O’Connell, LLP (the “firm”) applicable to non-SEC issuers in effect for the year ended March 31, 2009. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the Government Auditing Standards and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Macias, Gini & O’Connell, LLP applicable to non-SEC issuers in effect for the year ended March 31, 2009, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. Macias, Gini & O’Connell, LLP has received a peer review rating of pass.

Davis, Monk & Company

DAVIS, MONK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Members:
CPAmerica International
Florida Institute of Certified Public Accountants
American Institute of Certified Public Accountants
Horwath International
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<td>Receipt of draft introductory section, MO&amp;MA, support for cash flow and notes, and statistics for District financials</td>
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AC Transit
Policy No. 308

BOARD POLICY

Category: FINANCIAL MATTERS

ACCOUNTING POLICY

Purpose:

The purpose of this policy is to document the District’s method of accounting, audit schedule, standards of internal controls and audit committee designation.

1. The accounting system of the District and the AC Transit Financing Corporation shall be maintained on an annual basis consistent with Generally Accepted Accounting Principles for governmental entities (GAAP).

2. An independent firm of Certified Public Accountants (CPAs) shall perform an annual financial audit including Management’s Discussion and Analysis, Schedule of Funding Progress, Schedule of expenditures of federal awards and Comparative statements and schedules, appropriate local tax measure compliance reports, the Measure BB Report, the Measure B and C Reports, compliance with the appropriations limit requirements of Section 1.5 of Article XIIIIB of the California Constitution, Transportation Development Act (TDA) Compliance Report, an agreed upon procedures review of AC Transit Special Transit Service Districts 1 and 2, the National Transit Database (NTD) Report, report to the State Controller, report of Board and Executive Staff expenditures, and the AC Transit Financing Corporation. The independent firm of CPAs will issue an opinion, which will be incorporated into the Comprehensive Annual Financial Report of the District. The audit of the financial statements will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133.

3. Audit contracts shall be competitively bid at least every five years, or sooner as desired by the Board. The Board Finance and Audit Committee Chairperson shall participate, along with staff, in the screening and selection process of the outside auditors. Any actions relating to annual renewal of audit contracts require Board approval.

Adopted: 4/92
Amended: 10/99; 10/01; 12/01; 08/04; 06/05; 06/06; 07/08
4. District Accounting Statements including a Balance Sheet, a Profit and Loss Statement and a Supplementary Schedule of District-funded Capital projects shall be produced and reviewed monthly by the General Manager or the Chief Financial Officer and shall be submitted to the Board of Directors at least quarterly.

5. Internal control procedures consistent with Section 404 of Sarbanes Oxley Act, continuously developed and maintained to ensure accurate financial reporting and an effective internal control structure over the assets of the District internal controls will take into consideration compliance with applicable laws, regulations and the provisions of contracts or grant agreements.

6. The Board of Directors Finance and Audit Committee shall serve as the audit committee. The committee engaged primarily in an oversight function and ultimately responsible for the District’s financial reporting processes and the effectiveness over internal controls. The audit committee, consistent with the Sarbanes Oxley Act, shall have Board member representation only. An internal auditor shall report results directly to the Audit committee. However, senior management has the opportunity for significant interaction with the audit committee, and the purpose of this course is to explore ways to improve those interactions. The internal auditor shall operationally report to the Deputy General Manager or other position as designated by the General Manager.

7. The Finance and Audit Committee shall be responsible for ensuring that the District complies with all District debt policies, including that the District shall not borrow funds that would adversely impact the financial condition of the District.