

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

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ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:  
SECOND QUARTERLY MONITORING REPORT

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P-861.2

APRIL 1989

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SECOND QUARTERLY MONITORING REPORT

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Acting Auditor General

April 6, 1989

P-861.2

Honorable Elihu M. Harris, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 2148  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its second quarterly report concerning the Alameda-Contra Costa Transit District's progress in implementing the recommendations from the Office of the Auditor General's report P-767 entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement." The district has improved aspects of its budgeting process, but still anticipates a deficit of \$2.5 million for fiscal year 1988-89. The district is substantially complying with its travel and personal expense policies. The district's attorneys appear to be adhering to the district's prohibition of engaging in private practice. The district, however, has not disseminated its policy that prohibits employees from using district resources for nondistrict purposes.

We conducted this audit to comply with Chapter 1147, Statutes of 1988.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kurt R. Sjoberg".

KURT R. SJOBERG  
Acting Auditor General

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## SUMMARY

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### RESULTS IN BRIEF

Since the release of our initial March 1988 report about the Alameda-Contra Costa Transit District's (district) financial and administrative controls, the district has taken steps to improve its operations. During our review for this report (our second monitoring report of the district), we noted the following conditions:

- For fiscal year 1988-89, the district has developed a budget that is better documented and contains what should prove to be more reliable estimates of revenues, subsidies, and expenses. Nevertheless, its revised budget for the year contains a \$2.5 million deficit;
- It complies substantially with its rules and policies for the travel and personal expenses of its directors, officers, and employees; and
- The district's attorneys appear to be adhering to the policy prohibiting them from the private practice of law while employed by the district, but the district has not fully disseminated its policy that prohibits employees from using district resources for nondistrict purposes.

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### BACKGROUND

As required by Chapter 1147, Statutes of 1988, this is our second quarterly monitoring report on the actions that the district has taken to correct deficiencies noted in the Office of the Auditor General's report entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement," Report P-767, March 1988.

The district operates over 800 buses that, in fiscal year 1987-88, provided approximately 61 million passenger trips in Alameda and Contra Costa counties and, to a lesser extent, to San Francisco and San Mateo counties. The district's revised budget for fiscal year 1988-89 shows projected revenues of \$118.7 million and expected expenses of \$121.2 million, resulting in an estimated deficit of \$2.5 million. The district is governed by an elected board of seven directors. The board of directors appoints a general manager, who is responsible for the operations of the district.

During our March 1988 review, we found that the district had insufficient financial control over its operations. From fiscal year 1984-85 through fiscal year 1986-87, the district's expenses have exceeded its revenues, and as a result, the district incurred large deficits. In addition, the district had weak controls over the travel and personal expenses of its board of directors and officers, which resulted in some overpayments. Finally, five of the district's six full-time, salaried attorneys used district resources to conduct their private law practices.

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## PRINCIPAL FINDINGS

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### The District Has Acted on Budgeting Recommendations but Still Has a Deficit

We reported in our March 1988 report that the district generally overestimated its revenues and underestimated its expenses. Further, we found that the district did not always have the records to show how it determined the amount that it budgeted for each expense contained in the budget. During our review for this monitoring report, we found that the district addressed our recommendations from our March 1988 report and has begun developing better documentation and what should prove to be more reliable estimates of revenues, subsidies, and expenses.

However, even though the district has taken steps to improve its budgeting process, it did not succeed in developing a balanced budget for fiscal year 1988-89. The district's original budget for fiscal year 1988-89 contained a \$2 million deficit. In January 1989, the general manager presented a revised forecast, based on five months of actual data and events after the budget adoption, which shows a deficit of approximately \$5.9 million. According to the general manager, the increase in the deficit is due to a number of events that could not be anticipated in the original budget and certain optimistic assumptions. According to the general manager, the district will decrease its expenses over the remaining part of the fiscal year; however, he estimates that there will still be a deficit of approximately \$2.5 million as of June 30, 1989.

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The District Has Acted on  
Recommendations for Controlling  
Travel and Personal Expenses

Since our March 1988 review, the district has revised its rules governing travel and personal expenses and has adopted new board policies that address our recommendations. We tested all 48 of the expense reports of the district's directors, an officer, and employees for the period from October 1, 1988, to February 14, 1989. We found that the district substantially complied with its travel policies and rules.

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The District Has Not  
Disseminated Its Policy  
Concerning Outside Employment

Since our March 1988 report, the district has adopted a policy that prohibits all district directors, officers, and employees from using district resources for nondistrict business. Furthermore, as of May 1, 1988, all of the district's attorneys are prohibited from engaging in private law practices while employed by the district. All of the district's attorneys have signed their

acknowledgment of the new policy. The district has also removed its attorneys' separate listings from the district's listings in the telephone books.

The district's attorneys appear to be adhering to the new policy. However, the district has not fully disseminated to its other employees its policy regarding the use of district resources for nondistrict purposes. As a result, district employees may not be aware of the prohibition against using district resources for nondistrict purposes. This lack of awareness could lead to misuse of district resources.

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#### **RECOMMENDATIONS**

To improve its financial condition and its control over expenses and resources, the Alameda-Contra Costa Transit District should take the following actions:

- Minimize the extent of the budgeted deficit for fiscal year 1988-89, continue to develop documented estimates of revenues, subsidies, and expenses for future budgets and ensure that those estimates are reliable; and
- Disseminate to all district employees the district's policy prohibiting the use of district resources for nondistrict purposes.

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#### **AGENCY COMMENTS**

The general manager of the Alameda-Contra Costa Transit District agrees with the findings of our report.



## INTRODUCTION

As required by Chapter 1147, Statutes of 1988, this is our second quarterly monitoring report on the actions that the Alameda-Contra Costa Transit District (district) has taken to correct deficiencies noted in the Office of the Auditor General's report entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement," Report P-767, March 1988.

The district operates over 800 buses that, in fiscal year 1987-88, provided approximately 61 million passenger trips in Alameda and Contra Costa counties, and, to a lesser extent, to San Francisco and San Mateo counties. The district has over 2,000 employees, and its headquarters are in Oakland. The district's initial budget for fiscal year 1988-89, which the district's board of directors approved in July 1988, showed anticipated revenues of \$118.6 million and expected expenses of \$120.6 million, resulting in an estimated deficit of \$2 million. In January 1989, the district's general manager submitted a revised version of the original budget for fiscal year 1988-89, which had been modified based on changes in district revenues and expenses during the first five months of the fiscal year. The revised budget shows projected revenues and subsidies totaling \$118.7 million and expenses totaling \$121.2 million, leaving a deficit of \$2.5 million. (The appendix shows a comparison between the original budget for fiscal year 1988-89 and the January 1989 revision of this budget.)

As specified in the California Public Utilities Code, the district is governed by a board of directors that supervises and regulates every transit facility owned and operated by the district. The board of directors is also responsible for administering the district's affairs and approving the district's budget. The voters of Alameda and Contra Costa counties elect the seven directors, who serve four-year terms. The board of directors appoints the officers of the district: a general manager, a secretary, and an attorney. The general manager is responsible for the operations of the district.

During our initial review, the results of which we released in March 1988, we found that the district had insufficient financial control over its operations. Specifically, from fiscal year 1984-85 through fiscal year 1986-87, the district's expenses had exceeded its revenues, and as a result, the district incurred large deficits.

In addition, during our initial review, we found that the district had weak controls over the travel and personal expenses of its board of directors and officers, which resulted in some overpayments. Finally, five of the district's six full-time, salaried attorneys used district resources to conduct their private law practices.

As a result of our review, the Legislature enacted Chapter 1147, Statutes of 1988, requiring the Office of the Auditor General to monitor the progress of the district in correcting the

deficiencies identified in our March 1988 report. The Office of the Auditor General is required to issue quarterly reports through July 1, 1990.

The Office of the Auditor General issued the first quarterly monitoring report entitled "Alameda-Contra Costa Transit District: First Quarterly Monitoring Report," Report P-861.1, on January 5, 1989. In this report, we described the district's efforts towards implementing the recommendations from our March 1988 report. We noted that the district had taken steps to improve its operations but still had a budget deficit. In addition, we noted that the district had not added an attestation statement to its expense report and the district had not recovered overpayments that it had made to one director.

#### SCOPE AND METHODOLOGY

The purpose of this review was to monitor the progress the district has made in implementing the recommendations of our initial report and in implementing the recommendations from our first quarterly monitoring report. When we issued our initial report in March 1988, we requested that the district periodically report to us on its progress in implementing our recommendations, and for our first monitoring report, we limited ourselves to a review of the district's actions as it reported them. Thus, in the first quarterly report, although we determined whether the new policies reported to us were still in effect, we did not test the district's adherence to its new policies.

However, in this monitoring report, we evaluated the district's implementation of the new policies and tested whether the district was adhering to its policies.

We reviewed the district's budget for fiscal year 1988-89. We evaluated the procedures used to develop the budget, the documentation used to develop estimates of revenues, subsidies, and expenses, and the systems used for monitoring the budget. Finally, we reviewed the district's revision of the original budget. We did not review the district's capital budget or its cash and investments.

In addition, we tested the district's implementation of its travel and personal expense policies. We reviewed every travel and expense report for the period from October 1, 1988, to February 14, 1989. Furthermore, we reviewed all of the directors' claims for director fees for the same period. Using a checklist based on the district's policies, we reviewed the expense reports, accounting records, minutes from board meetings, and any other supporting documentation. We also reviewed district accounting records to determine whether overpayments were recovered from the one director who still has not repaid the district. We also reviewed the management letter that accompanied the district's audited financial statements for fiscal year 1987-88 to document the results of the independent auditor's review of travel and personal expense reports.

Lastly, we evaluated the district's implementation of its policies concerning the prohibition of private law practice for its attorneys and its prohibition of the use of district resources for nondistrict purposes for all employees. To determine whether the attorneys have adhered to the new policy, we interviewed the district's acting attorney and contacted the Alameda County Bar Association and the Alameda and Contra Costa counties' superior courts. To determine whether the policy for all district employees had been disseminated, we interviewed staff in the district's human resources department and staff in the district's central maintenance facility.

## AUDIT RESULTS

### THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT HAS ACTED ON OUR RECOMMENDATIONS BUT MORE WORK NEEDS TO BE DONE TO REDUCE THE DISTRICT'S DEFICIT AND INFORM EMPLOYEES OF A NEW POLICY

Since the release of our March 1988 report about the Alameda-Contra Costa Transit District's (district) operations, the district has improved its budgeting process, but its revised budget for fiscal year 1988-89 still contains a \$2.5 million deficit. In addition, the district has substantially complied with its rules and policies for travel and personal expenses. Finally, the district's attorneys appear to be complying with the district's policy prohibiting them from engaging in private law practice while employed by the district. However, the district has not informed all employees of the district's policy that prohibits employees from using district resources for nondistrict purposes. As a result, employees may not be aware of the prohibition against using district resources for nondistrict purposes. This lack of awareness could lead to misuse of district resources.

### THE DISTRICT HAS ACTED ON BUDGETING RECOMMENDATIONS BUT STILL HAS A DEFICIT

In our March 1988 report, we reported that the district had insufficient controls over its financial operations. For fiscal years 1984-85, 1985-86, and 1986-87, the district's expenses exceeded its revenues and subsidies, resulting in deficits. In fiscal year 1987-88,

according to a supplementary schedule in the district's audited financial statements, the district had a \$685,000 surplus. However, this surplus does not include depreciation, amortization, and a onetime expense of \$7.8 million for an early retirement plan for district employees who would have otherwise added to salary, wage, and benefit expenses. District management states that future payroll savings resulting from the early retirement plan will exceed the \$7.8 million cost incurred in fiscal year 1987-88.

When a deficit exists, the district must either use its available resources, such as cash and investments, or borrow money to fund its operations. In our initial review, we noted that if the district continues to incur large operating deficits, the district could deplete its cash and investments.

Weaknesses in the district's budgeting process contributed to its financial difficulties. Specifically, when we compared the actual amounts and budgeted amounts for the district's revenues, subsidies, and expenses, we found that the district generally overestimated its revenues and always underestimated its expenses. When we attempted to determine how the district arrived at its estimates of expenses for fiscal year 1987-88, we found that the district did not always have the records to show how it determined the amount that it budgeted for expenses. Without such records, the district did not have a breakdown of specific expenses that are authorized in the budget and, thus, could not control those expenses.

Furthermore, the district's monthly budgets and budget variance reports were unreliable. To be an effective tool for controlling the district's finances, the monthly budget should reflect actual variations in the district's revenues, subsidies, and expenses. The district can analyze historical trends to identify patterns of fluctuation throughout a fiscal year. It can then use these patterns to apportion more reliably the budgeted amounts of revenues, subsidies, and expenses for each month. The monthly budget variance reports, which compare actual revenues, subsidies, and expenses with the district's budgeted amounts and show budget variances, should be a valuable management tool for monitoring whether the district is staying within its budget. We determined, however, that the district's monthly budgets and budget variance reports did not accurately reflect monthly fluctuations in revenues, subsidies, and expenses throughout the fiscal year. In the district's monthly budgets and budget variance reports, the district apportioned all budgeted amounts equally throughout the 12-month fiscal year although the district did not receive its revenues and subsidies nor incur and pay its expenses equally throughout the fiscal year. Also, the reports contained other errors and were not submitted promptly to the board of directors.

Further, we noted that, to balance its budget, the district must increase its revenues and subsidies or reduce its expenses or both. We recommended that the district obtain its 11.617 percent share of Measure B funds. Measure B authorizes the Alameda County



Transportation Authority to impose a one-half of one percent retail transactions and use tax throughout the county for 15 years, and the tax is designated to improve, construct, maintain, and operate certain transportation projects in Alameda County. Measure B would provide the district approximately \$115 million during the 15 years.

To ensure that the district resolved its fiscal problems, we recommended that the district take the following actions:

- Develop well-documented and reliable estimates of revenues, subsidies, and expenses that reflect historical fluctuations for each month of the fiscal year;
- Using these estimates, develop a balanced or a surplus budget for fiscal year 1988-1989;
- Maintain all records that document the development of the budget in a central location so that the district can better control unbudgeted expenses;
- Develop and promptly submit to the board of directors accurate variance reports that identify the causes of significant budget variances;
- Take prompt corrective actions to remedy the causes of significant budget variances; and

- Promptly negotiate an agreement with the Alameda County Transportation Authority so that the district can receive its allocation of tax revenues from Measure B.

We reported in our first quarterly monitoring report that the district has developed a budget for fiscal year 1988-89 that, for revenues, subsidies, and expenses, fluctuates by month. In addition, the district has developed and provided a monthly budget variance report for the district's board of directors and has created a new budget office with a director of budget. The director of budget has also issued instructions to directors and department managers about the preparation of budget variance reports and adherence to budget estimates. Finally, on March 30, 1988, the district signed an agreement with the Alameda County Transportation Authority for the distribution of Measure B revenues.

#### The District's Budget Process Has Improved

We reviewed the district's process for the preparation of its budget for fiscal year 1988-89. The district has five departments: executive, administration, finance, transportation, and maintenance. We reviewed the documentation supporting the preparation of the original budget for the district's administration department. This department's budget totals \$11.1 million in expenses or 9.2 percent of the district's total expenses. In reviewing the documentation supporting the preparation of the budget for the district's

administration department, we found that the district's budget office had documentation and support for each element that we reviewed. In addition, we found that the district's estimates of revenues, subsidies, and expenses are based on reasonable assumptions and should be more reliable than in the past.

Specifically, to accurately estimate its expenses and to document how it determined the amount that it budgeted for expenses contained in the budget for fiscal year 1988-89, the district's budget office prepared budget preparation "packages" for each of the district's units, such as the training center unit and the compensation and benefits unit. The packages included detailed prior year expense information for the unit, such as expenses for regular clerical wages, stationery supplies, and travel and meetings.

The unit managers were responsible for projecting their expenses for the fiscal year and justified any changes from the previous year in writing.<sup>1</sup> For example, managers submitted detailed justifications for any new staff. The managers also submitted a list of projects and programs proposed for the year and the projected budget impact. For example, the data processing unit prepared a listing of

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<sup>1</sup>Managers estimated their expenses based on the district both keeping or losing the San Francisco Bay Area Transit District (BART) express bus contract. The district did not receive this contract, and the original budget is based on the projections based on losing the contract.

most of its planned major and minor system upgrade tasks and the hours necessary to complete the tasks. Managers also submitted forms detailing cost-saving suggestions. For example, the print shop manager prepared a report showing copier cost savings that could be realized using alternative vendors for copying machines.

Completed packages were returned to the budget office and were reviewed for accuracy, reasonableness of assumptions, and completeness. Once the budget office analyzed the packages, it prepared a final budget summary and aggregated all the units' budgets to form the department budgets and the district-wide budget. (Various units' budgets are combined to form budgets for various departments such as the administration department.) All the budget documentation is centrally located in the budget office.

In addition to reviewing how the district prepared the budget for the administration department, we reviewed the budget office's preparation of three line items of the budget that, in the district's financial statement for the four months ended October 31, 1988, were at variance with budget estimates. The three line items are as follows: fringe benefits, which amount to \$23.1 million or 19 percent of the budgeted expenses; other materials and supplies, which total \$14.4 million or 12 percent of the budgeted expenses; and operator wages, which total \$39.7 million or 33 percent of the district's budgeted expenses. We reviewed these three line items to determine whether the variances were a result of problems with the district's

budgeting process. For our examination of the revenues and subsidies part of the budget, we also reviewed a fourth line item, property tax subsidy, which totals \$21.7 million or 18 percent of the district's total in budgeted revenues and subsidies. We found that for each of the four line items, the district generally made reasonable assumptions and had supporting documentation for its estimates.

The district based its estimation of fringe benefits on various documents, including union contracts and documents covering the costs associated with health plans and other kinds of plans, staffing projections, and historical data. However, the workers' compensation expenses for the district have exceeded forecasts because, according to a consultant report, in previous years, the district did not reserve sufficient funds to pay for future workers' compensation claims. The district is taking steps to improve its funding process for claims. Further, the costs of medical coverage were higher than anticipated because, in part, plan costs increased after the budget was prepared.

Projections for other materials and supplies are based on the cost of these items in the past and on budget office analysis of usage. For example, the tires portion of this category of expenses is based on calculations of how many tires are needed for each type of bus for the number of service miles the bus is scheduled for. Much of the reduction in the other materials and supplies line item was due to the decision of management to delay special programs, such as bus painting

and passenger seat replacement, and concentrate resources on deferred maintenance.

The estimation of the property tax subsidy line item is based on projections provided by the Metropolitan Transportation Commission, which is the local transportation planning agency. The district independently verified these figures and determined that the commission's estimates were accurate.

Although the district has retained a documented, detailed methodology for the estimation of operator wages, operator wages were over budget because the district's interim general manager in the original budget assumed a greater improvement would occur in operator efficiency than actually occurred. Operator wages are determined, in large part, through the use of an efficiency ratio, which is based on the relationship between number of service hours (the hours when the buses are carrying passengers) and number of pay hours (the hours for which operators are paid). The efficiency ratio is expressed as a fraction. If the district were operating at its most efficient level, that is, operators were spending every paid hour driving buses that were carrying passengers, the efficiency ratio for the district would be 1.00. Conversely, if operators were paid but were not driving buses that were carrying passengers or the operators were absent, for example, on sick leave, the efficiency ratio would decrease. The district's efficiency would decrease because the district would be paying the operator but the operator would not be generating revenue by

driving a bus that carried passengers. We noted in our first monitoring report that the district was trying to reduce employee absenteeism.

The district's original budget forecast assumed an increase in the efficiency ratio (service hours to pay hours) to the industry average of .824 in fiscal year 1988-89. While the .824 goal has not been met, we reviewed the district's weekly monitoring of operator efficiency and noted that the district's efficiency is increasing. The efficiency ratio in the first week of the fiscal year was .725, and it increased to an average of .794 by February 4, 1989.

Finally, we reviewed the process that the district uses to monitor expenses. Each month, the district prepares variance reports that show, for each district unit, what its expenses have been. The expenses are then compared with the unit's budget and any variance is highlighted. The district holds budget review meetings to discuss the reasons for variances and to plan corrective action. Further, each week, the district tracks operator wages and efficiency. Staff from the budget office meet with the director of transportation and transportation department staff to discuss the status of operator wages and the efficiency of the operators.

The District Continues  
To Have a Budget Deficit

Even though the district has taken steps to improve its budgeting process, it did not succeed in developing a balanced budget for fiscal year 1988-89. The district's original budget for fiscal year 1988-89, prepared by an interim general manager, showed a \$2 million deficit. In January 1989, the district's new general manager presented a forecast, based on five months of actual data and events after the budget adoption, that shows a deficit of approximately \$5.9 million. According to the general manager's revised budget, management's actions to control expenses are expected to reduce the projected deficit of \$5.9 to \$2.5 million. When a deficit exists, the district must either use its available resources, such as cash and investments, or borrow money to fund its operations. As of June 30, 1988, the district's unrestricted cash and investments amounted to \$11.3 million, indicating that the district had, as of that date, sufficient resources for short-term deficits.

According to the general manager, the increase in the deficit is due to a number of events that could not be anticipated in the original budget and optimistic assumptions about the productivity of employees by the interim general manager. As noted earlier, the district assumed improvements in operator efficiency. The original budget also contained plans for the reduction of absenteeism and the associated expense to the district. The general manager notes in the



revised budget that the plans have not yet been fully implemented and most of the financial savings from these programs will not be realized in this fiscal year. As a result, according to the general manager, the district's operator wages are \$2.2 million or 6.4 percent more than forecast. Moreover, maintenance wages are \$1.6 million or 14.4 percent more than anticipated because the district added staff to the maintenance department to continue its preventive maintenance program.

Also, the district's general manager stated that, for fiscal year 1988-89, revenues are projected to be \$650,000 less than budgeted. The majority of the shortfall is in farebox revenues and is due, in part, to a delay in implementing a fare increase after the original budget had been adopted. Further, the district's security contract cost the district approximately \$550,000 more than the budget projected. The district terminated its contract with a local security service after the original budget was adopted because of the service's noncompliance with contract terms. Also, the district hired a contractor to administer a system for handling the district's workers' compensation claims. However, according to the general manager, the system has not been fully implemented, and consequently, cost reductions from the contractor's system will not be realized in this fiscal year, as had been planned in the original budget. Furthermore, as a result of the system not being fully implemented, the district had to use temporary staff for claims processing, and staff costs for this function are approximately \$500,000 more than originally budgeted.

According to the general manager, the district has begun to implement plans to reduce expenses. The general manager's goal is to reduce the projected deficit from \$5.9 to \$2.5 million. These actions include a freeze on most hiring; a revision of the employee pension funding methodology to provide a more cost-effective funding rate; and redirecting funding for the enhancement of the appearance of the district's buses toward preventive maintenance and basic repairs.

Further, the general manager has proposed a long-range plan to improve district productivity and reduce overall growth of the district's costs without drastically reducing services. According to the general manager, efforts to achieve these long-range savings are underway, but many of the actions will require the endorsement of the board of directors and the cooperation of the employees, particularly union employees. If the district has to develop budgets that contain short-term deficits for the long-range plan to work, the district must ensure that these short-term budget deficits are adequately monitored and effectively controlled.

THE DISTRICT HAS ACTED ON  
RECOMMENDATIONS FOR CONTROLLING  
TRAVEL AND PERSONAL EXPENSES

In our March 1988 report, we reported that the district had weak controls over the travel and personal expenses of its board of directors and officers. We found that the district had failed to comply with board policy and sound internal accounting controls and may

have violated state law in paying some expenses for directors and officers in 1986 and 1987. Specifically, the district paid the expenses of directors and officers who did not sign their expense reports, paid the expenses of directors and officers who did not obtain appropriate approvals, and paid expenses that were not supported with receipts. As a result of these weaknesses, the district cannot be certain that these payments were for official district business. In addition, the district made excessive payments for expenses incurred in Alameda, Contra Costa, and San Francisco counties, where expenditures are limited. Furthermore, the district may have unlawfully loaned district funds to directors by purchasing airline tickets for their family members and allowing the directors to pay the district back. The district also may have unlawfully used district funds to pay for directors' attendance at political functions.

To resolve these deficiencies, we recommended that the district take the following actions:

- Require all members of the board of directors, district officers, and other district employees to read and abide by district policies regarding travel and personal expenses;
- Direct all personnel involved in the review, approval, and payment of travel and personal expenses to reject for payment any expense report that does not meet the requirements of state law, board policy, and sound internal controls;

- Modify its expense report to include an attestation statement by the claimant similar to that used by the State of California on its expense reports, and require the claimants to sign the reports;
- Adopt a policy for district officers that defines the limits on district expenses incurred in Alameda, Contra Costa, and San Francisco counties;
- Adopt policies that prohibit district officers from approving their own expense reports; prohibit the purchase of airline tickets or other items for anyone other than directors, officers, and employees; and prohibit the payment of public funds for political functions or political organizations; and
- Recover all overpayments made to directors.

As we reported in our first monitoring report, the district has revised its rules governing travel and personal expenses and has adopted new board policies that address many of our recommendations. Specifically, the revised policies require appropriate approvals; limit the amount of travel expenses that can be incurred, including those incurred in the counties of Alameda, Contra Costa, San Francisco, Marin, Santa Clara, and San Mateo; and prohibit the reimbursement of any expenses related to any political function organized to support or oppose a political party or political candidate. The board of

directors also approved a policy that prohibits personal loans to district directors, officers, and employees. In addition, the district has required that its independent auditor annually review a minimum of 25 percent of the total expenses of the board of directors and district officers to verify that directors and district officers are adhering to the district's rules.

We reviewed all the expense reports of directors, a district officer, and employees for the period from October 1, 1988, to February 14, 1989. There were a total of 48 expense reports. We found that the district substantially complied with its travel policies and rules. Specifically, the expense reports had the appropriate approvals and signatures and adhered to limits on travel reimbursements in the counties of Alameda, Contra Costa, San Francisco, Marin, Santa Clara, and San Mateo. None of these expense reports involved personal loans or the use of reimbursements for political purposes, and the payments of director fees and expense reimbursements were for amounts allowed by policy.

Nevertheless, we did find four expense reports with errors. Three expense reports were for district employees and one was for a former director. However, the errors we found were isolated and did not show any consistent violations of district policies and rules. For example, one district employee traveled to Canada and appropriately submitted an expense report that included a receipt showing his hotel

expenses. However, the receipt showed the costs in Canadian dollars. In paying the claim, the district's accounting office did not convert the Canadian dollars to United States' dollars and, thus, overpaid the employee \$29. However, this and the other errors totaled \$278 in overpayments out of a total of \$24,877 paid for the 48 expense reports. These overpayments amount to a 1.1 percent error rate in contrast to the 45.3 percent error rate that we reported in our March 1988 report. The district intends to take actions to correct the errors and recover overpayments.

In addition, in the management letter that accompanied the district's audited financial statements for fiscal year 1987-88, the district's independent financial auditor also reported that the district is in substantial compliance with its travel and personal expense policies. Further, since our first monitoring report, the district has modified its expense report to include an attestation by the claimant that he or she incurred the expense claimed while conducting district business. When a claimant signs an attestation, the claimant assumes more responsibility for the authenticity of the report.

Finally, as we reported in our first monitoring report, the district billed each director who received an overpayment and all but one director has repaid the district. As a result of our first quarterly monitoring report, the district sent the director a second bill. However, as of February 16, 1989, the director has not repaid

the district or sought to offset the amount from her director fees or expense reimbursements and still owes the district \$2,350.28.

THE DISTRICT HAS NOT FULLY  
DISSEMINATED ITS POLICY  
CONCERNING OUTSIDE EMPLOYMENT

In our March 1988 report, we reported that, although not authorized by the district's board of directors, five of the six full-time, salaried attorneys employed by the district during calendar years 1985 through 1987 used district resources, including staff, equipment, and facilities, to conduct their private law practices. In addition, the district paid over \$1,200 for individual listings in the Oakland telephone books for five of the district's attorneys and for a combined listing in the books for three of the attorneys.

To resolve these deficiencies, we recommended that the district take the following actions:

- Develop and implement a policy on outside employment that prohibits any of the district's employees from using district resources for nondistrict business; and
- Inform employees of the district's policy on outside employment.

As we reported in our first quarterly monitoring review, the district has adopted a policy that prohibits all district directors, officers, and employees from using district resources for nondistrict business. Furthermore, as of May 1, 1988, all of the district's attorneys are prohibited from engaging in private law practice while employed by the district. All of the district's attorneys have signed their acknowledgment of the new policy. The district has removed its attorneys' separate listings from the district's listings in the telephone books.

The district's attorneys appear to be adhering to the district's new policy. The acting attorney for the district told us that no new attorneys have joined the district but that, if a new attorney were hired, the new attorney would be required to sign an acknowledgment of the policy. We contacted the Alameda County Bar Association and the superior courts for Alameda and Contra Costa counties to determine whether the district's attorneys were listed for private practice referrals. They are not. Two of the district's attorneys participated in arbitrations for the superior courts of Alameda and Contra Costa counties, but all fees for these services were paid to the district.

However, the district has not fully disseminated its policy prohibiting the use of district resources for nondistrict purposes. The district's human resources manager stated that the policy was disseminated to the executive staff. However, the policy had not been



fully disseminated to key supervisors, such as the superintendent of the district's central maintenance facility who supervises large numbers of employees. As a result, employees may not be aware of the prohibition against using district resources for nondistrict purposes. This lack of awareness could lead to misuse of district resources.

### CONCLUSION

Since our last monitoring report, the Alameda-Contra Costa Transit District has developed a budget for fiscal year 1988-89 that is better documented and contains what should be more reliable estimates of revenues, subsidies, and expenses. Nevertheless, the district did not succeed in developing a balanced operating budget for fiscal year 1988-89. The district's revised budget for this period shows a projected deficit of \$2.5 million. In addition, the district has implemented our recommendations regarding travel and personal expenses, and, based on our test of expense reports, the district is in substantial compliance with its rules and policies. However, as of February 16, 1989, one director has not repaid \$2,350.28 that she owes to the district or sought to offset the overpayment from her director's fees and expenses. Finally, the district's attorneys appear to be adhering to the district's policy prohibiting them from engaging in private law practice while employed by the district. However, the district has not informed all of its

employees of its policy regarding the prohibition of the use of district resources for nondistrict purposes.

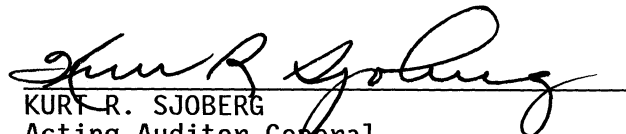
#### RECOMMENDATIONS

To improve its financial condition and its control over expenses and resources, the Alameda-Contra Costa Transit District should take the following actions:

- Minimize the extent of the budgeted deficit for fiscal year 1988-89, continue to develop documented estimates of revenues, subsidies, and expenses for future budgets, and ensure that those estimates are reliable;
- Continue its efforts to recover the \$2,350.28 that one director still owes to the district; and
- Disseminate to all district employees the district's policy prohibiting the use of district resources for nondistrict purposes.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

  
KURT R. SJOBERG  
Acting Auditor General

Date: April 3, 1989

Staff: Samuel D. Cochran, Audit Manager  
Clifton John Curry  
Jatin Shah

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT  
 COMPARISON OF THE ORIGINAL BUDGET FOR FISCAL YEAR 1988-89  
 WITH THE JANUARY 1989 REVISION OF THE BUDGET  
 (Unaudited)

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Difference Between Revised and Original Budget</u>	<u>Percent Increase (Decrease)</u>
<u>REVENUE</u>				
Farebox	\$ 30,038,493	\$ 29,226,952	\$ (811,541)	(2.7)%
Other trans. fares	126,045	96,349	(29,696)	(23.6)
BART transfers	6,043,440	6,154,800	111,360	1.8
Contract service	3,535,594	3,736,947	201,353	5.7
Advertising	580,000	580,000	0	0.0
Interest income	800,000	801,324	1,324	0.2
Other income	<u>888,438</u>	<u>767,565</u>	<u>(120,873)</u>	<u>(13.6)</u>
Total Operating Revenues	<u>42,012,010</u>	<u>41,363,937</u>	<u>(648,073)</u>	<u>(1.5)</u>
<u>SUBSIDIES</u>				
Property taxes	20,247,000	20,247,000	0	0.0
STA	113,158	113,158	0	0.0
AB 1107	16,875,000	16,875,000	0	0.0
TDA	26,867,270	26,867,270	0	0.0
Measure B	6,009,000	6,284,000	275,000	4.6
UMTA Sec. 9	6,290,000	6,827,002	537,002	8.5
UMTA Sec. 8	<u>160,000</u>	<u>159,998</u>	<u>(2)</u>	<u>0.0</u>
Total Subsidies	<u>76,561,428</u>	<u>77,373,428</u>	<u>812,000</u>	<u>1.1</u>
Total Revenues and Subsidies	<u>118,573,438</u>	<u>118,737,365</u>	<u>163,927</u>	<u>0.1</u>
<u>OPERATING EXPENSES</u>				
Operator wages	34,313,241	36,506,264	2,193,023	6.4
Other wages	<u>23,423,893</u>	<u>24,974,457</u>	<u>1,550,564</u>	<u>6.6</u>
Total Salary and Wages	<u>57,737,134</u>	<u>61,480,721</u>	<u>3,743,587</u>	<u>6.5</u>
Fringe benefits	32,397,836	31,795,392	(602,444)	(1.9)
Services	6,366,009	7,344,859	978,850	15.4
Fuel and oil	4,343,172	3,573,895	(769,277)	(17.7)
Other materials and supplies	10,090,240	8,077,106	(2,013,134)	(20.0)
Insurance	4,148,718	3,711,687	(437,031)	(10.5)
Leases and rentals	603,631	599,356	(4,275)	(0.7)
Other expenses	3,451,955	3,184,299	(267,656)	(7.8)
Interest expense	<u>1,434,743</u>	<u>1,434,993</u>	<u>250</u>	<u>0.0</u>
Total Operating Expense	<u>120,573,438</u>	<u>121,202,308</u>	<u>628,870</u>	<u>0.5</u>
Surplus (Deficit)	<u>\$ (2,000,000)</u>	<u>\$ (2,464,943)</u>	<u>\$ (464,943)</u>	<u>23.2</u>
Service Hours	1,958,079	1,983,155	25,076	1.3

Source: Alameda-Contra Costa Transit District, General Manager's January Revision of the Fiscal Year 1988-89 Budget and the original budget for fiscal year 1988-89.

JAMES L. O'SULLIVAN  
General Manager

March 30, 1989

Kurt Sjoberg  
Acting Auditor General of California  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Sjoberg:

The AC Transit staff has thoroughly reviewed your draft report entitled "Alameda Contra Costa Transit District: Second Quarterly Monitoring Report", and offers the following comments on the recommendations contained therein.

In regard to the policy on the use of District resources, we intend to disseminate a copy of the policy adopted by the Board of Directors to all employees. The policy statement will be distributed with employee pay checks, and should serve to both clarify District policy and eliminate any confusion which may exist.

In addition, at a public Board Meeting on March 22, 1989 the Director, Ward V, announced that she will repay the District the full amount (\$2,350.28) of overpayment in Director's fees and expenses, as identified by your office in previous reports.\*

In a previous report ("Alameda Contra Costa Transit District: First Quarterly Monitoring Report", January 1989) we reported in detail on the District's action plan to resolve current budget deficit issues. Subsequently, revisions to the FY 88-89 budget were adopted by the Board of Directors on January 25, 1989.

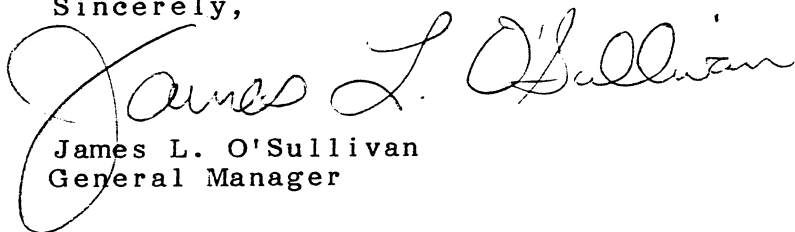
Please be assured that the District is continuing to carefully monitor and document all estimates of revenues, subsidies, and expenses for future budgets and striving to establish a sound framework for the long term financial stability

\* At the district's request, we have included an excerpt from the transcript of the board of directors meeting of March 22, 1989.

Mr. Kurt Sjoberg  
Acting Auditor General of California  
Page 2

and viability of the District. The professional support and assistance that your office has provided in this effort is valued and appreciated.

Sincerely,

A handwritten signature in cursive script that reads "James L. O'Sullivan". The signature is written in black ink and is positioned above the typed name and title.

James L. O'Sullivan  
General Manager

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT  
BOARD OF DIRECTORS MEETING  
Wednesday, March 22, 1989

TRANSCRIPT OF REMARKS MADE BY  
DIRECTOR LINDA SHEPARD REGARDING THE  
AUDITOR GENERAL'S REPORT AND  
EXPENSES SHE OWED AC TRANSIT

President Creason and Members of the Board, I apologize for not attending the Executive Session today. I had some very important family matters to attend to - some of which included dealing with the U. S. Navy personnel, my daughter, second class seaman Adrienne Fitz, who's sitting out in the audience ... would you stand up and let them see you. She just finished her tour of duty with a perfect record.

I feel the expenses connected with my service as APTA Vice President of Human Resources were justified. And as several Board Members and staff were aware, the past practice of AC Transit and other properties has been to pay all business related expenses of APTA officers, both locally and out of state. I served on the APTA Executive Committee with the General Manager and his property paid all of his expenses.

Against the advice of some of my supporters, District supporters, I have decided to pay the full amount of these expenses and move forward to more critically important issues facing the District which include: the critical District budget which was just discussed, the critical state of our maintenance here at the District, the on-time performance of our fleet, the selection of the District Secretary and a General Counsel, and the long and short range performance goals for our General Manager and Executive Staff. Since this is a Board matter, I will discuss the specifics of this plan with the Board President, or her designee, and I will chalk it up to the cost of public service.

I move that the Board adopt and include a specific policy governing Board Members participations on boards and committees outside of the District, to be included in our AC Transit District Board Policies and Procedures currently under review; with this motion—specifying that currently the District has no policy outlining the authority, role, or responsibilities of a Board Member serving on boards and commissions outside of AC Transit.

The motion was seconded by Director Winter and carried unanimously.

LS-Aud-Gen

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps