

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:
FIRST QUARTERLY MONITORING REPORT**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-861.1

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:
FIRST QUARTERLY MONITORING REPORT

JANUARY 1989



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Thomas W. Hayes
Auditor General

January 5, 1989

P-861.1

Honorable Bruce Bronzan, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 448
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its first 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 has a deficit of \$2 million for fiscal year 1988-89. The district has also revised its travel and personal expense policies, but still has not recovered overpayments from one member of its board of directors. The district has added policies that prohibit employees from using district resources for nondistrict purposes and has prohibited its attorneys from engaging in private legal practice.

Respectfully submitted,


for THOMAS W. HAYES
Auditor General

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| SUMMARY | S-1 |
| INTRODUCTION | 1 |
| AUDIT RESULTS | |
| THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT HAS ACTED ON THE OFFICE OF THE AUDITOR GENERAL'S RECOMMENDATIONS, BUT MORE WORK NEEDS TO BE DONE | 5 |
| CONCLUSION | 17 |
| RECOMMENDATIONS | 18 |
| APPENDICES | |
| A ALAMEDA-CONTRA COSTA TRANSIT DISTRICT COMPARISON OF ESTIMATED ACTUAL REVENUES AND EXPENSES FOR FISCAL YEAR 1987-88 WITH THE BUDGET FOR FISCAL YEAR 1988-89 | 21 |
| B ALAMEDA-CONTRA COSTA TRANSIT DISTRICT COMPARISON OF ACTUAL REVENUES AND EXPENSES WITH THE BUDGET FOR THE FOUR MONTHS ENDED OCTOBER 31, 1988 | 23 |
| RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S REPORT | |
| Alameda-Contra Costa Transit District, December 21, 1988 | 25 |
| Alameda-Contra Costa Transit District, December 29, 1988 | 35 |
| THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS ON THE RESPONSE OF THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT, DECEMBER 29, 1988 | 37 |

SUMMARY

RESULTS IN BRIEF

Since the release of our 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, we noted the following conditions:

- The district has improved aspects of its budgeting process, but its budget for fiscal year 1988-89 contains a \$2 million deficit;
- It has revised its rules and added new policies that appear to better control the travel and personal expenses of its directors and district officers;
- It has recovered overpayments from all but one of its directors; and
- It has added new policies that prohibit employees from using district resources for nondistrict purposes, and it has prohibited its attorneys from engaging in private law practices while employed by the district.

BACKGROUND

As required by Chapter 1147, Statutes of 1988, this is our first 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 operating budget for fiscal year 1988-89 shows anticipated revenues of \$118.6 million and expected expenses of \$120.6 million, resulting in an estimated deficit of \$2 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 previous review, we found that the district had insufficient financial control over its operations. Since 1984, the district's expenses have exceeded its revenues, and as a result, the district has 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.

PRINCIPAL FINDINGS

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

Since our previous report, 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 revised the monthly budget variance report. A budget variance report is used to compare actual revenues, subsidies, and expenses with the district's budgeted amounts to show any budget variances. This kind of report is a valuable management tool for monitoring whether the district is staying within its budget. Finally, on March 30, 1988, the district signed an agreement with the Alameda County Transportation Authority for the distribution of Measure B revenues. 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. The district's share of Measure B revenues for June 1987 through March 1988 was almost \$4.5 million.

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 budget for fiscal year 1988-89 contains a \$2 million deficit. When a deficit exists, the district must either use its available resources, such as cash and investments, or borrow money to fund its operations. According to the district's audited financial statements, as of June 30, 1988, the district's unrestricted cash and investments totaled \$11.3 million.

The interim general manager was responsible for developing the budget, which included a plan to reduce entirely the estimated deficit during the course of the fiscal year. The deficit reduction plan included a planned fare increase for September 1, 1988, and some reductions in service, district expenses, and employee absenteeism. While we do not know whether the district is going to reduce the estimated deficit, we did note that, for the four months ending October 31, 1988, the district's expenses have exceeded its revenues and subsidies by \$564,897. However, the district's budget for fiscal year 1988-89 projected, through October 31, 1988, that the district's revenues and subsidies would exceed expenditures by \$212,758. Although we have not evaluated the causes of the continuing deficit, we did note that the district did not implement until December 5, 1988, the proposed fare increase that was supposed to go into effect on September 1, 1988. Also, according to the general manager, the district has not fully implemented its plan for reducing employee absenteeism.

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

Since our previous review, the district has revised its rules governing travel and personal expenses and has adopted new board policies that address our recommendations. The district also has required that its independent auditor review annually a minimum of 25 percent of the expenses of directors and district officers to

verify that the directors and officers are adhering to the district's rules.

Furthermore, the district billed each director who received an overpayment, and all but one director has repaid the district. The director who has not repaid the district or sought to offset the amount from her director fees or expense reimbursements owes the district \$2,350.28. Since April 25, 1988, when the director was billed, through November 30, 1988, the director has received \$3,464 in director fees and expenses and \$646 in travel expenses.

Finally, the district has not 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.

The District Has Acted on
Recommendations Regarding
Outside Employment

Since our previous review, the district has adopted a policy that prohibits all district employees, officers, and directors 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.

CORRECTIVE ACTION

At the end of our review, the district took action to correct two of the problems discussed in this report. First, the district prepared a second bill for the director who has not repaid the \$2,350.28. Second, the district developed an attestation statement and intends to add the statement to its expense reports.

RECOMMENDATIONS

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

- Minimize the extent of the budgeted deficit for fiscal year 1988-89, and develop a balanced or surplus budget for fiscal year 1989-90;
- Modify the district's expense report to include the new attestation statement; and
- Continue its efforts to recover the \$2,350.28 that one director still owes to the district.

AGENCY COMMENTS

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

Alameda and Contra Costa counties elect the seven directors, who serve four-year terms. Since our last report, four of the seven directors have been replaced.

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. In January 1988, the district's former general manager retired, and the district contracted with an interim general manager to administer the district through August 28, 1988. The interim general manager oversaw the preparation of the district's budget for fiscal year 1988-89. The district has hired a new general manager, a new chief financial officer, and a budget officer.

Findings From Our Previous Review

During our previous review, we found that the district had insufficient financial control over its operations. Specifically, since 1984, the district's expenses had 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.

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.

SCOPE AND METHODOLOGY

The purpose of this review was to determine the extent to which the district has implemented the recommendations of our previous report. When we issued our 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 our review to an evaluation of the district's actions as it reported them. Thus, 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, we will do so in future monitoring reports. We also reviewed district accounting records to ensure that overpayments were recovered, and we reviewed the district's operating budget for fiscal year 1988-89, budget documents and reports, and audited financial statements for fiscal year 1987-88. We did not review any other budgets, including capital outlay budgets.

AUDIT RESULTS

THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT HAS ACTED ON THE OFFICE OF THE AUDITOR GENERAL'S RECOMMENDATIONS, BUT MORE WORK NEEDS TO BE DONE

Since the release of our March 1988 report about the Alameda-Contra Costa Transit District's (district) operations, the district has improved aspects of its budgeting process, but its budget for fiscal year 1988-89 still contains a \$2 million deficit. In addition, the district has revised its rules and added new policies that appear to better control the travel and personal expenses of its directors and district officers, and it has recovered overpayments from all but one of its directors. Finally, the district has added new policies that prohibit employees from using district resources for nondistrict purposes, and it has prohibited its attorneys from engaging in private law practices while employed by the district.

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. When a deficit exists, the district must either use its available resources, such as cash and investments, or borrow money to fund its operations. We noted that if

the district continues to incur large operating deficits, the district will 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 budget variance reports were unreliable. 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 budget variance reports did not accurately reflect monthly fluctuations in revenues, subsidies, and expenses throughout the fiscal year. In the district's 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 it is designated to improve, construct, maintain, and operate certain transportation projects in Alameda County. Measure B would provide the district approximately \$115 million during that time.

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 so that the department 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.

Since our previous report, 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 share of Measure B revenues for June 1987 through March 1988 was almost \$4.5 million.

Even though the district has taken steps to improve its budgeting process, it did not succeed in developing a balanced operating budget for fiscal year 1988-89. The district's operating budget for fiscal year 1988-89 contains a \$2 million deficit. When a deficit exists, the district must either use its available resources, such as cash and investments, or borrow money to fund its operations. According to the district's audited financial statements, as of June 30, 1988, the district's unrestricted cash and investments amounted to \$11.3 million.

The interim general manager was responsible for developing the budget, which included a plan to reduce entirely the estimated deficit during the course of the fiscal year. The deficit reduction plan included a planned fare increase for September 1, 1988, and some reductions in service, district expenses, and employee absenteeism.

The plan to reduce the rate of employee absenteeism, which the district cited as very high, is one of the primary elements of the deficit reduction plan. According to the report of a management consultant employed by the district, the current rate of unscheduled absences, such as sick leave and unexcused absences, costs the district an estimated \$9 million a year. The consultant reported that, because of unscheduled absences, district bus operators miss work an average of 36 days per year, mechanics miss work an average of 32 days per year, and service workers in the maintenance department miss work an average of 68 days per year. According to the interim general manager, if an

employee is absent, the district must recall an employee from a day off to work at overtime wages or, in the event of absences, hire an additional person to be available. In an attempt to reduce absenteeism, the interim general manager proposed an incentive plan. The plan includes provisions for cash awards to employees who exhibit good attendance and cash awards to all employees if the district realizes significant savings from the program. The interim general manager further noted that, if overall absenteeism is not cut and the district has not realized at least a \$1 million savings in budgeted salaries and wages by December 31, 1988, the district's board of directors should consider a wage freeze, rollback, or drastic service reduction.

While we do not know whether the district is going to reduce the estimated deficit, we did note that the district has not reduced the budgeted deficit in the first four months of fiscal year 1988-89. The district's financial statement for the four months ending October 31, 1988, which includes a budget variance report, shows the district's expenses have exceeded its revenues and subsidies by \$564,897. However, the district's budget for fiscal year 1988-89 projected, through October 31, 1988, that the district's revenues and subsidies would exceed expenditures by \$212,758. (See Appendix B for a copy of the budget variance report for the period ending October 31, 1988.)

Although we have not evaluated the causes of the continuing deficit, we did note that the district did not implement until December 5, 1988, the proposed fare increase that was supposed to go into effect on September 1, 1988. The district's failure to promptly implement the increase will probably result in a reduction in estimated farebox revenues. The district's budget variance report for the period ending October 31, 1988, showed that farebox revenues were 2.7 percent below estimates in the first four months of the fiscal year. Furthermore, according to the general manager, the district has not achieved a significant reduction in absenteeism as of December 6, 1988. Because of contractual constraints, the district has not yet fully implemented the incentive component of its program for reducing absenteeism. Moreover, instead of being under budget as the interim general manager had estimated in the plan to reduce employee absenteeism, the budget variance report of October 31, 1988, indicates that the wages of district bus operators were almost 5 percent over budget and other wages were more than 8 percent over budget. However, the increase in wages might be due to factors other than absenteeism.

During our future monitoring, we will continue to review the district's budgeting process and its efforts to reduce its projected deficit for fiscal year 1988-89. If the budget deficit is still not reduced by our next review, we will also examine its effect on the district's cash and investments.

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

Previously, 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 \$41,668 of \$91,957 in 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 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.

Since our previous review, 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 expenses of the board of directors and district officers to verify that directors and district officers are adhering to the district's rules.

Furthermore, the district billed each director who received an overpayment, and all but one director has repaid the district. As of December 15, 1988, the director who has not repaid the district or sought to offset the amount from her director fees or expense reimbursements owes the district \$2,350.28. Since April 25, 1988, when the director was billed, through November 30, 1988, the director has received \$3,464 in director fees and expenses and \$646 in travel expenses. Prior to the end of our fieldwork, the district had not provided the director with any subsequent bills.

Finally, the district has not 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.

During our future monitoring, we will test the implementation of the district's revised rules governing travel and personal expenses. We will review the efforts of the district's independent auditor, and we will conduct our own tests to ensure that district directors, officers, and other district employees are adhering to the revised rules and that the claims are being appropriately reviewed and approved. We will also continue monitoring the district's efforts to recover the overpayments that one director has still not repaid.

The District Has
Acted on Recommendations
Regarding Outside Employment

Previously, 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 of five of the district's attorneys and for a combined listing in the books of 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.

Since our previous review, the district has adopted a policy that prohibits all district employees, officers, and directors 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 removed its attorneys' separate listings from the district's listings in the telephone books. During future monitoring activities, we will conduct tests to ensure that both policies have been implemented and that district staff are adhering to the revised policies.

Corrective Action

At the end of our review, the district took action to correct two of the problems discussed in this report. First, the district prepared a second bill for the director who has not repaid the \$2,350.28 she owes the district. Second, the district developed an attestation statement that it intends to add to its expense reports.

CONCLUSION

Since our previous report, the Alameda-Contra Costa Transit 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 a new monthly budget variance report and has signed an agreement with the Alameda County Transportation Authority for the distribution of Measure B revenues. Nevertheless, the district did not succeed in developing a balanced operating budget for fiscal year 1988-89. The district's budget for fiscal year 1988-89 shows a projected deficit of \$2 million, and the budget variance report for the four-month period ending October 31, 1988, does not show that the district is reducing its projected deficit. The district has implemented several of our recommendations regarding travel and personal expenses. However, as of December 15, 1988, 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. Also, the district has not modified its expense report to include an attestation by the claimant. At the end of our review, the district prepared a second bill for the director who still owes the \$2,350.28 to the district and it developed an attestation statement for its expense report. The district has also implemented our recommendations concerning outside employment.

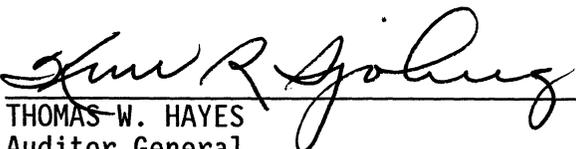
RECOMMENDATIONS

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

- Minimize the extent of the budgeted deficit for fiscal year 1988-89, and develop a balanced or surplus budget for fiscal year 1989-90;
- Modify the district's expense report to include the new attestation statement; and
- Continue its efforts to recover the \$2,350.28 that one director still owes to the district.

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,

for 
THOMAS W. HAYES
Auditor General

Date: January 3, 1989

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

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF ESTIMATED ACTUAL REVENUES
AND EXPENSES FOR FISCAL YEAR 1987-88
WITH THE BUDGET FOR FISCAL YEAR 1988-89
(Unaudited)

| | Estimated Actual 1987-88 | Approved Budget Fiscal Year 1988-89 | Increase (Decrease) | Percent Increase (Decrease) |
|---------------------------------|--------------------------------|--|------------------------|-----------------------------------|
| REVENUES | | | | |
| Farebox | \$ 30,659,165 | \$ 30,164,538 | \$ (494,627) | (1.613) |
| Other Income | <u>16,306,891</u> | <u>11,847,472</u> | <u>(4,459,419)</u> | <u>(27.347)</u> |
| Subtotal - Revenues | 46,966,056 | 42,012,010 | (4,954,046) | (10.548) |
| Subsidies | <u>75,028,001</u> | <u>76,561,428</u> | <u>1,533,427</u> | <u>2.044</u> |
| TOTAL REVENUE | <u>\$121,994,057</u> | <u>\$118,573,438</u> | <u>\$(3,420,619)</u> | <u>(2.804)</u> |
| EXPENSES | | | | |
| <u>Salaries and Wages</u> | | | | |
| Regular - Operators | \$ 41,826,413 | \$ 39,700,665 | \$(2,125,748) | (5.1) |
| Premium - Operators | | 0 | 0 | |
| Regular - Maintenance | 11,872,109 | 11,568,696 | (303,413) | (2.6) |
| Premium - Maintenance | 488,166 | 229,510 | (258,656) | (53.0) |
| Regular - Clerical | 4,294,182 | 4,138,428 | (155,754) | (3.6) |
| Premium - Clerical | 210,329 | 176,198 | (34,131) | (16.2) |
| Regular - Salary | 11,388,072 | 11,172,119 | (215,953) | (1.9) |
| Premium - Salary | | 0 | 0 | |
| Total Salary and Wages | <u>70,079,270</u> | <u>66,985,616</u> | <u>(3,093,655)</u> | <u>(4.4)</u> |
| <u>Fringe Benefits</u> | | | | |
| Fringe Benefits | 13,485,547 | 13,224,127 | (261,420) | (1.9) |
| Flat Fringe | <u>10,145,640</u> | <u>9,925,227</u> | <u>(220,413)</u> | <u>(2.2)</u> |
| Total Fringe Benefits | <u>23,631,188</u> | <u>23,149,354</u> | <u>(481,834)</u> | <u>(2.0)</u> |
| <u>Services</u> | | | | |
| Management Service Fees | 76,597 | 65,450 | (11,147) | (14.6) |
| Advertising Fees | 34,679 | 76,100 | 41,421 | 119.4 |
| Professional & Technical | 1,638,694 | 1,533,323 | (105,371) | (6.4) |
| Risk & Claims Contract Svc. | 0 | 321,490 | 321,490 | 100.0 |
| Temporary Help | 567,954 | 52,900 | (515,054) | (90.7) |
| Outside Repair | 1,157,286 | 940,144 | (217,142) | (18.8) |
| Custodial Services | 126,800 | 483,550 | 356,750 | 281.3 |
| Security Services | 2,020,644 | 1,947,536 | (73,108) | (3.6) |
| Other Services | <u>116,691</u> | <u>945,516</u> | <u>828,825</u> | <u>710.3</u> |
| Total Services | <u>5,739,345</u> | <u>6,366,009</u> | <u>626,664</u> | <u>10.9</u> |
| <u>Materials and Supplies</u> | | | | |
| Fuel and Lubricants | 4,505,041 | 4,343,172 | (161,869) | (3.6) |
| Tires and Tubes | 1,251,537 | 1,080,831 | (170,706) | (13.6) |
| Stationery Supplies | 457,962 | 450,691 | (7,271) | (1.6) |
| Expendable Supplies | 545,077 | 542,104 | (2,973) | (0.5) |
| EDP Supplies | 135,868 | 133,810 | (2,058) | (1.5) |
| Bus Parts | <u>6,920,119</u> | <u>7,882,804</u> | <u>962,685</u> | <u>13.9</u> |
| Total Materials and Supplies | <u>13,815,604</u> | <u>14,433,412</u> | <u>617,808</u> | <u>4.5</u> |

| | Estimated Actual 1987-88 | Approved Budget Fiscal Year 1988-89 | Increase (Decrease) | Percent Increase (Decrease) |
|--|--------------------------------|--|------------------------|-----------------------------------|
| <u>EXPENSES (continued)</u> | | | | |
| Total Casualty and Liability | <u>4,361,447</u> | <u>4,148,718</u> | <u>(212,729)</u> | <u>(4.9)</u> |
| <u>Other Expenses</u> | | | | |
| Utilities | 1,736,839 | 1,718,071 | (18,768) | (1.1) |
| Taxes | 879,446 | 1,109,111 | 229,665 | 26.1 |
| Purchased Trans. Svcs. | <u>98,100</u> | <u>146,875</u> | <u>48,775</u> | <u>49.7</u> |
| Total Other Expenses | <u>2,714,385</u> | <u>2,974,057</u> | <u>259,672</u> | <u>9.6</u> |
| <u>Miscellaneous Expenses</u> | | | | |
| Dues and Subscriptions | 35,315 | 33,435 | (1,880) | (5.3) |
| Bart Tickets | 45,986 | 16,869 | (29,117) | (63.3) |
| Travel and Meetings | 92,252 | 89,475 | (2,777) | (3.0) |
| Bridge-Tunnel-Tolls | 5,715 | 4,439 | (1,276) | (22.3) |
| Business-Related Expenses and Meals | 27,981 | 26,180 | (1,801) | (6.4) |
| Advertising/Promotional Media Fees | 38,246 | 300,000 | 261,754 | 684.4 |
| Other Miscellaneous Expense | <u>72,245</u> | <u>7,500</u> | <u>64,745</u> | <u>(89.6)</u> |
| Total Miscellaneous | <u>317,740</u> | <u>477,898</u> | <u>160,158</u> | <u>50.4</u> |
| Total Leases and Rentals | <u>2,536,305</u> | <u>2,038,374</u> | <u>(497,931)</u> | <u>(19.6)</u> |
| TOTAL OPERATING EXPENSES | <u>123,195,284</u> | <u>120,573,438</u> | <u>(2,621,846)</u> | <u>(2.1)</u> |
| SURPLUS (DEFICIT) | <u>\$ (1,201,227)</u> | <u>\$ (2,000,000)</u> | <u>\$ (798,773)</u> | <u>66.496</u> |

Source: Alameda-Contra Costa Transit District, Budget for Fiscal Year 1988-89.

APPENDIX B

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
 COMPARISON OF ACTUAL REVENUES AND EXPENSES WITH
 THE BUDGET FOR THE FOUR MONTHS ENDED OCTOBER 31, 1988
 (Unaudited)

| | Actual | Budget | Variance Over (Under) Budget | Variance Percentage |
|---|---------------------|---------------------|------------------------------------|------------------------|
| <u>REVENUES</u> | | | | |
| Farebox | \$ 9,950,989 | \$10,231,014 | \$ (280,025) | (2.73) |
| Other Trans. Fares | 3,413 | 114,740 | (111,327) | (97.02) |
| BARTD Transfers | 2,053,060 | 2,014,480 | 38,580 | 1.91 |
| Contract Service | 2,348,027 | 2,185,991 | 162,036 | 7.41 |
| Advertising | 191,724 | 191,724 | 0 | 0.00 |
| Interest Income | 168,031 | 266,667 | (98,636) | (36.98) |
| Other Income | 65,341 | 87,228 | (21,887) | (25.09) |
| Total Revenues | <u>\$14,780,585</u> | <u>\$15,091,844</u> | <u>\$ (311,259)</u> | <u>(2.06)</u> |
| <u>SUBSIDIES</u> | | | | |
| Property Taxes | \$ 6,826,400 | \$ 6,749,000 | \$ 77,400 | 1.14 |
| State Transit Assistance | 90,744 | 106,000 | (15,256) | (14.39) |
| Sales Tax (AB 1107) | 5,625,000 | 5,625,000 | 0 | 0.00 |
| Sales Tax Transportation Development Act | 8,917,176 | 8,955,756 | (38,580) | (.43) |
| Federal Operating Assistance Section 9 | 2,096,668 | 2,096,667 | 1 | 0.00 |
| Federal Operating Assistance Section 8 | 53,332 | 53,333 | (1) | 0.00 |
| Other | 2,003,000 | 2,003,000 | 0 | 0.00 |
| Total Subsidies | <u>\$25,612,320</u> | <u>\$25,588,756</u> | <u>\$ 23,564</u> | <u>.09</u> |
| TOTAL REVENUES AND SUBSIDIES | <u>\$40,392,905</u> | <u>\$40,680,600</u> | <u>\$ (287,695)</u> | <u>(.70)</u> |
| <u>EXPENSES</u> | | | | |
| Operator Wages | \$12,442,576 | \$11,863,573 | \$ 579,003 | 4.88 |
| Other Wages | 8,248,538 | 7,631,493 | 617,045 | 8.08 |
| Fringe Benefits | 12,036,059 | 10,738,990 | 1,297,069 | 12.07 |
| Services | 1,758,776 | 2,234,893 | (476,117) | (21.30) |
| Fuel and Oil | 1,122,809 | 1,524,410 | (401,601) | (26.34) |
| Other Mat. and Supplies | 2,626,296 | 3,395,295 | (768,999) | (22.64) |
| Insurance | 1,019,285 | 1,382,908 | (363,623) | (26.29) |
| Leases and Rentals | 174,216 | 198,173 | (23,957) | (12.08) |
| Other Expenses | 1,050,799 | 1,019,859 | 30,940 | 3.03 |
| Interest Expense | 478,448 | 478,248 | 200 | .04 |
| TOTAL EXPENSES | <u>\$40,957,802</u> | <u>\$40,467,842</u> | <u>\$ 489,960</u> | <u>1.21</u> |
| SURPLUS (DEFICIT) | <u>\$ (564,897)</u> | <u>\$ 212,758</u> | <u>\$ (777,655)</u> | <u>(365.51)</u> |

Source: Alameda-Contra Costa Transit District, Financial Statement for the Four Months Ended October 31, 1988.

MICHAEL H. FAJANS
PRESIDENT

ALICE H. CREASON
VICE PRESIDENT

DIRECTORS

MICHAEL H. FAJANS
WARD I

JEROME G. WIGGINS
WARD II

ALICE H. CREASON
WARD III

WILLIAM J. BETTENCOURT
WARD IV

LINDA SHEPARD
WARD V

ROY NAKADEGAWA
DIRECTOR AT LARGE

JOHN WOODBURY
DIRECTOR AT LARGE

December 21, 1988

Mr. Thomas W. Hayes
Auditor General of California
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for the opportunity to respond to your Draft First Quarterly Monitoring Report of the Alameda-Contra Costa Transit District to be issued January, 1989.

The Board has not had an opportunity to formally consider the draft. Please find attached the response from the District's General Manager.

Once the report has been made public, the Board will formally and promptly consider this matter.

Sincerely,



Ms. Alice Creason
Vice President
Board of Directors

AHC:gmd

Attacment

JAMES L. O'SULLIVAN
General Manager

December 21, 1988

Mr. Thomas W. Hayes
Auditor General of California
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

Attached are Alameda-Contra Costa Transit District staff comments to the State of California, Office of Auditor General's draft report entitled "Alameda-Contra Costa Transit District: First Quarterly Monitoring Report," dated December 20, 1988. AC Transit herein addresses the District's action plan to resolve current deficit issues through its adopted budget plan and to provide insight on what we consider as ongoing improvement in fiscal administrative controls.

In April of this year, the District prepared initial budget projections for FY 88-89 which reflected a budget deficit of nearly \$11 million. Consistent with the recommendations in your March 8 report, the District initiated a systematic budget process to develop well-documented and reliable estimates of revenues, subsidies, and expenses and achieve a balanced budget for FY 88-89.

In July, the Interim General Manager presented, and the Board of Directors adopted, a budget for FY 88-89 which included a comprehensive program of proposed changes intended to eliminate the deficit. Over the last four months, District staff have concurrently structured, implemented, with Board approval where required, and assessed the impact of these proposals on the financial condition of the District. This is an iterative process on which staff has regularly informed the Board through monthly budget variance reports. It is expected to culminate in a comprehensive mid-year budget review and action plan for assuring the long-term financial viability of the District.

FY 1988/89 BUDGET CHANGES

As adopted by the Board in July, the FY 88-89 budget included a broad range of prospective reductions in costs. It also included selected increases considered necessary to improve the District's on-street performance. In addition, a number of revenue enhancement measures were proposed.

In the following paragraphs we briefly set forth the scope of the proposed changes presented in the FY 88-89 budget and a preliminary assessment of their impact on the financial condition of the District four months into the current fiscal year:

REDUCTIONS

- o Budgeted expenses in the following categories were reduced from prior year actuals to provide an estimated savings of \$1 million.
 - Travel and meeting expenses
 - Dues and subscription expenses
 - Business related expenses and meals
 - Professional and technical consulting services
 - Temporary help
 - Fuel
 - Stationery and expendable supplies
 - Utilities, particularly telephone costs
- o Contracting out the following services currently provided by District staff was projected to save an estimated \$500,000.
 - Shelter maintenance activities
 - Portions of night services beginning in 12/88
 - Claims adjustment activities for Worker's Compensation and Liability claims
- o Reductions to administrative and support staff were estimated to save the District \$800,000.
- o Minor service cuts to be implemented in August and December were projected to save the District \$1.6 million.
- o Selection of professional money managers to administer the District's Pension Fund assets, along with other actuarial changes, were projected to save the District \$1.5 million.
- o Savings in Operator wages through the implementation of scheduling efficiencies and the maximum use of part-time operators, and the introduction of more articulated buses into the system were designed to save \$3 million.

REVENUE ENHANCEMENTS

The budget assumed a fare increase, effective September 1, 1988, would provide additional revenues of \$600,000. In addition, it was anticipated that revenues from leasing out unused facility space would provide additional operating funds of approximately \$150,000.

INCREASES

Significant financial commitments were made to assure improvements in the District's on-street performance, specifically, increasing the number of miles between road calls and improving on-time performance.

Maintenance

The 1988-89 budget called for an improved comprehensive maintenance program aimed at upgrading cleanliness, comfort, and reliability of our more than 800 buses. The program included the hiring of additional mechanics and service employees to reduce the number of buses per mechanic and service worker. Given the severity of the District's accessibility problems and our commitment to the Disabled community, two additional lift mechanic positions were added. The program also included painting and new seats for most of the fleet, along with other improvements to ensure fleet reliability with special emphasis given to increasing the number of miles between road calls.

Transportation

In the area of Transportation, additional road supervisors, planners and scheduling positions were budgeted to assist operators on the street and to provide management presence to ensure better on-time performance. As mentioned earlier, the District recognizes the need to improve scheduling inefficiencies. Over the years our streets and highways have become more congested with the increased use of the private automobile. Consequently, it is necessary to assess our routes, identify regular or habitual congestion and bottleneck points and to make provisions which will help relieve problem areas which reduce the average speed of buses and affect on-time performance.

Financial Management

In addition, commitments were made to improve the District's financial management capability and accountability by adding new positions: Chief Financial Officer, Internal Auditor and Budget Officer. Additional positions were also added to improve security and inventory control in the Purchasing and Stores Department.

SERVICE CHANGES

Ten service reductions were proposed at a projected savings of \$1.6 million. Furthermore, it was assumed that Caltrans would absorb the cost (\$900,000) of proposed service additions associated with I-80 and 880 construction projects.

SHORTFALL

The budget, as adopted by the Board of Directors, included a \$2 million shortfall. Eliminating the \$2 million shortfall was predicated on the success of an aggressive gain sharing program aimed at reducing the costs attributable to the District's high absenteeism rates. In the budget presentation, it was noted that if the District had not realized

significant improvements in the reduction of absenteeism at the midway point of the fiscal year, then it would be necessary to take more drastic action to reduce the deficit, including: (1) a wage freeze or roll-back, and/or, (2) drastic service reductions.

STATUS OF BUDGET IMPLEMENTATION

A brief status of the budget proposals is presented here.

REDUCTIONS

Operating results for the first four months of FY 1988 show a deficit of nearly \$600,000; however, the District is on target, or under budget, for the following expenses: Travel, Dues and Subscriptions, Business related meals, Services, Fuel, and Miscellaneous activity.

o Shelter Maintenance

Contracting out of the District's shelter maintenance activities and portions of our night services are still under consideration and analysis by District staff.

o Risk Management

The FY 88-89 budget assumed that substantial savings would be achieved by contracting out the Risk and Claims area to a third party administrator. The Board requested that a more extensive review of the benefits of contracting out this area be undertaken and any decisions be deferred until this review was completed.

Two RFP's were issued to solicit bids for contracting out the administrative responsibilities for both Personal Liability (PL/PD) and Worker's Compensation. After an extensive review of all proposals, it was determined that considerable savings could be achieved by selecting a firm with a proven track record of reducing the number of claims paid under Worker's Compensation and maintaining some in-house staff to focus on reducing PL/PD payouts. This will be brought to the Board for approval on December 28th. The planned conversion would commence February 1, 1989. However, the cost reductions expected from this action will not be realized until FY 89-90.

Moreover, in order to keep the department operational until this issue was resolved, it was necessary to staff the department with higher cost temporary employees, the cost of whom was not included in the budget. These additional costs plus the costs of conversion, if

applicable, to a third party administrator, have increased the cost of this function beyond that budgeted for the current year.

o **Staff Reductions**

The majority of proposed reductions of administrative and support staff have been completed. Selected reductions have not yet been implemented pending more detailed review in contracting out Risk Management. However, attrition and delays in hiring are expected to offset any increased salary costs due to delays in termination.

o **Service Cuts**

A portion of the minor service cuts have been implemented. The Board's decision to not fully implement the proposed service reductions is expected to decrease the projected savings by approximately \$477,000.

o **Pension Assets**

The District is moving expeditiously to obtain professional management of Pension Fund assets. It is anticipated that professional investment managers will increase the return on the Pension Fund assets which in turn will lower the District's pension funding costs.

Recently completed actuarial studies project a savings in District pension costs of approximately \$1.5 million.

o **Operator Wages**

Operator wages are the largest item in the budget, and are \$600,000 or 5 percent higher than budget projections. The forecasted efficiency ratio was .82 platform (service) hours to pay hours. Year-to-date the ratio is .80. Steps are being taken to reduce absenteeism (see below), to improve dispatching efficiency and to improve scheduling efficiency, three of the major variables affecting the use of operators. In October, the efficiency ratio continued to improve and exceeded the budget target of .82 each week. However, in anticipation of the termination of the BART Express Service contract on January 15, 1989, the District has been downsizing its operator force by attrition and the Early Retirement Program, which has resulted in overtime conditions and higher than projected expenses.

REVENUE ENHANCEMENTS

o **Fare Increase**

The AC Transit Board of Directors approved fare increases which became effective on September 18, 1988 and December 5, 1988. These increases

changed fares on Express services, raised the base fare from 75 to 85 cents during peak hours only, and increased the youth cash fare from 50 cents to 75 cents in the peak hours. Regular riders (adults and students) may avoid the increase by using a monthly pass.

Historically, fare increases have resulted in temporary loss of patronage for a period of approximately three months, after which time ridership generally resumes at standard levels. Given the fact that the new fare increase is competitive with fares of other transit properties in the Bay Area, it is felt that ridership loss resulting from the increase will be minimal.

The FY 88-89 budget, however, assumed that the fare increases would take place on September 1, 1988. The delay in fully implementing the increase until December 5, 1988, has lowered the expected revenue flow. It is estimated that the new fare will increase revenues by \$700,000 over a twelve month period, with approximately \$300,000 realized this fiscal year.

o Lease Revenue

The District is currently pursuing increased revenues by leasing out unused portions of our facilities. The East Bay, in particular, is currently saturated with available commercial space. Therefore, attracting long-term stable tenants will require large incentives such as six-months to one year free rent, along with free utilities and parking. While the District intends to continue to pursue leasing possibilities, it is now apparent that the projected revenues of \$150,000 will not be realized this fiscal year.

ABSENTEEISM

The District has not achieved a significant reduction in absenteeism as yet. A large percentage of the District's high costs of overtime as well as the size of the extraboard is directly attributable to the level of absenteeism. Studies conducted by Booz-Allen & Hamilton estimated that the current rate of absenteeism costs the District over \$9 million a year. The District has implemented the following programs as incentive and deterrents to reduce absenteeism:

Positive Performance Counseling

The Positive Performance Counseling Program emphasizes good performance as a condition for continued employment. Previously, the more traditional approach tended to punish the good employee who infrequently had a performance problem. By utilizing the positive performance counseling system, a counseling session is conducted after the first infraction, but no documentation is entered in the employee's permanent file. This method gives the employee the benefit of solving

the problem and having a clean record if no other performance problems occur. The counseling sessions focus on the problem, not the person, placing the responsibility on the employee to make a commitment to improve performance in the future.

After a given number of contacts, the last step before termination in the program is the one day, paid or unpaid, decision-making leave. During this one day leave of absence, the employee must decide whether to continue employment with improved performance or leave the organization. The employee must return from the leave with a written decision. Arbitrators consider the decision-making leave step to be a fair and effective way to provide the employee with every opportunity to evaluate the future and to comply with the rules as outlined in the Personnel Rules and Regulations and the current Collective Bargaining Agreement.

The Positive Performance Counseling Program is a practical, results-oriented strategy for improving performance. This approach enforces policies and procedures while maintaining the dignity and self-respect of each employee. It is designed to produce higher employee morale, reduce absenteeism and improve employee/supervisor relations.

Incentive Program

In a further effort to curtail the high level of absenteeism, AC Transit has developed an incentive program designed to condition and change attitudes and performance through motivation. Incentives are awards given to staff in addition to regular compensation for achieving predetermined goals and objectives. The District is developing a program whereby specific values or points will be assigned to predetermined objectives. The program will encompass both individual and team awards. The inclusion of the team concept allows for peer pressure and influence on individual attitudes and actions. The program provides a graduated scale of awards to promote increased inducement for employees to participate over a long period of time.

The basics of the program are as follows: Each employee who completes a calendar month without committing a safety infraction and without being charged with an unexcused absence will earn a given number of points. These points will be awarded for each month the employee meets the stated requirements. The points earned by staff members and teams may be redeemed for prizes.

The District has not yet been able to implement this Incentive Program due to contractual constraints. However, it is the intent of Management to continue to actively pursue resolution of contractual problems that are presently impeding the implementation of the Incentive Program as this type of program has been successfully implemented by other transit properties and has substantially reduced their absenteeism levels.

LABOR CONTRACT NEGOTIATIONS

Although some labor inefficiencies are being corrected through the application of better scheduling techniques, the main area of cost savings to be addressed resides in labor agreement provisions. The District is currently preparing for contract negotiations and has identified major opportunities for savings in the areas of absenteeism, work rules and use of part-time drivers that could be implemented with the cooperation of the Union. It is most apparent that both labor and management must tighten our belts in a united effort to avoid the consequences of a continued downward financial and ridership spiral. Although improvements in the labor provisions would not be realized until FY 89-90, the District is currently working on cost-saving methodologies which will be presented to the Union for their consideration.

SERVICE CHANGES

Over 70% of the District's expenses are directly attributable to service and labor costs associated with providing that service. Simply paring away service would be counter-productive to the District and our patrons. The first step was to determine what level of baseline service could be provided within the constraints of our resources. By re-examining all current service routes to determine patronage, profitability, headway times, etc., we were able to make some immediate changes that have resulted in some cost savings. The District developed criteria for determining those service cuts that would provide the greatest savings with the least negative impact on our riders.

There are two basic categories of service reductions under consideration by the District at this time. The first category includes reductions that should have minimal adverse effect on AC Transit patronage. The second group are drastic in nature and will be implemented only as a last resort.

UNANTICIPATED BUDGET OCCURRENCES

SECURITY CONTRACT CHANGES

Recently, the District terminated its contract and filed suit against Richardson Security due to non-compliance with the terms and conditions established in our contract agreement with that firm. The District has since retained the services of the Alameda County Sheriff's Department, Contra Costa Sheriff's Department and American Protective Services to provide mobile and fixed security for our facilities, patrons and drivers. These new arrangements, although unforeseen, have been most satisfactory for the riding public and our employees. However, it should be noted that this change will cost the District approximately \$500,000 more than what was projected in the budget for security services. This overage is justifiable, given the caliber of the current

service, and the need for the District to provide superior security services to our patrons and employees.

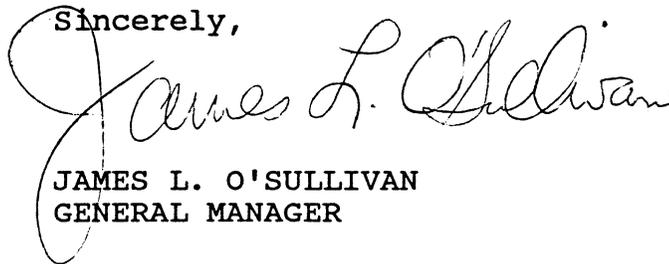
CONCLUSION

Effective financial recovery and cost containment is not an overnight process. Stabilizing the District's financial condition requires constant assessment and well-planned actions, employed over a period of time, if the long-term viability of the District is to be assured. These actions must effectively balance costs and benefits so as not to unduly compromise essential quality service to our patrons.

Employment of all of the financial recovery and cost contained programs currently under consideration will provide only temporary financial relief if not combined with additional and stable long-term funding sources. It is our mission to seek out and secure ample funding which will enable us to provide constant and quality service in the East Bay.

In conclusion, it is acknowledged that the District continues to face difficult, but not impossible, financial circumstances. However, the Board of Directors and staff are committed to resolving the financial challenges herein presented. With your help, we are moving on a course of action which lays the necessary framework for the return of AC Transit to financial stability and to the level of national pacesetter which it once held. This is not an overnight process, but it is a crucial first step on our road to recovery.

Sincerely,

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

JAMES L. O'SULLIVAN
GENERAL MANAGER

JLO:PYG:LVP:nlc
STATRES5

MICHAEL H. FAJANS
PRESIDENT

ALICE H. CREASON
VICE PRESIDENT

December 29, 1988

DIRECTORS

MICHAEL H. FAJANS
WARD I

JEROME G. WIGGINS
WARD II

ALICE H. CREASON
WARD III

WILLIAM J. BETTENCOURT
WARD IV

LINDA SHEPARD
WARD V

ROY NAKAPEGAWA
DIRECTOR AT LARGE

JOHN WOODBURY
DIRECTOR AT LARGE

Mr. Thomas W. Hayes
Auditor General of California
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

At the direction of the full Board of Directors of the AC Transit District I am writing to express great concern at the process of the California Auditor General's office in the preparation and issuance of the first quarterly monitoring report on AC Transit's performance as required by A.B. 2722 (Chapter 1147, statutes of 1988). Specifically, we are concerned about the short turn around time allowed for District comment to the draft report, (your letter dated December 20, 1988 and addressed to me requested an official response by December 21, 1988 by 5:00 p.m.), and about the confidentiality requirements that "this report is to be kept confidential and should not be reproduced", which precluded an official Board response.*

The Auditor's report does contain a response prepared by the District staff, but that response does not necessarily reflect the views of the Board of Directors which has had no opportunity to respond to the issues involved. It is crucial that the Board of Directors, not staff alone, respond to these issues.

The Board of Directors of AC Transit is eager to cooperate with the State and our legislative delegates in doing everything we can to correct any problems in the District, and we would like to be in the position to act, and given the appropriate time, we are willing to do so.

We ask that this letter be included with your report when released to the public.

Sincerely,



Alice H. Creason
Vice-President

*The comments of the Office of the Auditor General about the district's response appear on page 37.

**THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS
ON THE RESPONSE OF THE ALAMEDA-CONTRA COSTA
TRANSIT DISTRICT, DECEMBER 29, 1988**

In her letter of December 29, 1988, the vice president of the board of directors of the Alameda-Contra Costa Transit District (district) omitted the following points:

- On December 21, 1988, we met with the vice president after she had reviewed the draft report and considered her comments;
- At the same meeting, we offered to extend the district's response deadline from December 21, 1988, to 8:00 a.m., December 28, 1988, to give all board members an opportunity to review the draft report; and
- The vice president declined the offer of an extension.

Furthermore, it is the district's decision as to whether district staff or the board of directors will respond to the future reports of the Office of the Auditor General. Nevertheless, state law requires that all draft reports of the Office of the Auditor General be kept confidential until released to the public by the Joint Legislative Audit Committee.

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