

Regional Transportation District

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ATTACHMENT F



June 21, 2010

Cindy Stetson
Deputy State Auditor
Office of the State Auditor
200 East 14th Avenue
Denver, CO 80203-2211

Dear Ms. Stetson:

In response to your letter of April 23, 2010, I have attached a report which summarizes the current status of the efforts to improve the policies and procedures at RTD in light of the recommendations provided in our State audit. We have made significant progress and have completed our efforts on a number of items. We are well on our way to completing our changes for all remaining item within the time frame we originally proposed.

In addition, we have included our response to the three additional items which were requested by the Legislative Audit Committee. We are looking forward to meeting with the committee in July to discuss our progress.

Thank you for this opportunity. If you have any questions, please feel free to contact me or our liaison and Manager of Internal Audit, William Holmes, at 303-299-2352.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip A. Washington". The signature is stylized and includes a long horizontal flourish extending to the right.

Phillip A. Washington
General Manager and CEO

cc: RTD Board of Directors (w/attachment)

DETAIL – Implementation Status of Audit Recommendations

Recommendation #	1		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text			
<p>The Regional Transportation District Board of Directors should ensure that the general manager’s total compensation package and employment agreement are reasonable and appropriate and have a valid basis by conducting benchmarking analyses that are comprehensive, systematic, and inclusive of both external market-based factors and internal equity considerations. At a minimum, the Board should:</p> <ol style="list-style-type: none"> a. Benchmark all key elements of the general manager’s total compensation package, including actual base salary, incentive pay, retirement benefits, vacation and sick leave, and other compensation elements as appropriate. The Board should develop a salary range and market midpoint for the general manager position. b. Ensure that benchmarking analyses are based on a comparison of compensation elements that are equivalent or similar in function and scope. c. Conduct benchmarking analyses each time the general manager’s employment agreement is renegotiated. In years when the employment agreement is not being renegotiated, the Board should gather and update relevant external market and internal data. d. Define clear criteria to use in selecting an appropriate peer group and to demonstrate the peer group’s appropriateness for assessing the general manager’s compensation package and employment agreement against the market. The selection process should be well documented and list the reasons that certain organizations are included in the peer group and others are excluded. e. Review the peer group and the selection criteria on an annual basis and make necessary changes. The Board should refrain from listing the actual peer group in the general manager’s employment agreement. f. Seek specialized expertise from outside consultants when necessary. g. Document any departures from the results of the benchmarking analyses when determining the general manager’s employment agreement and compensation package to ensure transparency in the decisionmaking process. 			
Agency’s Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	October 2010		
Implementation Status <i>(Please put an “X” under the most appropriate implementation status. If implementation is still in progress, please select “Partially Implemented.”)</i>	Implemented	Partially Implemented	Not Implemented
	X (e-f)	X (a-d,g)	
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

We fully agree that the methodologies previously used to calculate, evaluate, and administer the former general manager's employment agreement and compensation package could have been improved, and those improvements are reflected in the new general manager's contract. The total annual compensation for the new general manager is approximately 57 percent of the total annual compensation for the former general manager in the last year of his contract on an annualized basis. The benefits included in the new general manager's base compensation—including insurance coverage, vacation and sick leave accruals, and retirement benefits—are in accordance with the District's standard payroll practices. That is, the new general manager's compensation follows the same basic compensation process applicable to all of the District's salaried employees. The contract for the new general manager does not include criteria or a request for automatic increases based on a select peer group analysis. None of the extra compensation measures identified by the State Auditor in the former general manager's contract, including accelerated pension service credit accrual, performance incentive pay, paid deferred compensation, or increased sick and vacation accruals, are included in the employment agreement for the new general manager. As another illustration of cost savings, in this case beyond the scope of the contract, the new general manager opted out of the District's medical insurance plan, potentially saving the District thousands of dollars during his employment with the District.

The RTD Board of Directors is committed to continuous improvement in our processes and has initiated several steps to address the concerns expressed by the State Auditor on our benchmarking practice.

- a– e. The Board has created a standing committee named the General Manager Oversight and Performance Management Committee that is responsible for making recommendations to the full Board on incorporating the audit's recommendations for expanded benchmarking into the comprehensive compensation and evaluation process. While the Board did previously gather and review salary information of general managers at comparable transit agencies, as designated by the American Public Transportation Association, this Committee will review the recommendations on benchmarking provided by the State Auditor and will address them as appropriate. This Committee will provide recommendations for implementation to the full Board by October 2010.
- f. The Board has hired an outside employment agreement attorney to create an industry-accepted contract based on standard terms and conditions. Under this contract, the compensation for the new general manager follows the same basic compensation procedure as for all RTD salaried staff. The compensation package negotiated for the new general manager is based on a set of guidelines recommended by the Executive Search Committee and agreed to by the full Board. The RTD Board hired an external executive search firm and a liaison firm to provide expertise and assistance during international search for the new general manager.

- g. The Board will develop and implement a procedure to document all benchmarking activities to identify any potential departures from the analyses which might occur as part of the general manager's employment or compensation.

Status Update (June 21, 2010)

- a-d, g. The General Manager Oversight and Performance Management committee has enlisted the aid of our human resources department to develop a benchmarking methodology that will include the appropriate compensation elements, obtain information to determine appropriate comparative transit agencies and local public organizations, and apply appropriate industry standard indices to normalize the data. Although the peer group comparisons are no longer included in the new general manager's contract, this data will be used in determining the appropriate transit agencies to benchmark. We anticipate the first set of data to be available the end of June that will determine the benchmarking elements and agencies we will use for comparison. The benchmarking methodology will be validated by an outside organization with expertise in this area.
- e. Implemented. The peer group is not listed in the new general manager's contract. The peer groups if used as a component of the annual benchmarking methodology will be reviewed annually during the benchmarking process.
- f. Implemented and ongoing. The Board utilized an external employment lawyer to create an industry accepted contract based on standard terms and conditions for the new general manager contract. The Board also hired an external executive search firm and a liaison firm to provide expertise and assistance during the international search for a general manager. The Board will hire an outside firm with benchmarking experience to validate the benchmarking methodology. We will also utilize a firm like Mountain States Council to survey the local executive public agencies.

In our original response, we had indicated an implementation date of October 2010. We are still tracking to be on schedule with this date.

Recommendation #	2		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text	The Regional Transportation District Board of Directors should obtain complete cost data on the terms of the general manager's employment agreement and total compensation package prior to making a decision to approve the agreement. Additionally, the Board should use a tally sheet or similar mechanism to compile and review annually all major components of the general manager's employment agreement and their related costs.		
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	Implemented and Ongoing		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X		
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

The RTD has identified and calculated all costs for the new general manager's complete compensation. A clear methodology has been developed with the assistance of an outside independent auditing firm that specifically delineates all appropriate cost factors to ensure all costs are clearly identified for the entire compensation agreement. This methodology is designed to ensure that all costs associated with the new general manager's compensation are fully enumerated. Please note that the extra compensation measures identified by the State Auditor in the former general manager's contract—including accelerated pension service credit accrual, performance incentive pay, paid deferred compensation, and increased sick and vacation accruals—are not included in the employment agreement for the new general manager. The RTD chief financial officer will annually compile, review, and report to the Board the total costs of the general manager's employment agreement. This report will be subject to an annual audit by an external audit firm retained by the Board. A copy of the new general manager's contract, along with a copy of the comprehensive cost analysis performed by an external auditor, has been provided to the State Auditor.

Status Update (June 21, 2010)

The Board identified and calculated all costs for the new general manager's complete compensation. A copy of the comprehensive cost analysis was performed by an independent

audit, Bondi & Associates, and was provided to the State Auditor during the March, 2010 submission.

This will be an ongoing process as documented in the general manager's evaluation policy.

Recommendation #	3		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text	<p>The Regional Transportation District Board of Directors should ensure a strong relationship between pay and performance by developing and implementing a formal process for annually evaluating the general manager's performance. At a minimum, the Board should:</p> <ol style="list-style-type: none"> Establish performance standards and accompanying evaluation factors that are comprehensive and highlight the core competencies and skill sets required to perform the job. Define a metric for each performance standard and evaluation factor to ensure consistent application of the rating criteria. Provide the written performance evaluation to the general manager annually and maintain a copy in the general manager's personnel file. Use the annual performance evaluation as the basis for determining increases in the general manager's base salary. 		
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	December 2010		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
		X (a-d)	
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

The former general manager's contract contained benefits that were provided to general managers of peer transit agencies, and was the result of more than a decade of exceptional performance, including securing nearly one billion dollars in federal funding, and the successful opening of three consecutive light rail lines on time and on budget with each exceeding ridership projections. Subsequent contract renegotiations were conducted in the context of repeated recruitments of the former general manager by other transit agencies at a time when the agency was in the midst of major transit projects and programs such as T-REX and FasTracks. The RTD's ability to maintain high levels of service and avoid methods, such as steep fare increases, slashing of service by up to 50 percent, and wholesale layoffs, that are being employed by other transit agencies clearly indicates superior overall management.

The Board recognizes that the specific methodologies used to evaluate the former general manager's performance could have been improved. Such improvements are directly reflected in the new general manager's contract. Specifically, the new general manager's contract calls for the Board to conduct an annual performance evaluation with the general manager. Based on this

review and evaluation, the Board may increase the general manager's base salary by up to 5 percent. The first performance review is due by December 31, 2010. In comparison, since 2000 the former general manager was evaluated based on the achievement of five specific annual goals established as part of a monetary incentive program that no longer exists.

The procedures developed for the new general manager's annual evaluation are being revised and will include specific, quantifiable performance standards and goals. In addition to the overall District performance standards currently in place, any future additional goals specifically concerning the general manager will be designed to be clearly quantifiable and to address the core competencies expected by the Board. The Board will develop a specific evaluation method for each standard to consistently evaluate the performance of the general manager. While the Board did conduct annual salary evaluations for the former general manager, since 2000 those evaluations were to determine if goals were met for a monetary incentive program that has now been eliminated. The new general manager will receive comprehensive annual written evaluations on the basis of specific standards and goals. These comprehensive evaluations, along with any other relevant issues, will be included in determining future compensation increases. Copies of these annual evaluations will be maintained by the District in the general manager's personnel file.

Status Update (June 21, 2010)

The General Manager Oversight and Performance Management Committee is in the process of developing goal setting and performance evaluation policies that defines the process for establishing performance goals and evaluation factors to highlight the core competencies and skill sets required to perform the job. The goal setting and performance evaluation template is the same one used by the salaried employees and requires documentation of whether goals are met, needs improvement or exceed expectations. All goals will be SMART goals (specific, measurable, achievable, realistic and timely). The comprehensive process for evaluation will consist of two components: quarterly progress reports and annual performance evaluations by the full Board that will be based on specific core competency and task goals established in the annual joint board-staff advance planning workshop.

The monetary incentive program has been eliminated but the General Manager may be eligible for a merit increase up to 5% based on his annual review of his performance on the goals, which is a similar process for all of the RTD salaried employees. Copies of the annual performance evaluation will be maintained by the District in the general manager's personnel file.

Preliminary drafts of the goal setting and performance evaluation policies are in review by the General Manager Oversight and Performance Management committee. Copies of the policies are expected to be received and voted on by the full Board during late summer with anticipated implementation date of December, 2010.

Recommendation #	4		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text			
<p>The Regional Transportation District Board of Directors should ensure a strong relationship between pay and performance by reevaluating the monetary incentive program for the general manager. If the monetary incentive program continues, the Board should:</p> <ol style="list-style-type: none"> Define the incentive program's purpose, including the specific behaviors and outcomes the Board is attempting to motivate and achieve. Define how performance goals tied to incentive payments are different and distinguishable from the general manager's overall performance expectations and job responsibilities. Establish a clear process for developing and vetting performance goals for the general manager, including prescribing guidance to ensure that the resulting performance goals will meet the overall objectives of the incentive program. <p>Develop performance goals and review their achievement in a timely manner as prescribed by the employment agreement. The entire process should be well documented in the general manager's personnel file.</p>			
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	Implemented		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X (a-d)		
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

The careful stewardship of District assets, along with securing the highest quality leadership, has always been the goal and policy of the RTD Board of Directors and it will continue to carefully address all issues relating to senior executive compensation. The Board has reevaluated the monetary incentive program and has not included any provisions for performance incentive pay in the new general manager's contract. Thus, the remaining parts of this recommendation are not currently applicable. However, should monetary incentive payments be authorized for the general manager in the future, the Board will ensure that the principles outlined in this recommendation are followed.

Status Update (June 21, 2010)

The Board has reevaluated the monetary incentive program including having performance goals tied to incentive payments and has eliminated this program. The current general manager's contract does not have any monetary performance incentive payment in the contract.

Recommendation #	5		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text			
<p>The Regional Transportation District Board of Directors should develop and adopt a formal compensation philosophy as a framework to guide the design, implementation, and evaluation of the general manager's employment agreement and compensation package. At a minimum, the Board should:</p> <ol style="list-style-type: none"> Ensure that the compensation philosophy outlines general guiding principles on total compensation and value, details the purpose and rationale for specific compensation elements and the relationship between them, and establishes a clear relationship between pay and performance. Review the compensation philosophy and make appropriate revisions on an annual basis. This review should be performed concurrently with a review of data compiled annually on the cost of the general manager's total compensation package and the completion of the general manager's annual performance evaluation. Consider developing and adopting a comprehensive compensation philosophy that extends beyond the general manager to include the District's other senior managers and employees. 			
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	October 2010		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
		X (a-c)	
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

Compensation procedures have been revised with the hiring of the new general manager. The Board will continue to review and refine these procedures to ensure the general manager's compensation is continually monitored and comprehensively reviewed on a periodic basis.

- The compensation for the new general manager's contract is now directly connected with the compensation processes for the District's salaried employees as a whole. The Board is developing a detailed set of procedures that address total compensation and value to ensure these elements are connected to specific criteria. This is a result of the Board's compensation philosophy for the general manager that is now consistent with what the salaried employees of the District receive.

- b. The Board is developing a comprehensive review process for the general manager's compensation through the newly formed General Manager Oversight and Performance Management Committee, and will perform and document an annual evaluation of the process that will be utilized as part of the general manager's annual performance evaluation. If the review warrants, appropriate compensation changes will be made and will be clearly documented and costed out.

- c. The Board agrees that the compensation of all District salaried employees must be fair and reasonable, and the Board does approve the number of salaried employee positions and their attendant salaries each year, first in the annual budget and again in the amended budget. For salaried employees, the District has for many years utilized an annual salary survey of comparable positions at public agencies and private businesses, conducted by Mountain States Employers Council, to evaluate compensation practices. This survey, plus a survey conducted by internal staff of transit-specific jobs, is the basis for annual adjustments, if called for, to the salaried employee grade ranges. The responsibility for actually implementing the District's compensation practices, as approved by the Board as part of the annual budget, directly lies with the general manager. As recommended, the Board will adopt a more comprehensive compensation philosophy that extends to senior managers and salaried employees. As noted elsewhere by the State Auditor, for the second consecutive year the RTD salaried staff has not received merit increases due to the economic recession. The Board believes the human relations policies and procedures developed by the District are well structured and continue to attract the highly qualified and dedicated staff that has made RTD one of the most respected transit organizations in the country, as evidenced in part by RTD being named by the American Public Transportation Association as the best transit agency in the country in 2008 for a record-tying third time. The agreement with the new general manager is directly tied to the benefits and procedures associated with all RTD salaried employees, as the general manager is not eligible for any benefit on a basis more favorable than that generally applicable to all of the District's employees.

Status Update (June 21, 2010)

The General Manager Oversight and Performance Management Committee is reviewing various best practices compensation philosophy models to draft a compensation philosophy reflective of its guiding principles on total compensation and value, pay and benefit components that are consistent with internal equity factors and overall compensation strategy. Input from the benchmarking effort currently in process will help to solidify the major components of the compensation philosophy and ensure a clear relationship between pay and performance. The compensation philosophy for District employees is currently in place as described in our earlier response to the initial recommendations and is supported by the Board members. The Board compensation philosophy for the general manager will be consistent with the District.

Recommendation #	6		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text	<p>The Regional Transportation District Board of Directors should ensure transparency with respect to the general manager's employment agreement and compensation package by:</p> <ol style="list-style-type: none"> Providing the public with comprehensive cost information by disseminating tally sheets or another cost summary statement designed for public consumption. Obtaining an update at each Board meeting regarding key compensation committee activities. Holding an annual briefing, in an open meeting, that covers in detail the various components and associated costs of the general manager's employment agreement and compensation package. 		
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	October 2010		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X (a-c)		
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

The Board of Directors of the RTD will continue to be transparent in all its operations and will continue to provide complete and open access to all legally permissible compensation information. The Board will expand these efforts and review procedures to increase and improve the dissemination of information.

- The Board has developed a more specific itemization of all compensation and benefits being provided to the new general manager with costs identified for each. In addition, the Board will provide to the public, as permitted by law, the cost summary statements that itemize compensation and benefits provided to the new general manager.
- Procedures will be improved to increase documentation to help ensure that all compensation amounts and any potential future amounts of compensation earned or due the new general manager are fully documented and provided to the Board as appropriate. The new General Manager Oversight and Performance Management Committee will meet regularly in open session, as permitted by law, and minutes of those meetings will be included in the Board meeting packets and will be presented in open session at the subsequent Board meeting.

- c. As part of the general manager's annual evaluation, the Board will add to its normal open session contract review process the review and discussion of all applicable elements of the general manager's compensation, as permitted by law, in an open session meeting. As previously noted, the General Manager Oversight and Performance Management Committee will meet regularly in open session, as permitted by law, minutes of those meetings will be included in the Board meeting packets and will be presented in open session at the subsequent Board meeting. While the Board did previously discuss and present information regarding the former general manager's contract in open session, this more formal process will further ensure all Board members and the public are more fully briefed on current general manager compensation issues, as well as developments which could affect future negotiations.

Status Update (June 21, 2010)

- a. The RTD Board of Directors have revised their processes to require a review by the CFO of all costs and calculations associated with the General Manager contract including having an annual review by an independent organization to validate the cost information. For the newly elected general manager, this new process was followed. Bondi and Associates provided a comprehensive cost information for each year of the three year contract using a summary sheet. Bondi and Associates were available for a public discussion at a special Board meeting on 3/9/10 if needed. Copies of the cost analysis was submitted to the State Auditors with the initial response in March and can be reviewed in the Board office.
- b. The General Manager Oversight and Performance Management Committee is a standing committee with ongoing responsibility for the oversight of the general manager contract and compensation. The Chair of the Committee provides a monthly update at the regularly scheduled Board meetings of key compensation committee activities.
- c. The General Manager Oversight and Performance Management Committee has drafted a policy on the evaluation process for the General Manager which is going through the review and approval stage. The anticipated approval date by the full Board is late summer, 2010. A key component of this policy includes a provision for "the Chair of the General Manager Oversight and Performance Management to provide an annual status update of changes to the General Manager's compensation or contract in the first public regular Board meeting following the completion of the evaluation process."

Recommendation #	7		
Agency Addressed	Regional Transportation District		
Recommendation Text	The Regional Transportation District should completely and accurately disclose in its financial statements any unique benefits provided to a District employee or group of employees. To the extent that any unique benefits are still being paid or provided to the former general manager, such information should also be disclosed.		
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	May 2010		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X		
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

The District will review employee and employee group contracts and determine if there are any employees or employee groups receiving additional unique benefits. The District will review the future disclosures related to the District's financial statements to determine if it is appropriate that such disclosures be enhanced to include information regarding any identified unique employee benefits. Any unique benefits or payments being made in the applicable calendar year to a unique employee or employee group identified as part of this review will be appropriately disclosed.

Status Update (June 21, 2010)

Financial notes were expanded to reference unique benefits to a former employee and improve overall disclosure.

Recommendation #	8		
Agency Addressed	Regional Transportation District Salaried Employees' Pension Trust		
Recommendation Text The Regional Transportation District Salaried Employees' Pension Trust should completely and accurately disclose in its financial statements any unique retirement benefits provided to a plan participant or group of plan participants. To the extent that any unique retirement benefits are still being paid or provided to the Regional Transportation District's former general manager, such information should also be disclosed.			
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	May 2010		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X		
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

The Regional Transportation District Salaried Employees' Pension Trust ("the Trust") will review all Pension Plan documents and related disclosures associated with the annual financial statements and determine if any participants or groups exist regarding the provision of unique pension benefits. The Trust will review the Pension Plan's financial statements to determine if it is appropriate that the disclosures be enhanced to include information regarding unique benefits for any identified pension participant or group. Any unique benefits or payments being made in the applicable calendar year to a participant or participant group identified as part of this review will be appropriately disclosed.

Status Update (June 21, 2010)

Financial notes were expanded to reference unique benefits to a former employee and improve overall disclosure.

Recommendation #	9		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text	<p>The Regional Transportation District Board of Directors should improve controls at the Board and staff levels to ensure more effective oversight and management of the general manager's compensation package and employment agreement. At a minimum, the Board should:</p> <ol style="list-style-type: none"> Develop a clear process with assigned accountabilities for reviewing and approving all compensation calculations for the general manager's contract. Compensation calculations performed by District staff who report to the general manager should be reviewed by an individual outside the general manager's reporting line, such as staff in the Board's administrative office, internal audit staff, or the chair of the Board's compensation committee, prior to final approval by the Board Chair. Work with the Board's general counsel to review the final language of the general manager's employment agreement and ensure that it accurately reflects the terms mutually agreed upon by the Board and the general manager. 		
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	Implemented and Ongoing		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X (a-b)		
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

- The District has now hired a new general manager and has significantly revised compensation practices, as reflected in the new contract. All issues concerning the contract for the newly hired general manager will continue to be carefully reviewed and monitored as part of the Board's continuing responsibilities and revised compensation policies. This contract is directly tied to the general payroll structures of the entire District. The District's chief financial officer will annually review all compensation aspects of the general manager's contract, and report findings to the Board. An external auditor will be retained by the Board to annually review the financial aspects of the general manager's contract and report findings directly to the Board.
- The District's general counsel will continue to be utilized to review the agreement and ensure it accurately reflects the agreed-upon terms. For the new general manager's contract, the Board brought in an outside attorney who specialized in employment law to

negotiate on behalf of the District, and the Board will utilize this process in the future as needed.

Status Update (June 21, 2010)

- a. The RTD response has not changed from the initial response provided to the State Auditors in March 2010. RTD has updated all management directives and policy on the General Manager evaluation to include this action.
- b. The District's general counsel was utilized in the preparation of the new general manager contract to review the agreement and validate that it accurately reflected the agreed-upon terms. The actual preparation and negotiation of the contract was performed by an outside attorney who specialized in employment law. Both sides had an attorney representing their interests.

Recommendation #	10		
Agency Addressed	Regional Transportation District Board of Directors and Regional Transportation District		
Recommendation Text	The Regional Transportation District Board of Directors and the Regional Transportation District should improve internal controls to provide for more thorough review and approval of the general manager's and other senior managers' business expenses and purchasing card statements to ensure compliance with District policies and procedures. Permitted deviations from established policies and procedures, as well as the reasons for such deviations, should be identified and approved separately.		
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	Implemented		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X		
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

Both the Board of Directors and the District staff have developed updated methods to improve internal controls over business expenses. These updated procedures and policies better address the current climate and conditions associated with business travel and the related expenses. Specific business-related policies have been reviewed and revised to ensure they more clearly outline and delineate District procedures. Documentation standards for all business expenses will be enforced and full documentation will be required of all employees. Additional approval procedures or acknowledgements for specific, authorized exceptions to general policies are part of the updated procedures.

Status Update (June 21, 2010)

The RTD response has not changed from the initial response provided to the State Auditors in March 2010. RTD has updated all management directives and policies associated with the review and approval of travel and business expenses, and procurement card purchases. The Chair of the Board signs off on all general manager expenses and travel approvals. Copies are retained in the General Manager's personnel file.

Recommendation #	11		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text	The Regional Transportation District Board of Directors should improve the organizational independence of the District's internal audit function by redefining the internal audit unit's functional reporting line and associated activities in accordance with established professional standards in internal auditing. As part of this process, the Board should also review the internal audit unit's administrative reporting line and make any necessary changes.		
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	July 2010		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X		
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

While we believe that the internal audit function has had sufficient independence in its operations, as well as full access to the Board, we will formally review procedures and the reporting structure to determine where improvements can best be made. The Board did previously give input on the annual audit schedule and did receive presentations of all audit reports on at least a quarterly basis through the Finance and Administration Committee. In order for the internal audit process to be more formally added as part of the overall audit review procedures, the Board will create the expanded Finance, Administration and Audit Committee. Specific consideration will be given through the expanded Committee regarding how best to give internal audit a more formal and more direct reporting line to the Board, including having the Committee review the annual evaluation of the Manager of Internal Audit. We agree that the current administrative reporting structure is fully functional, but we will review if there are improvements that can be made to more clearly delineate the internal audit administrative reporting line.

Status Update (June 21, 2010)

The RTD Board of Directors reviewed the reporting structure for the internal audit position and took a board action at the May 18th Board meeting to make the following changes:

- Expand the finance committee and responsibilities to now include finance, audit and administration committee.
- Establish a dotted line reporting structure to the Board to document the independence of the Internal Audit function.
- Establish a dotted line reporting structure between the Board and the internal auditor such that the Board will have input into the annual evaluation of the Manager of Internal Audit.

Recommendation #	12		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text			
The Regional Transportation District Board of Directors should ensure that its committee structure promotes accountability, an adequate division of labor, and subject-matter expertise by:			
<ul style="list-style-type: none"> a. Adopting for each standing committee a charter that clearly establishes the committee's jurisdiction, purpose, role and responsibilities, membership, subcommittees, operating procedures, and reporting requirements. The Board should adopt for each ad hoc committee a more limited charter that establishes the committee's jurisdiction, purpose, and role and responsibilities. Each committee should annually evaluate its performance against its charter and report to the Board with recommendations for changes to the charter. b. Establishing a standing compensation committee and a standing audit committee of the Board. The compensation committee should be responsible for overseeing all aspects of the general manager's employment agreement, compensation package, and performance evaluation. The audit committee should be responsible for overseeing all internal and external audit-related activities of the District. The compensation committee and the audit committee should be required to provide updates to the full Board on a routine basis. c. Reevaluating use of the committee of the whole as the primary means of organizing the Board's standing committees and committee activities. 			
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	<ul style="list-style-type: none"> a. November 2010 b. July 2010 c. Implemented 		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X (b-c)	X (a)	
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

- a. Agree. Implementation date: November 2010.
The Board will adopt an updated description for each of the committees that identifies roles and responsibilities, incorporating key issues raised by the State Auditor. The Board will also review the activities of all of the committees annually and will review the overall Board committee structure to ensure it continues to meet the needs of the District.
- b. Agree. Implementation date: July 2010.
As part of the overall general manager's compensation procedures, the Board has formally established the General Manager Oversight and Performance Management

Committee that is primarily delegated with these responsibilities. The Board will also create the expanded Finance, Administration, and Audit Committee so the internal audit process can be more formally added as part of the overall audit review procedures. Both committees will provide regular updates on committee activities to the full Board as part of the regular monthly Board meeting.

c. Agree. Implementation date: Implemented.

The Board of Directors appreciates the comments of the State Auditor regarding its committee structure. While both methods (standing committees with limited members and committees of the whole) have advantages and disadvantages, the Board believes its current committee structure best serves the needs of the District and the Board. The Board previously utilized a committee structure with a limited membership assigned to specific committees, and we have found that the committee-of-the-whole structure is more effective.

Status Update (June 21, 2010)

- a. The RTD Board of Directors have created charters for the respective standing committees. These committee charters will be included in the Board Governance Manual when it is complete.
- b. The RTD Board of Directors have created the General Manager Oversight and Performance Management Committee which is a standing committee with oversight responsibility for all aspects of the General manager's compensation, performance evaluation and employment contract (est 4/10). This committee is fully engaged in the drafting of the Board policies for goal setting and performance evaluation that includes benchmarking and other related activities. The expanded Finance, Audit and Administration Committee was approved at the 5/18/10 Board meeting. Both committees will report in regularly as updates occur.
- c. The Board of Directors have had recent dialog about the pros and cons of the committee structure. The current Board still feels that the committee as a whole structure best addresses the need of the Board to be inclusive of all Districts and provide a forum for the elected constituency to be heard. The committee as a whole structure is more efficient for the Board as each Director has the opportunity to actively participate in the sharing of information and options for decision making before an action comes before the full Board for a vote.

Recommendation #	13		
Agency Addressed	Regional Transportation District Board of Directors		
Recommendation Text			
The Regional Transportation District Board of Directors should improve its governance and oversight practices by:			
<ul style="list-style-type: none"> a. Developing a written governance manual describing the roles, responsibilities, policies, and procedures for key areas of Board activity and function. Once developed, the Board should review and update the manual annually. b. Developing a succession plan for the general manager and other senior management positions to ensure the continuity of operations. c. Leveraging available resources within the Board Office and contracting directly with consultants and subject-matter experts when necessary as additional support for Board activities. 			
Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Agree		
Implementation Date <i>(as listed in the audit report)</i>	October 2010		
Implementation Status <i>(Please check the most appropriate box. If implementation is in progress, please select "partially implemented.")</i>	Implemented	Partially Implemented	Not Implemented
	X (c)	X (a-b)	
Revised Implementation Date <i>(Please complete ONLY if the implementation date should be revised.)</i>			

Original Response (March 30, 2010)

We fully agree that the methodologies previously used to calculate, evaluate, and administer the former general manager's employment agreement and compensation package could have been improved, and those improvements are reflected in the new general manager's contract. We do believe that the overall governance of the Regional Transportation District has been very effective. The District has been able to weather the recent economic downturn much better than most of its other transit partners throughout the country. To continue this active governance, we appreciate the State Auditor's suggestions regarding general governance issues.

- a. The Board has had in place for many years an RTD Board resource manual that covers Board by-laws, policies and procedures. We will establish a more detailed manual addressing the roles and responsibilities associated with the overall governance of the District. As with all new procedures addressed in this audit, this manual will be continually reviewed and updated to ensure it is accurate, effective, and up to date.
- b. The new general manager and the senior leadership team have each developed specific succession plans, delineating direct reports who will serve in an acting role during their temporary absence, or in a longer term scenario pending a recruitment should there be a

vacancy. Each of these positions will continue to develop and improve the abilities of their direct reports. These succession plans will be reviewed annually to ensure they are current. RTD is proud of the experience and expertise of its staff and managers and is confident that this pool of dedicated individuals is able to provide high quality management and service as vacancies and opportunities become available.

- c. The District will always be open to the solicitation of and use of information and expertise from outside experts and consultants when the Board believes there is an identified and legitimate need. For example, the RTD Board hired an external executive search firm and a liaison firm to provide expertise and assistance in the recently completed international search for the new general manager. In addition, RTD hired an external attorney who specializes in employment law to assist with the District's negotiations for the new general manager's contract. The Board will also explore additional ways to leverage resources available in the Board Office.

Status Update (June 21, 2010)

- a. The Executive Committee has approved the proposal and cost for an electronic governance manual which will be an extension of the current Board Resource Manual. The approved layout for this manual will consist of these sections:
 - Part I: Board Governance Overview
 - Part II: Governing Policies and Procedures
 - Part III: Code of Ethics
 - Part IV: Committee Structure
 - Part V: Committee Charters
 - Part VI: Board of Directors Local & Travel Policies
 - Part VII: General Manager Oversight (i.e. compensation philosophy, hiring and search process, Approval of General Manager Expenses and travel and Succession Planning)

Work is in process to gather and develop these input sections for the Manual and to identify outside resources for support. Work effort will include contacting other transit agencies for best practices for a governance manual.

- b. The General Manager is working on revisions to the succession plan which will be reviewed by the General Manager Oversight and Performance Management committee before approved by the full Board.
- c. The RTD Board actively solicits and utilizes information from experts both internally and externally to RTD as needed. In the hiring of the new General Manager, the Board issued an RFP to select the most qualified executive search firm with the experience needed to hire the best qualified General Manager. The Board hired a consultant with experience in public information and political environments to offer their expertise on the selection process. They also hired an attorney with experience in employment law to negotiate the contract. The Board annually utilizes outside facilitators experienced with political boards to facilitate Board-staff advance planning sessions or strategic issues.

Additionally, the Board plans to use outside expertise in benchmarking to validate the selected methodology they adopt for RTD.

The Board solicits and encourages assistance from the Executive Manager of the Board office in a number of ways:

- Create and maintain General Manager personnel files
- Draft policies and procedures related to approval of General Manager travel and expenses
- Assist in drafting of policies on goal setting and evaluation process for General Manager
- Conduct research with other transit agencies pertaining to best practices with governance manuals, Board committee structures and other Board related matters
- Collaborate with the Board on development and content for the Board Governance Manual; oversee the electronic publishing of the document
- Management of the schedule and timeline for the annual General Manager Evaluation Process
- Review General Manager weekly time sheets, travel and procurement expense reports and requests for travel authorization.
- Obtain funding sources, work with procurement to issue and evaluate RFPs/solicitations for outside consultants
- Performs check and balances on execution of processes and policies.

Additional Requests

In addition to the status update, please provide the following information in reference to specific requests made by members of the Legislative Audit Committee during the audit hearing:

- 1) A narrative that explains why in 2001 the Board replaced its more comprehensive performance evaluation plan for the District's general manager with an evaluation plan that was less comprehensive.

RTD Response: We have checked the records in our General Manager file and there is no record in file as to why this change occurred. This current Board however, is committed to moving forward and providing documented policies and procedures for goal setting and performance evaluation that will be reviewed and approved by the full Board.

- 2) A description of efforts the Board undertook to evaluate and/or adjust the general manager's compensation package prior to the departure of the former general manager in July 2009, and the commencement of the audit in August 2009. Please provide documentation to support the dates of these efforts.

RTD Response: Please find a separate letter dated June 21, 2010 from Chair Kemp to Representative Kerr with several email attachments from 2006-2009 of various discussions from members of the Board related to the general manager compensation and evaluation reviews.

- 3) A description of the Board's other efforts to promote transparency in the District's operations.

RTD Response: In addition to the regular action taken by RTD to be in compliance with Colorado Open meetings (CRS.24-6-402(1)(a)) and Colorado Open records (CRS24-72-201, et seq) for all Board related matters, the Board has also taken the following actions:

- Conduct public hearings of all service and rate changes
- Conduct public hearings of operational budget annually in October before approval in November
- Hiring of new General Manager-Conducted a stakeholder outreach with over 200 key stakeholders and community leaders as well as meetings with all salaried and represented employees to obtain their perspective on the desired leadership qualities of a general manager (July-Aug 2009); Created a Civil Leader panel consisting of six representatives of the regional community to interview candidates and provide their input to the Board members (12/2009); Hosted a public forum of approximately 250 people to meet the finalists and to provide their comments back to the Board (12/9/2009); In the process of creating a document of the hiring process from the date of notification of

resignation/retirement through the hiring of a new general manager including succession planning which will be an element of the Board Governance Manual.

- 2009 lessons learned report and public presentations (released 9/2009)
- Conducted public hearing on whether or not the Board should go to the ballot in 2010 for a tax increase (4/13/2010)-various press releases and invitations sent out to regional community
- Board members speaking engagements in various local community events and organizations (ongoing)
- Public presentations by teams competing for public-private partnership (Eagle P-3) 5/18/10; Public hearing on Eagle P-3 held May 25, 2010; various press releases.
- Enhanced responsibilities of Public Information team to better outreach and educate public about FasTracks and RTD; several campaigns including FasTracks at Work and Faces of RTD
- Hiring of General Manager's senior leadership team-publicized internal and external opening-public announcement 6/1/10 with several press announcements of hiring.
- General Manager Oversight and Performance Management Committee—drafting policies related to goal setting and performance evaluation which includes requirement for annual public meeting to review changes in general manager's contract or compensation (in process)-will be discussed and voted on in public forum.



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State Auditor

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200 East 14th Avenue
Denver, Colorado 80203-2211

MEMORANDUM

Date: July 13, 2010

To: Members of the Legislative Audit Committee

From: Sally Symanski, State Auditor

Attached to this Memorandum is a letter addressed to Rep. Kerr from the Chair of the Regional Transportation District's Board of Directors (Board). Due to the volume of materials provided by the Board, the documents referenced in the letter have been scanned electronically and will be emailed to all Audit Committee members following the July hearings.

The Board's letter and the associated materials were provided by the Board in response to a question and request for information from Rep. Kerr at the March 2010 audit hearing. This is an **INFORMATION ONLY** item, and these materials have not been audited by the Office of the State Auditor.



Board of Directors

Chair – Lee Kemp, District I
First Vice Chair – Chris Martinez, District B
Second Vice Chair – Noel Busck, District K
Secretary – Kent Bagley, District H
Treasurer – John Tayer, District O

Barbara Brohl, District D	Bill James, District A
Juanita Chacon, District C	William "Bill" McMullen, District E
William Christopher, District J	Jack O'Boyle, District G
Matt Cohen, District M	Wally Pulliam, District L
Bruce Daly, District N	Tom Tobiassen, District F

June 21, 2010

Honorable Representative Jim Kerr
Member, Legislative Audit Committee
Legislative Services Building,
200 East 14th Avenue
Denver, Colorado

Dear Representative Kerr:

In the State Auditor Review hearing of the RTD Board of Directors held on March 30, 2010, the RTD Board of Directors were in agreement with the findings of the state auditors. However we indicated that we were aware of the need for improvement in the handling of the GM contract, compensation and performance evaluations even before the audit had begun. You had requested that we provide you with documentation showing when the RTD Board had begun questioning these issues.

I am attaching an e-mail trail of various communications between Board members that occurred during the period of late 2006 through spring of 2009 that will show questions and effort made by the Board in these areas:

1. Board members attempt to implement SMART goals as discussed under the state audit recommendation #4.
2. Discussions between Board members on the transit peer party agencies and if we need to expand the number of agencies evaluated as recommended under recommendation #1 e. (memo dated November 3, 2006)
3. Various discussions on the GM contract in 2007 on adding more measurable indicators as stated in the state auditor recommendation #3 or if we should initiate a new contract (memos dated Jan 21, 2007, January 22, 2007, April 30, 2007, May 2, 2007, May 29, 2007, and October 2, 2007).
4. Timeliness of reviews as recommended # 4d of state audit review--Memo from Director Brohl, GM Evaluation Chair in 2007 requesting a written reprieve from General Manager due to a number of factors including the GM availability that attributed to the lateness of the reviews (Memos dated January 23, 2007 and December 9, 2007). Other memos showing complexity in meeting desired timelines.
5. Challenges made by various Board members to GM performance goals.

6. Recommendation # 5 (c)-developing a comprehensive compensation philosophy to include District's other senior managers and employees--Copies of the GM 2006 performance goals achievement including a memo on compensation philosophy and salary surveys for salaried employees.

We fully understand that the state auditors did not find our efforts sufficient and acknowledge there is a need for continuous improvement. However, it does not negate our response that efforts were in place prior to the state audit and a recognition that with an elected Board, it is a process to achieve the desired outcome. Thanks to you and the state auditors for helping us to accelerate our process.

Sincerely


Lee Kemp, Chair

CC: Legislative Audit Committee 2010 members (w/ attachments)
RTD Board of Directors (w/o attachments)