MEETING OF THE
Audit and Finance Subcommittee

Date:
January 16, 2020

Starting Time
12:00 p.m.

Location:
Valley Metro
Lake Powell Conference Room (10A)
101 N. 1st Avenue, 10th Floor
Phoenix

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Agenda
January 9, 2020

Audit and Finance Subcommittee
Thursday, January 16, 2020
Lake Powell Conference Room
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Action Recommended
1. For Information

1. Public Comment (yellow card)

The public will be provided with an opportunity at this time to address the committees on all action agenda items. Up to three minutes will be provided per speaker unless the Chair allows more at his/her discretion. A total of 15 minutes for all speakers will be provided.

2. Minutes

Minutes from the November 14, 2019 Audit and Finance Subcommittee meeting are presented for approval.

3. Maricopa County - Human Services Division Transportation Vendor Invoices Audit

Mary Models, Director, Internal Audit, will introduce Michael McGee, Maricopa County Auditor, who will present the results of the Maricopa County Special Request of the Human Services Division Transportation Vendor Invoices Audit. Ms. Models will request AFS approval to publish the audit report on Valley Metro’s website.

4. OMC Non-Capitalized Rail Parts and Tool Inventory Audit

Mary Models, Director, Internal Audit, will present the OMC Non-Capitalized Rail Parts and Tool Inventory Audit for acceptance.
5. **Internal Audit Update**

Mary Modelski, Director, Internal Audit, will provide an update on the actions taken in Internal Audit.

6. **Internal Audit Exceptions Update**

The Internal Audit Exceptions log is presented for information.

7. **RPTA Fiscal Year (FY20) Mid-Year Budget Adjustment**

Paul Hodgins, Chief Financial Officer, will provide an overview of the RPTA FY20 Mid-Year Budget Adjustment.

8. **Intergovernmental Agreements, Contract Change Orders, Amendments and Awards**

Paul Hodgins, Chief Financial Officer, will provide an overview on upcoming intergovernmental agreements, contract change orders, awards, amendments.

9. **Executive Session**

The Audit and Finance Subcommittee may vote to enter Executive Session for discussion or consultation and for legal advice with the attorney or attorneys of the public body and to consider its position and instruct its attorneys regarding the public body’s positions concerning matters listed on the agenda, personnel matters and contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation; all as authorized by A.R.S. Section 38-431.03 A.1, A.3, and A.4.

The agenda for Executive Session involves discussion and consultation regarding Valley Metro’s internal audit and quality control process.

10. **Executive Session Action Items**

The Audit and Finance Subcommittee may take action related to items discussed as part of Agenda Item 9.
11. **Future Agenda Items**

Chair Arredondo-Savage will request future AFS Agenda items from members and members may provide a report on current events.

The next meeting of the Audit and Finance Subcommittee is scheduled for **Thursday, February 13, 2020 at 12:00 p.m.**

Qualified sign language interpreters are available with 72 hours notice. Materials in alternative formats (large print, audiocassette, or computer diskette) are available upon request. For further information, please call Valley Metro at 602-262-7433 or TTY at 602-251-2039. To attend this meeting via teleconference, contact the receptionist at 602-262-7433 for the dial-in-information. The supporting information for this agenda can be found on our web site at www.valleymetro.org.
Information Summary

DATE
January 9, 2019

AGENDA ITEM 1

SUBJECT
Public Comment

PURPOSE
The public will be provided with an opportunity at this time to address the committees on all action agenda items. Up to three minutes will be provided per speaker unless the Chair allows more at his/her discretion. A total of 15 minutes for all speakers will be provided.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
This item presented for information only.

CONTACT
Paul Hodgins
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ATTACHMENT
None
Minutes

January 9, 2020

AGENDA ITEM 2

Audit and Finance Subcommittee
Thursday, November 14, 2019
Lake Powell Conference Room
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Meeting Participants
Councilmember Robin Arredondo-Savage, City of Tempe, Chair
Councilmember Lauren Tolmachoff, City of Glendale
Mayor Kate Gallego, City of Phoenix
Vice Mayor Bill Stipp, City of Goodyear

Chair Arredondo-Savage called the meeting to order at 12:06 p.m.

Chair Arredondo-Savage said Welcome everybody. It's very nice for you all to be here today.

First thing on our agenda is public comment. I see we have no public comment cards at this time, so we're going to go ahead and move on to the minutes.

1. Public Comment

None.

2. Minutes

Chair Arredondo-Savage said as you know there are revised minutes that were recently sent out. I will ask our committee if you see any revisions or changes. If not, is there a motion for acceptance of our minutes?

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER TOLMACHOFF AND UNANIMOUSLY CARRIED TO APPROVE THE OCTOBER 10, 2019 AFS MINUTES.

3. Full-Time Equivalent Additions Audit Report

Chair Arredondo-Savage said we are going to go ahead and move on to the Full-Time Equivalent Audit Report. For those of you that may not remember, we had the
Full-Time Equivalent Audit Report that was brought to us last month. It was brought to us a little bit late, so we opted to not take any action on it at that time. So what I've asked is if Mary could just do a quick overview just to kind of remind us of some key things, maybe some of the follow-up information that we asked for regarding some of our discussion, how that has been incorporated or been addressed. And with that, Mary, I will go ahead and turn it over to you.

Ms. Modelski said very good thank you. So the full-time audit took place from the time frame of July 1, 2018 through June 30 of 2019. From that we actually brought three recommendations and one item of disclosure forward for management to review and comment upon.

As a follow-up item to this report, as requested by the committee, we reached out to Mr. Smith, Mr. Hodgins and Ms. Lynch to assist us in gathering additional information. We have just received today some additional information from the City of Portland which gave us just some voluntary separation information. They gave us their numbers for 2018. They do it on a calendar basis versus a fiscal year basis like we did. Their numbers were 10.58 versus our 17 percent.

We also received the Employer Councils information which gave turnover rates based on geographic area, so the numbers were for Arizona, Colorado, Utah and Wyoming. Overall rate for turnover in Arizona was 24.1 compared to the western region was 43.8. We had looked -- we just got the report this morning.

We believe that there is limited amount of information regarding government on there. One page we saw said no government. I believe it was Penny saw that she believed that there was some government information, but we're not seeing it in this report here. And then finally, the last participant that came back to us was Detroit and they said their overall turnover rate is 22 percent. And they have an aging workforce. So those were some of the information that we received as follow-up. It did not allow us to do an apple-to-apple type comparison because we're not seeing transit specific. We're not seeing voluntary versus involuntary. We're not seeing the separation of breaking out the customer service. We do have that as guidelines for that in '21.

Fiscal Year 21 when we do this review again to make sure we do a broader reach and a little bit more segmented in terms of that additional information. But at this point we have not received additional context to give us substantial apple-to-apple conversions from that perspective.

So, with that, we've brought three recommendations to management, asked them for their responses. They have given us the responses and the due dates and then brought an item for discussion for disclosure. And I'm not taking any further action on that, but it's simply for a committee to be aware of that.
We did see that management has updated the organizational org chart and has removed the individual who was a consultant. So that individual has been removed off of the official organizational chart at this time.

At this point if there's any specific questions I'll be happy to answer those.

Chair Arredondo-Savage said I will ask the subcommittee if they have any particular questions. Vice mayor.

Vice Mayor Stipp said I think I may have asked these before in our last session, and if I did, I apologize for that upfront. But I went back through it after your presentation, so the questions that I have are more management related than they are audit related, so I'm not sure how we're going to track this, I guess, through Paul.

So under the page 4, which is contract employees, we spent a great deal of time at the last meeting talking about contract employees. And one of the things that caught my eye in the reread was the opening sentence to the second paragraph which is: Valley Metro does not have a central tracking system to track contract employees.

With the number of contract employees that we have, the generic question is should we have something, is that necessary. I was trying to decipher based on the number of contractors that we use whether that would be necessary or not. We've got 17.4 percent of our workforce is contract people, which to me seems fairly high, so shouldn't we have a system in place.

Mr. Hodgins said the short answer is probably yes, probably, you know, especially -- let me differentiate between. We have a lot of contractors that work for us and then we have some like, our prime consultants HDR that does our planning and community relations and our general engineering consultant where we actually provide consultants that are on site and almost act like staff. They have building access, they have Valley Metro badges with a contractor label. We definitely need a better mechanism -- and Valley Metro network access, e-mail addresses -- so we need a better system to track those.

Vice Mayor Stipp said okay.

Mr. Hodgins said those that touch our system that touch our network, but then there are contractors, like the Construction Manager at Risk contractor that do the construction for us that don't necessarily touch our systems, we probably don't need the same level of tracking for those.

Vice Mayor Stipp said I would absolutely agree with that.
Vice Mayor Stipp said I didn't get the impression that those types of construction manager at risk et cetera, that those were deemed contract employees in the report, but it sounds like you're on it.

Mr. Hodgins said yes.

Vice Mayor Stipp said so I think the follow-up if we can find out what's the plan to track them.

Mr. Hodgins said right.

Vice Mayor Stipp said just leave it at that. And then the thing that always worries me is the next paragraph that if the division head should decide to that it would be cost beneficial to convert a contract employee to a full time it's up to them to decide. Just a general statement, that tends to always lead toward, well, we've always done it this way. And we don't really take the dive into it. So perhaps in the future there's a way to challenge that assumption about the number of contract employees from a cost benefit perspective as an observation.

Mr. Hodgins said yes. I mean, the sentence is a little bit misleading because it's not entirely up to the division head. All of that has to come through me and through Scott. There has to be a lot of discussion about the conversion and the benefits, whether it's a long-term position so, I mean, there's more to it than just the division head makes a decision.

The kind of work we do especially with the construction, some of those projects are longer term, but they're not indefinite.–

Vice Mayor Stipp said yeah, those aren't the ones I'm talking about.

Mr. Hodgins said well, some of them are positions that we've hired such as business assistance and community outreach where they're hired for the term of the project. It's, probably a five-year term. It's still beneficial for us to hire someone for a five-year term.

Vice Mayor Stipp said okay.

Mr. Hodgins said so those are discussions that we have all the time. So, we can come back with maybe some better information, a better discussion about how we evaluate contract versus full-time employees.

The last few years we've gone through a process to convert a number of contract employees to staff, but we can probably have a broader discussion about how we evaluate that.
Vice Mayor Stipp said well, I don't know if it rises to that level. Maybe I need just an information sheet about this is what we do and just send it out. I hate to create an afternoon of PowerPoint making and all the rest of that when you're going to do the report anyway.

So my final question, because Mary had answered the other one -- actually, it's not my final question. I have two more -- but answered one of them.

When we talked about the page 18 contracts and procurement, staff will review existing contracts to ensure they are that the requirements for contractors to notify Valley Metro in a timely manner has been done. Did we do that yet?

Mr. Hodgins said we are working with them now.

Vice Mayor Stipp said okay.

Mr. Hodgins said I wouldn't say it's complete, but that's part of tracking, those contract employees that touch our network. If a consultant moves employees somewhere else, we just need a better mechanism for them to communicate with us that we can address. –

Vice Mayor Stipp said turn off their access.

Mr. Hodgins said yes, all that, right.

Vice Mayor Stipp said exactly. This is a little bit more urgent in my mind, so if we can get whatever, a follow-up on this one.

Ms. Modelski said you've actually approved two business analysts to be engaged by IT, so I believe they're in the process. They brought them on board -- I think it was a 90-day evaluation they were brought on for. And now it's continuing on. So those two individuals have been on, and I believe they're reporting to our business intelligence individual.

Mr. Ozlin said no. They were reporting to myself.

Vice Mayor Stipp said okay.

Ms. Modelski said so you've approved those two.

Vice Mayor Stipp said and then finally, as a much larger generic discussion, we had talked about it a great deal last month was page 19, which is the contract employee who is basically a Valley Metro employee overseeing people.
So if you go to page 19, which is executed a contract with Arcadis for program support services to augment Valley Metro staff. The contract is support for engineer, blah, blah, blah. The contractor was provided a Valley Metro title of Deputy Director. And then we spent some time talking about that.

The more and more I thought about that I'm very concerned -- and I've got to read my notes -- about the high risk that this brings to us that as the board we're supposed to be comfortable with management's opinion that the controls in place are adequate, but there are times when we have seen a number of situations where oversight gaps have occurred and they either get wide or they get small.

I don't know that we're going to have an answer for that, but I think we need to look at this perhaps as a future item about what are we doing with contract employees that are really functioning as -- they're supervising other Valley Metro employees.

And I understand it was based on the specific technical requirements of that position and I get that. And I'm not saying that maybe this one is the best poster child for it, but I think from an organizational perspective we have to be very careful, and I kind of like to get a little bit more information on it perhaps at a later time.

This was a very interesting situation to rise up. And I want us to be above scrutiny as we get into Prop 400 extension and, you know, we're going to have a lot of outside eyes looking in at us. And I really want to make sure that we can say very, very confidently that yes, all of our t's are crossed and all of our i's are dotted and this is what we've got. And our support of well, we got things in place are not -- it's not reassuring, so I'd like to at some point get a future item on that and that's just the end of my comments. Thanks.

Councilmember Tolmachoff said so just kind of tagging onto what Bill was just talking about, is it because it's a simpler way to budget or why do we do it that way as far as the contract employees. Basically the contract people is it just one budgetary line, or do you budget for contract employees?

I know the way that Valley Metro does employees is not how we -- the departments have to request their FTEs for the year. We get a spreadsheet. That's it. Unless they want to come back and ask for an amendment to the budget that's it. We approve the FTEs for the year. And then contract amounts for outside contractors are, you know, another line in that department's budget.

So I'm just curious how does it benefit the organization to have so much more flexibility with the FTEs hiring basically because we approve a dollar amount, not a number of FTEs right?

Mr. Hodgins said correct.
Councilmember Tolmachoff said and we approve a dollar amount also for contract employees?

Mr. Hodgins said yes. The board approves the overall budget authority, not by line item.

Councilmember Tolmachoff said right. Okay. So the money can be moved around however.

Mr. Hodgins said at the CEO's discretion.

Councilmember Tolmachoff said okay. So there's no -- because I'm new to the committee, so I apologize. And I don't remember from this last, because we got more information this year, but I don't remember how the FTEs are presented. Is that presented as a line item in the budget or not?

Mr. Hodgins said in the budget there is a schedule of positions that are assumed. So we do have an approval process for that and we start, I mean, that's kind of the base positions.

Councilmember Tolmachoff said listing and assumed.

Mr. Hodgins said listing and assumed.

Councilmember Tolmachoff said okay.

Mr. Hodgins said we talk about which ones we're adding for the year, so there's a process for that, so during the year if there's a vacancy or a new position that was assumed in the budget, you know, it's a fairly simple process to get a recruitment going. If there's a change, if it's a reclassification or someone wants to say I don't need this position anymore or I really need this, then there's a justification that comes through both me and Scott Smith, you know, that they have to justify where in the budget it is if it's a different, you know, pay range, they have to justify why the new position is needed instead of the other one.

So there is a process for it. It gives us some flexibility, more flexibility than the cities have. I think part of that is when the agency was set up there's a recognition that the board has maybe ten meetings a year, a lot fewer than the city councils have, so the CEO is given a little more latitude, a little more flexibility to make those decisions. I think that's part of it.

Also, some of the changing environment that we have, things happen fairly quickly. I hope we don't have things change too quickly, but, we made some adjustments for
South Central, what's happened in the last year. We hired some additional assistance, business outreach, business assistance, community outreach.

So it gives the CEO a little latitude on addressing needs as they happen knowing that, I mean, we have a lot fewer meetings with the board to be able to get through the process.

Councilmember Tolmachoff said I understand that. And I don't disagree with it, but I just want to make sure that I'm clear about how we're doing this.

Mr. Hodgins said right.

Councilmember Tolmachoff said so just the flexibility how far like so there's basically a line item that says here are the existing and assumed FTEs for Fiscal Year 2021.

Mr. Hodgins said yes.

Councilmember Tolmachoff said whatever that is. And then there's another line in there -- and I used this example last time -- for pens and pencils. Does the CEO have the authority to say I'm out of money for FTEs in existing and assumed and now I'm going to use the pen and pencil money?

Mr. Hodgins said in theory he could, yes.

Councilmember Tolmachoff said okay.

Ms. Modelski said and ma'am, on page 5 and page 6 those screenshots are actually what was presented to the board. So on page 5 you can actually see where the proposed schedules are sent to the board when they're doing the budgeting. And page 6 is what you also see from the different budgeting aspects for the proposed FTEs. So we took those from the board minutes that you actually have.

Councilmember Tolmachoff said okay. And I guess that would be something maybe for the board to discuss as far as a policy decision at some point whether there, you know, because, I mean, it's certainly not up to me. I just want to understand it. But, I mean, at some point the board would probably want to discuss that. Thank you. That's all I had.

Chair Arredondo-Savage said thank you, Councilmember. And I would agree with that too. I think that would be one thing that we need to talk about. I believe Mario brought that up at our last meeting too in regards to when there was unspecified type of dollars left within a budget that it could be allocated for a full-time -- for an FTE and I think Scott said that's not the way we do it.
However, I think to be above board and to be completely transparent we should have a policy that matches exactly what that's going to look like. I mean, if that money is allocated for FTEs, then we need to make sure it's allocated for FTEs. If it's allocated for pens and pencils then that money should stay within the pen and pencil realm.

I'm not really sure how we bring that up, but I think that's something that we can discuss or at least bring it to the board as a whole as a concern regarding the information that we got from the audit.

And I'm sorry, Mayor. Thank you for being here. Did you have anything that you wanted to add in regards to the presentations on the FTE?

Mayor Gallego said one thing I think when we were doing the budget process, I think, we had said we would like the whole board to just as the councilwoman suggested and have a presentation.

Chair Arredondo-Savage said I absolutely agree. And I think, through the last budget cycle it kind of felt like we were pulling teeth just a little bit to get the justifications of those positions, so I think the sooner we can get those out in regards to what positions are going to be funded and which ones we would hope to be funded and the rationale for that would be the sooner the better, I mean, I think in the budget process.

And then a couple other things I just want to bring up before we move on, if there's nothing else, is we also talked about -- and I think Councilmember Tolmachoff brought this up, which I thought was really important -- is kind of doing exit interviews.

And I think we are going to throw that back over to Penny to say, hey, is there somewhere in HR that we can talk about when we have that high turnover rate and it's voluntary turnover rate can we get some more information.

And I know that was noted in the minutes, so I just wanted to bring that up to see if that's something that we can make sure we are incorporating. As we move forward, I think that's going to be one of the things that will be really important.

And the other thing I wanted to note and actually, Mike, this one is kind of for you because I know there was some discussion in regards to those cases that were mentioned in the report. And I don't really know, you know -- and I know we kind of wrapped it up fairly quickly, but I know there was some concerns from your perspective about mentioning those cases within that FTE report. So I don't know if you have any thoughts or what we want to do moving forward if that's something that needs to be addressed.

Mr. Minnaugh said Chair, members, in terms of the case law that's been cited most of the -- I did review the case law. And most of it, if not all of it, is from outside of the State
of Arizona. And when you're dealing with the identification of employee classification's very specific to the state and so there would be specific state law that would apply to -- although the other case law is helpful in understanding how the courts resolve those issues, they're different than our scenario or how an Arizona court would interpret the type of employee.

The employees that the specific employee that Vice Mayor Stipp discussed that was in a leadership position, he's a fully W-2'd employee. And so it limits some of the financial risk exposure that we might have with the IRS. Otherwise, if you were not a fully W-2'd employee.

So those are definitely some risk items that we want to make sure when hiring and using employees or putting them in certain positions on the organization chart that we'll want to look at with the assistance of Human Resources and of course CEO and our Chief Financial Officer. Those are some risk points. They're financial risk points.

Chair Arredondo-Savage said so, are you concerned about these cases being listed in this report and being published?

Mr. Minnaugh said I don't think it's appropriate to have those cases in the report. That would be my position.

Mr. Hodgins said I mean, I, obviously I'm not an attorney, but my reading of those is that the companies or King County whoever that was listed were basically using these practices to either avoid employment taxes or providing benefits or something of that nature. And that's not what we're doing.

All of the employees' -- not just this employee, but every one of our consultants that work for us, as Mike said, are W-2 employees. They get benefits. They get sick time. They get all of that. And so we're not using this mechanism to try to avoid paying anything.

It's really more just because of the nature of the business. So I don't know that the risk the one employee who, you know, we have supervising that's, I think, is a different type of risk, but I don't think the risks that are really identified by these cases are applicable to our situation.

Chair Arredondo-Savage said I understand. All right. Vice mayor.

Vice Mayor Stipp said the risk that I was referring to was a management risk, not the legal risk.
I probably should have clarified that. And I tend to agree that from what we've heard that one employee that we're talking about on that page, I would agree that we're not -- it does not appear as though we're using that employee to circumvent the intended payroll obligation, if you will.

And I am concerned about the case study, the case law being cited in the audit report that may not necessarily be apples and apples comparison. I think there's some similarities, but once you pull the next layer of the onion back, I think those similarities start to go away.

But I just want to be clear, the risk I was talking about is having a contractor supervise other Valley Metro employees from a management perspective, not from a legal perspective, but so I tend to agree with Robin on that.

Mr. Hodgins said yeah, and again, my concern with having them listed is that it's then out there for everybody to see. And, I mean, we've just recently we had an audit entrance meeting with the City of Phoenix and their internal auditor noted that they pulled down audit reports from our Website and read them. And so to have this in there suggests that there's a bigger risk than I think really exists, so that's my main concern.

Mr. Minnaugh said and chair, Vice Mayor Stipp, if I could add also, it suggests -- using the case law in the report suggests application to our facts and that's not a proper suggestion in this scenario.

Chair Arredondo-Savage said Mayor Gallego.

Mayor Gallego said when the chair mentioned exit interviews, I just wanted more of a clarifying question. We conducted, on page 12 we conducted 13 exit interviews and all 13 said that they had issues with their supervisor or manager which one takes the lead becomes the lead. I just wanted to make sure I read that correctly.

Chair Arredondo-Savage said you did.

Mayor Gallego said okay. Perfect. I think that is something we should note.
Chair Arredondo-Savage said note and utilize that information, I think, looking at our organization as a whole for sure.

All right. So in the ability to move forward, I guess I would ask, Mary, is there an opportunity to look for case law that would be more relevant to the state or case laws that you think that might be more applicable to what we're seeing before this actually gets published? And if that's true, I think I'm okay with taking the time to do that. I'd rather have it right before we publish it with misinformation or information that we think is concerning in any way.
Mr. Minnaugh said what about just taking it out?

Chair Arredondo-Savage said or we could just take it out. And, I guess, I have another question, too, in regards to process, because I'm kind of a process junkie.

So when we see these audit reports, and I guess I'm asking, and I don't know, do we have the ability to, like I think the vice mayor just mentioned, remove things, question things, change things, reopen things, or are we just kind of a checkpoint along the process of the audit as it comes? Anyone? Mary.

Ms. Modelski said so typically an audit committee is an oversight and provides the guidance as to what Internal Audit will proceed with. If internal audit is doing something wrong, it is the responsibility of the audit committee to stop us. If we are going outside our scope, if we are doing any type of retaliation, if we're going outside of our course of action or direction that you've given us, that is, of course, the responsibility of the audit committee is to direct us.

It's also to elevate the concerns to the highest body to say here are the concerns that we're seeing within the organization and direct management to go out there and either remediate, accept the risk and be aware of it.

Typically what it is we're providing you the information: this is what we've seen, we vetted it with management. In many cases management doesn't agree with us in terms of the fact they don't feel it's a dominus issue. This is a concern that it's not necessary to bring public, it's an issue that, okay, we'll take care of it, let's drop it. So it depends on what direction you want to take.

Typically the report is done when it's brought to an audit committee in my experience and with that we're advising you this is the situation we've gone through, this is what we've had discussions with management, this is what we've typically done, it's been completed at this point.

But if you're saying that you don't feel comfortable with the organization presenting these things, I report to you, so I'm doing what you want me to do.

Chair Arredondo-Savage said okay. And I would like I just asked Mayor, we don't have an audit committee in Tempe, so I'm not really familiar with how that works, but, you know, I want this to be a really good process for us in making sure that I feel like we should have the ability to dig in a little deeper. I think, to me, that's part of our responsibility.

And if we see and question things that maybe that needs to be changed or maybe dug into a little bit more, then I think we would be able to give that direction. But that's my personal opinion. I don't know if anybody else is. Councilmember Tolmachoff.
Councilmember Tolmachoff said thank you. Well, I was just going to say, I mean, do you think, first of all, the audit was done based on a risk assessment that you conducted.

Ms. Modelski said right.

Councilmember Tolmachoff said so in your opinion, does eliminating those citing those case laws, especially because they're not Arizona case law –

Ms. Modelski said they're federal.

Councilmember Tolmachoff said diminish the value of the audit?

Ms. Modelski said our standards state we have to call it four different things: the condition that we found, the criteria that we're using to base our condition is wrong, what was the cause of the issue, and the potential effect of it.

With removing this, this is potentially an effect that we would have, so we potentially could have this employee come back to us and say, hey, I've operated in this case and come back.

We can strip it. We wouldn't be in compliance with it. But as we noted upfront in the report and we've disclosed to you, it's for informational purposes, so therefore, I can go ahead and strip it from that perspective.

We're not asking management to act upon it. We're not taking any further action. We're notifying you of the situation.

Councilmember Tolmachoff said and you could make a statement rather than cite case laws and maybe that would be the better way to go to say there could be potential risk based on, you know, other cases in other parts of the country or something like that rather than citing specific cases. I don't know whether that would be maybe a better way to go, but.

Ms. Modelski said we can take from on page 15, the last paragraph, in addition there was a potential legal risk, we can take from that out all the way through to the bottom of it and just say: The risk associated with this particular contract employee, we can just take that section out and just end there's a risk that Valley Metro employee morale is adversely impacted by the special treatment of contract employees or that Valley Metro employees have to report to contract employees and then go right to the risk associated with this particular contract has been inadequately mitigated by Internal Audit makes no further recommendation. So we can take that out and just close it there, if that would be acceptable.
Chair Arredondo-Savage said Mary, you either gave us the wrong page number. Is it page 19?

Ms. Modelski said Page 19, correct. Bottom of page 19 and it starts on 20. Twenty of it is two-and-a-quarter of the cases.

Mr. Minnaugh said and that ends here.

Ms. Modelski said yeah. So then we're just stating on the very bottom. So the statement, Ms. Tolmachoff, that you had stated in terms of just making a statement, we're doing that in the last paragraph.

Chair Arredondo-Savage said okay. In addition?

Vice Mayor Stipp said are you suggesting that you'll leave in addition there is a potential.

Ms. Modelski said no. We'll take that out.

Vice Mayor Stipp said so that paragraph all the way down.

Ms. Modelski said to 20.

Vice Mayor Stipp said 20.

Ms. Modelski said through 20.

Vice Mayor Stipp said at the bottom of 20.

Ms. Modelski said right. The risk associated with this particular contract employee should be adequately mitigated.

Chair Arredondo-Savage said leave that in.

Vice Mayor Stipp said all of that will come out.

Ms. Modelski said yeah. Yeah.

Councilmember Tolmachoff said and I'm suggesting that based on our counsel's advice as well that we're not doing something, you know, these and our counsel who is representing us says these are not necessarily applicable, but we are stating -- it still would be stating that there is potential risk.
Ms. Modelski said correct.

Councilmember Tolmachoff said so, I'm fine with that.

Chair Arredondo-Savage said I'm fine with that. Are you okay with that?

Ms. Modelski said absolutely.

Chair Arredondo-Savage said Vice mayor?

Vice Mayor Stipp said yeah.

Ms. Modelski said okay. We'll go ahead and make that change.

Chair Arredondo-Savage said is there anything else? Any other direction? All right.

Ms. Modelski said ma'am, may I ask a question?

Chair Arredondo-Savage said sure.

Ms. Modelski said so I'm going to strip that action out and then am I bringing this back to you for your approval before I publish it?

Chair Arredondo-Savage said that was just what I was going to ask the committee.

Ms. Modelski said what do you want me to do?

Chair Arredondo-Savage said in regards to what we would like to do.

Vice Mayor Stipp said I would like to make a motion to accept the report as amended today.

**IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER TOLMACHOFF AND UNANIMOUSLY CARRIED TO ACCEPT AS AMENDED THE FULL-TIME EQUIVALENT AUDIT REPORT.**

4. Internal Audit Update

Chair Arredondo-Savage said okay. Internal audit.
Mary, can we just take a quick second to just talk about how you kind of created this executive summary page so we could, you know, just trying to be a little bit more transparent and clear in why it was brought forth to begin with.

Ms. Modelski said sure. This is the internal audit update that is very representative of the audit plan that you had approved for us back in this past spring in May.

What we've done is the top portion in purple are audit reports like you've just approved, what those would be, and we gave you a timeline in terms of when we anticipate those coming to you for acceptance and review.

The bottom portion in green are consulting engagements which would be more from a memo or letter or an update to you as to this is what's taking place. And it kind of gives you an idea of when those would come to you.

The bottom portion, the external audits, are being done by outside parties, so you understand that there are outside parties currently in Valley Metro conducting audits. And you'll see those reports coming to you and when you should be receiving those reports.

Those reports will not be asked for action for you. They'll be for information so you know what's happening. We will put them on our Website also just as this is what's taking place for transparency, but it's just simply from an information perspective. And this kind of gives you an idea of a road map in terms of what you should be seeing deliverables from us.

Chair Arredondo-Savage said okay. Are there any questions about that? And I just want to say thank you Mary for putting this together. I think it's helpful in getting everything on one page.

Ms. Modelski said okay. And the reason why the items are on hold is the first one was because we're waiting for the new policy to be issued on that.

And then the reason why the travel expenditure is not in line like we had done previously, we were trying to do year over year, is because the travel policy was just released on October 29, which you received a copy of, and with that we want time to pass underneath that new policy to actually take a look at the population.

We understand that training will be offered to employees on that new policy within the first two weeks of December. Any questions?

Chair Arredondo-Savage said no. That was for information only.
5. **Internal Audit Exceptions Update**

Ms. Modelski said finally for the exceptions log, also with this we had segmented out and color coded them. I hope the colors are appropriate. The first page is the overdue items that give you a high-level summary in terms of these items are past due, what we expect for anticipated estimated completion date that we're getting from the parties.

Once again, on a monthly basis, we're continuing to follow up with the individual. The detail, if you need some reading material, is farther back and much smaller.

So purple means they're overdue. And green means that they're coming due, so it kind of gives you an idea of what's coming due. The bottom of the page are the ones that we're waiting for the review to actually come through and make sure that we have the audit done.

So even though they're coming due, management disagreed with us on some of these items and said, you know, let's see what the new policy will address that. So that's why we have those.

And then of course there is an executive summary, which just kind of gives you an idea of what's been closed this previous month. So it gives you an idea of the progress being made by management. And then that's multiple pages.

And then the one chart that's farther back. Questions?

Chair Arredondo-Savage said love charting. It's good, though.

Ms. Modelski said it's valuable information.

Chair Arredondo-Savage said It is valuable information, and I think we certainly appreciate it. Are there any questions? No? Yes? Go ahead. Ready, vice mayor.

Vice Mayor Stipp said what I recall being slide 6 that I saw does not appear to be the same slide 6 that you showed. I should have done a better job of taking notes myself. So generically, my question is this, we've adjusted some of these dates that were past due, so I think the genesis for my question is not so much for Mary again, because it's a management issue. We have reset some due dates from March to December whatever. I think it's important that we get a follow up that we have actually achieved those and not just generically within a slide that says overdue or progress. I think we've had some very hard dates that have gone that the emphasis on these items that we've all said, yeah, we need to get these. We've agreed to a new due date. I think we need to make sure we stick to that. And our job is to make sure that the management side of this is doing that, not the reporting side.
Ms. Modelski said and I have some positive accolades to give.

Vice Mayor Stipp said I do too.

Ms. Modelski said on this sheet here, and the reason why I come back to this, one of the things is the hardware software audit that you allowed us to do which is.

So the hardware/software management audit, that's where you approve for REDW to come in, and the young ladies will be here. There's actually three ladies that are going to help us with that audit. They are the ones who conducted and helped us write this issue.

They actually have done a preliminary survey, gathering information. They are going to be here in December so, therefore, in February we should be able to say if the purple item, No. 1, is actually been remediated completely or not. So we should have a good feel for the December, January meeting if they've actually followed up on that.

Vice Mayor Stipp said I think many of us were shocked last month or maybe it was a month before when we got the list of, holy cow, this was supposed to be done in March and here we are October and the various reasons for why.

I think we have an obligation to hold you more accountable, you collective the staff, accountable for those deadlines. So let's set deadlines that are achievable, but let's achieve them. So I think collectively, I don't know, I would like to see that and I think my peers would as well.

But finally, and the only other comment that I had, I know these last couple of months have been very difficult for the, as we've kind of got up to speed with all the new folks and whatnot, and I really want to thank Paul, Mary, and all of your staffs and obviously the staff of management for working through this, holding and staying in there with us. And as one of the more frequent speakers, thank you very much for doing that, I really appreciate it. And I wanted you to hear that. And I wanted to make sure that staff is aware of that is well.

Chair Arredondo-Savage said Roland says thank you for answering all of his questions. He really appreciates it. Okay. Any other comments before we move on? Excellent. Thank you very much, Mary. We really do appreciate that.

This item was presented for information only.
6. **Intergovernmental Agreements, Contract Change Orders, Amendments, and Awards**

Chair Arredondo-Savage said all right. Intergovernmental Agreements, Contract Change Orders, Amendments and Awards. Paul.

Mr. Hodgins: Again, this is an information item with some of the actions that we'll be asking from the board at the next meeting. I wasn't going to go through them. If there are any questions or if there's any additional information you think the board needs, please let us know questions today or at any time before the board meeting.

Chair Arredondo-Savage said Mayor.

Mayor Gallego said one question I think is more appropriate for the board meeting, but on the market research I was just going to ask if we have -- if West Group is able to work in multiple languages and what those languages are beyond English. So I think that's more appropriate for board meeting than this committee, but so that it is not a surprise.

Mr. Hodgins said: That's perfect. That's the kind of thing we want to know so we'll be prepared to address that at the board meeting.

Mayor Gallego said perfect.

Mr. Hodgins said: I believe the answer is yes, but I'm not sure I could tell you which languages specifically. But we'll have the answer.

Mayor Gallego said: wonderful. That would be great.

Mayor Gallego said: yes, not trying to catch anyone off guard, we have many non-English language speakers. Using our system.

Chair Arredondo-Savage said all right. Anything else for Paul? Item No. 6. No? All right.

This item was presented for information only.

7. **Executive Session**

The Audit and Finance Subcommittee may vote to enter Executive Session for discussion or consultation and for legal advice with the attorney or attorneys of the
public body and to consider its position and instruct its attorneys regarding the public body’s position concerning matters listed on the agenda, personnel matters and contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation; all as authorized by A.R.S. Sections 38-431.03 A.1, A.3., and A.4.

The agenda for Executive Session involves discussion and consultation regarding performance evaluation of the Chief Financial Officer and Director, Internal Audit. Discussion and consultation may be both with and without the Chief Financial Officer and Director, Internal Audit present.

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER TOLMACHOFF TO ADJOURN GENERAL SESSION AND COMMENCE EXECUTIVE SESSION.

The regular meeting adjourned at 12:46 p.m.

The regular meeting reconvened and was adjourned at 2:38 p.m.

8. Executive Session Action Items

The Audit and Finance Subcommittee may take action related to items discussed as part of Agenda Item 7.

NO ACTION WAS TAKEN ON THIS ITEM.

9. Future Agenda Items

Chair Arredondo-Savage said she appreciates the list of future agenda items provided and said that she would like the AFS to submit their requests for future agenda items.

10. Next Meeting

The next meeting of the Audit and Finance Subcommittee is January 16, 2020 at 12:00 p.m.

With no further discussion, the meeting adjourned at 2:38 p.m.
Information Summary

DATE
January 9, 2020

SUBJECT
Maricopa County - Human Services Division Transportation Vendor Invoices Audit

PURPOSE
To present the results of the Maricopa County Human Service Division Transportation Vendor Invoices Audit.

BACKGROUND/DISCUSSION/CONSIDERATION
Maricopa County’s Internal Audit Division conducted this audit as a special request of County leadership. This audit was requested due to a surge in ridership and invoiced costs, combined with depleting program funds from outside sources.

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee approve the publishing of the Maricopa County Human Services Division Transportation Vendor Invoices Audit report to the Valley Metro website.

CONTACT
Michael McGee
Maricopa County Auditor
mike.mcgee@maricopa.gov
602-506-1585

Mary Modelski
Director, Internal Audit
mmodelski@valleymetro.org
602-322-4453

ATTACHMENT
Maricopa County Human Service Division Transportation Vendor Invoices Audit Report
Why This Audit Is Important

The Human Services Department (HSD) oversees public transportation assistance to elderly (65+) and/or disabled persons in unincorporated areas of Maricopa County. The transportation services are contracted to a vendor, Valley Metro, via an intergovernmental agreement.

This audit was requested by county leadership due to a surge in ridership and invoiced costs, combined with depleting program funds from outside sources. We performed procedures to validate the Valley Metro invoices for services rendered during fiscal year 2019 and to assess the impact of program funding changes.

Our scope of work was limited to interviewing key Valley Metro employees and reviewing their records, including system-generated reports. We did not perform completeness and accuracy testing of the system-generated information provided. We also did not review information and/or contracts between Valley Metro and its subcontractors used to provide the services.

Key Findings

- Charges exceeded the contract amount by $53,502 in FY19
- Ridership and costs have surged over the last few years and program costs will increase if this upward trend continues
- Program funds from other sources, including carryforward funding, will drop by approximately $650,000 during FY20 and the gap is to be funded by the County General Fund
- There is an opportunity to reduce costs by shifting trips, where possible, to the RideChoice system rather than Dial-A-Ride

All key findings requiring corrective action were addressed through agreed-upon management action plans.

What We Audited

Below is a summary of work performed and findings. Corresponding recommendations and responses start on page 3. The responses were approved by Bruce Liggett, Director, on December 4, 2019. More detailed observations and recommendations were communicated to management throughout the audit process.
Invoice Compliance with Agreement

Background – The intergovernmental agreement (IGA) established with Valley Metro included Maricopa County providing up to $1.44 million for transportation costs for ADA mandatory and non-mandatory services provided to individuals in unincorporated areas of Maricopa County for FY19. Valley Metro sent the county two invoices, one for FY19 charges and one indicating adjustments for FY19 charges.

Observations – We reviewed the FY19 invoices and determined that the charges appeared reasonable based on our review of ridership data and other supporting documentation. However, the total amount charged for FY19 was $53,502 higher than the “not-to-exceed” amount allowed by the FY19 IGA and the unpaid balance will be carried over to the FY20 invoice (Recommendation 1).

Ridership and Funding

Background – Population increases, aging population, development in unincorporated areas, and city expansion of transit services influence the number of riders using the transportation services provided. Continued forecasting of increases in ridership helps HSD anticipate budget resources and manage costs.

Observations – Anticipating an upward trend in ridership, we estimated that costs may increase by approximately $100,000 for a 5% increase in ridership, and approximately $530,000 for a 25% increase in ridership. On average, ridership has increased 24% per year over the past six fiscal years.

In addition to increasing costs, we noted that $653,533 of excess program funds from other sources (e.g., lottery) were exhausted in FY19; for FY20 and beyond, these amounts will be required from the County General Fund.

Due to the changing costs and funding, there is a need for contract monitoring procedures to help ensure that changes in ridership, costs, or vendor performance are evaluated (Recommendation 2).

Non-ADA Trip Cost Reduction

Background – Two transportation systems are utilized by Valley Metro for providing transportation services. Dial-A-Ride is tasked with providing all ADA transportation needs; non-ADA transportation is typically managed through the RideChoice program.

Observations – We reviewed the FY19 supplemental invoice information and determined the average cost per ride was $48.97 for Dial-A-Ride and $22.44 for RideChoice. We also noted that
18,744 non-ADA trips were managed through the Dial-A-Ride program. If those trips were transferred to the RideChoice program, the annual savings would be nearly $500,000 (Recommendation 3).

**ADA Certifications**

**Background** – Public transportation assistance is provided to elderly residents and to disabled individuals who are defined by the Americans with Disabilities Act (ADA) as being unable to utilize established bus route services due to physical or cognitive disabilities. Improper qualifying/certifying riders as eligible for ADA reduced/subsidized fares could result in higher than required ridership and higher than required billings to HSD.

**Observations** – Valley Metro contracts with another vendor for ADA certification procedures. We interviewed staff, reviewed applicable ADA applications and assessment guides, and examined the mobility testing center. We concluded that ADA certification processes were adequate.

**Additional Information**

This audit was approved by the Board of Supervisors and was conducted in conformance with International Standards for the Professional Practice of Internal Auditing. This report is intended primarily for the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a public record and its distribution is not limited.

If you have any questions about this report, please contact Mike McGee, County Auditor, at 602-506-1585.

**Recommendations and Responses**

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Prior to paying the excess invoice amount carried over from FY19 to FY20,</td>
<td>Concur – in progress</td>
</tr>
<tr>
<td>consult with legal counsel to determine if payment is due based on the terms</td>
<td>Carryover charges and process are included within the new IGA with Valley</td>
</tr>
<tr>
<td>and conditions described in the IGA.</td>
<td>Metro (C-22-20-007-3-00). HSD will confirm with legal counsel that this</td>
</tr>
<tr>
<td></td>
<td>language is sufficient to pay the FY19 carryover charge.</td>
</tr>
<tr>
<td></td>
<td>Target Date: 12/31/2019</td>
</tr>
<tr>
<td>2 Implement and maintain written procedures to monitor contract compliance</td>
<td>Concur – in progress</td>
</tr>
<tr>
<td>and costs for the Maricopa County paratransit program.</td>
<td>HSD will write and implement procedures to monitor contract compliance and</td>
</tr>
<tr>
<td></td>
<td>cost for the Maricopa County transit program.</td>
</tr>
<tr>
<td></td>
<td>Target date: 06/30/2020</td>
</tr>
<tr>
<td>Recommendations</td>
<td>Responses</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>3 Conduct a study to determine the feasibility of performing all non-ADA trips through the RideChoice system rather than the Dial-A-Ride system.</td>
<td>Concur – completed</td>
</tr>
<tr>
<td></td>
<td>Policy changes were implemented as of October 1, 2019, which did the following: 1) Only provide Dial-A-Ride trips to ADA certified riders within the ADA mandated area; 2) Any non-ADA certified riders as of March 31, 2019 were grandfathered and are only authorized to use the RideChoice System; and 3) All new riders as of April 1, 2019 must receive ADA certification. ADA certification is required to receive trips in both the RideChoice and Dial-A-Ride systems.</td>
</tr>
</tbody>
</table>
Information Summary

DATE
January 9, 2020

SUBJECT
OMC Non-Capitalized Rail Parts and Tools Inventory Audit

PURPOSE
Present the results of the OMC Non-Capitalized Rail Parts and Tools Inventory Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

BACKGROUND/DISCUSSION/CONSIDERATION
The Fiscal Year 2019/2020 Internal Audit Plan approved by the AFS on June 18, 2019, included a review of the OMC Non-Capitalized Rail Parts and Tools Inventory. The objective of the audit was to determine if non-capitalized rail parts were managed according to procedures, tools were inventoried and tracked.

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee accept the OMC Non-Capitalized Rail Parts and Tools Inventory Audit.

CONTACT
Mary Modelski
Director, Internal Audit
mmodelski@valleymetro.org
602-322-4453

ATTACHMENT
OMC Non-Capitalized Rail Parts and Tools Inventory
January 2020

OMC Non-Capitalized Rail Parts and Tool Inventory

AUDIT REPORT – INTERNAL AUDIT
To: Councilmember Robin Arredondo-Savage, Chair, Tempe  
Mayor Kate Gallego, Phoenix  
Vice Mayor Bill Stipp, Goodyear  
Councilmember Lauren Tolmachoff, Glendale  
Councilmember Francisco Heredia, Mesa

The purpose of this report is to communicate the results of the Operations and Maintenance Center (OMC) Non-Capitalized Rail Parts and Tool Inventory Audit. The audit was part of Valley Metro’s fiscal year 2019/20 Internal Audit Plan.

Based on Internal Audit’s review, the processes followed by Finance and OMC personnel and management for non-capitalized rail parts and tools lacked consistency, accountability, and the appropriate segregation of duties.

The annual and weekly counts for rail parts lacked the benefits of blind counts, did not provide a segregation of duties or documented discrepancy investigations, and neglected to address obsolescence of parts on-hand. Additionally, a reconciliation of all items on-hand to the Ellipse records and the Abila financial values had not been completed.

Procurements were performed by OMC personnel and did not involve Contracts and Procurements until approaching $150,000 spend thresholds.

Efforts to account for tools were ineffective. The tracking logs were inaccurate or did not exist, and there was minimal evidence of management oversight.

OMC personnel were administrators for two key applications; the inventory management (Ellipse) and DSX badge system that grants physical access to the parts stockrooms.

Rather than citing each discrepancy as an issue, Internal Audit considered the discrepancies collectively to determine the root cause and the most beneficial next steps for the Divisions. Therefore, this report contains one recommendation to improve the process of managing non-capitalized rail parts and the tools maintained by the OMC. Internal Controls over rail parts and tools can be strengthened by establishing a written robust Inventory Management Policy and a set of current procedures to address a variety of controls over parts and tools.

Management has provided a corrective action plan for the recommendation and the attached memo to provide additional comments on the report.

The support and assistance received throughout the audit by Finance and OMC personnel, is greatly appreciated.

For questions or further clarification, please contact me at 602-322-4453.

Mary Modelsiki  
Internal Audit Director  
January 16, 2020

Performed by:  
Jennifer Davis  
Senior Internal Auditor
Objective
Determine if non-capitalized rail parts were managed according to procedures, tools were inventoried and tracked, and any other matters that rose to a level of attention.

Scope
The timeframe under review was July 1, 2018 through June 30, 2019. Internal Audit reviewed items that included: non-capitalized rail parts (inventory), tools, and any other purchases that were kept in inventory from July 1, 2018 through June 30, 2019. Internal Audit expanded the testing population to include inventory and tools purchased before and after this timeframe, as their review assisted in the completion of the audit objective.

Methodology
Internal Audit reviewed applicable Valley Metro policies and Operations and Maintenance Center’s (OMC) Standard Operating Procedures (SOPs). A judgmental sample of items was selected to determine if inventory, tools, and other purchases were managed according to those policies and procedures. Internal Audit reviewed the documentation for:

- Purchased items
- Receiving of items
- Inventory movements
- Inventory counts
- Inventory values

Internal Audit reviewed documentation and observed the tool inventory processes for a sampling of tools in the following areas:

- Maintenance of Equipment (MOE) toolboxes
- MOE Tool room and Shop floor
- Maintenance of Way (MOW) Shop floor
- MOW trucks
  - Traction Power
  - Signal and Communications
- Facility Maintenance trucks, toolboxes, and Shop floor

Internal Audit tested for Information Technology General Controls (ITGCs) by reviewing the logical access controls to the OMC inventory system (Ellipse), and the physical access controls to the inventory storage areas.

Background
Valley Metro’s fiscal year 2019/20 Internal Audit Plan included the OMC Non-Capitalized Rail Parts and Tools Inventory Audit. The audit plan was approved by the Audit and Finance Subcommittee (AFS) on June 18, 2019. The audit plan included this review due to the concern that the internal controls over the acquisition, disposal, and security of inventory and tools were not adequate. The following policies and procedures were considered during the review to establish a baseline to determine compliance with Valley Metro policies and department procedures:
Inventory Valuation

Valley Metro Finance uses Abila as its system of record for the parts inventory value. Ellipse reports are used to adjust Abila for parts purchased and used. The table below shows the inventory values per Abila by division (MOE and MOW) for the past three fiscal years.

<table>
<thead>
<tr>
<th>Inventory Area</th>
<th>FY 17</th>
<th>FY 18</th>
<th>FY 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spare Parts Inventory MOE</td>
<td>$9,659,866</td>
<td>$10,673,770</td>
<td>$10,927,504</td>
</tr>
<tr>
<td>Spare Parts Inventory MOW</td>
<td>$7,169,994</td>
<td>$6,865,723</td>
<td>$6,595,527</td>
</tr>
<tr>
<td>Total OMC Spare Parts Inventory</td>
<td>$16,829,860</td>
<td>$17,539,493</td>
<td>$17,523,031</td>
</tr>
</tbody>
</table>

The Ellipse reports accounted for approximately 6,100 stocked items, which represented a quantity of approximately 346,300 items stocked on-hand during the 2018-2019 fiscal year.

Inventory Counts

Valley Metro has not conducted a full parts inventory. The annual inventory count is based upon a sample selected by Finance and counted with OMC personnel at the end of the fiscal year. In lieu of a complete inventory count at the end of the fiscal year, OMC stockroom personnel performed weekly cycle counts of stock-coded items throughout the year. However, if an item does not have a stock code within Ellipse, it will not be included in the weekly cycle counts, the annual count, or the year-end inventory value.

Annual Count

At the beginning of June, in preparation for the annual count, Finance pulled the Inventory Value Extract reports from Ellipse and then sorted the listing by the “Category” field (“VM” for MOE and “MO” for MOW). Next, Finance sorted the reports by inventory value and selected the 50 highest valued stocked items from each location for the sample. Finance then randomly chose an additional 60 stocked items from each location to add to the samples.

On June 5, 2019, Finance emailed the sample of 100 MOW and 100 MOE stock items, with the quantity of stock on-hand, to the Facilities Maintenance (FM) Manager. This was because the FM Manager needed to work with the Ellipse vendor to configure the inventory reports for the annual count to include the Bin Location for the sampled items. Additionally, the remaining 10 stocked items per location, were used as “surprise counts”, were provided on the day of the count, June 28, 2019.

On June 28, 2019, in collaboration with OMC personnel, Finance staff counted 110 of 3,918 MOE items (2.8%) and 110 of 2,053 MOW items (5.4%). See a partial report on the next page.
Internal Audit determined eight stocked items, totaling $174,941, were not included in the Finance inventory population as they were entered incorrectly into Ellipse during the item setup process.

```
<table>
<thead>
<tr>
<th>Stock Code</th>
<th>Description</th>
<th>On hand</th>
<th>Weighted Price</th>
<th>Inventory Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1004993</td>
<td>Chevron Spring*</td>
<td>919</td>
<td>$187.91</td>
<td>$172,685</td>
</tr>
<tr>
<td>1001379</td>
<td>Circuit Board</td>
<td>4</td>
<td>$283.81</td>
<td>$1,135</td>
</tr>
<tr>
<td>1017920</td>
<td>Flat Blade</td>
<td>16</td>
<td>$35.75</td>
<td>$572</td>
</tr>
<tr>
<td>1017946</td>
<td>Pinch weld scraper blade,</td>
<td>15</td>
<td>$16.47</td>
<td>$247</td>
</tr>
<tr>
<td>1060201</td>
<td>Electrical Cable</td>
<td>97</td>
<td>$2.12</td>
<td>$206</td>
</tr>
<tr>
<td>1035005</td>
<td>Lens Cleaning Station</td>
<td>3</td>
<td>$19.52</td>
<td>$59</td>
</tr>
<tr>
<td>1053040</td>
<td>Lambswool Duster</td>
<td>34</td>
<td>$0.68</td>
<td>$23</td>
</tr>
<tr>
<td>1053446</td>
<td>Wire brush</td>
<td>8</td>
<td>$1.82</td>
<td>$15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$174,941</strong></td>
</tr>
</tbody>
</table>
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*Chevron Springs for the overhaul project

Since Internal Audit’s notification, the OMC has contacted the Ellipse Vendor to have the “Category” field corrected for these eight items. Therefore, once the items are correctly identified in Ellipse, Finance will include these eight items in the MOE inventory population for sample selection and include the additional $174,941 to the value of MOE’s inventory.
**Weekly Counts**

Weekly, the Ellipse Administrator, pulled the *Count Sheet Detail* reports from Ellipse. On average, the *Count Sheet Detail* report provided an Ellipse determined sample of 83 MOE and 43 MOW stock items. However, the report also indicated the current stock on-hand for those items. See a partial report below.

![Count Sheet Detail Report](image)

The Ellipse Administrator emailed the *Count Sheet Detail* report to stockroom personnel for MOE and MOW. OMC stockroom personnel:

- Performed the weekly counts;
- Recorded on the *Count Sheet Detail* reports:
  - Current stock on-hand
  - Date counted
  - Counted by
  - Indicated if the item required an adjustment form
- Investigated any discrepancies between the count and the report, and
- Turned the report into their supervisor/manager; whom sent the reports to the Ellipse Administrator for finalization.

Internal Audit reviewed the 102 *Count Sheet Detail* reports for the year, and the reports indicated the current stock on-hand, date counted, and initials of the counter. Interviews with the stockroom personnel and observation of the weekly count process disclosed discrepancies frequently occurred during the weekly counts. Due to the combination of:

- The *Count Sheet Detail* reports were printed on Mondays;
- The counts were completed typically one to four days later, and
- Some parts had been assigned to work orders in the interim.

Stockroom personnel indicated they reviewed inventory records to investigate any discrepancies, but they did not record the specifics of the reviews and indicated no variance on the reports. Therefore, Internal Audit was unable to test the discrepancy investigation process.

Throughout the year, Finance reviewed the weekly *Count Sheet Detail* reports for completion and recorded the following information on a tracking log (*Stocktake Program Cycle Log*):

- Stocktake number and scheduled start date;
- Number of stocked items counted each week;
• Reconciled the report with any supporting adjustment documentation, and
• Indicated the Finance staff member’s initials.

At the end of the fiscal year, Finance compared the current year’s total number of stocked items counted weekly (MOE 4,280 and MOW 2,201) to the prior year’s stocked items totals (MOE 3,861 and MOW 2,088). This comparison provided Finance with a degree of certainty that OMC personnel counted all stock coded items throughout the year.

**Obsolete Inventory**

Valley Metro maintains stocked items in inventory that have no present or future use to rail operations and there is no documented process to identify and remove these items from inventory. Internal Audit compared the FY 19 *Inventory Value Extract* reports to the FY 18 reports. Audit determined that year-over-year, 2,261 (57%) of MOE’s and 1,714 (80%) of MOW’s stocked items did not materially change in net value. Internal Audit observed items during walk throughs and inquired to the inventory’s usefulness.

Seven cash carts for the Ticket Vending Machines (TVMs) are maintained in the MOE basement and were added to the MOW Ellipse inventory in April 2009 for $7,104 each, totaling $49,728.

The TVM cash carts are still wrapped in original packing, have not been used, and per MOW staff, they will not be used, as the TVM cash collection function is a contracted service with Brink’s Incorporated.

Valley Metro has also not performed a reconciliation of all inventory items on-hand to ensure they are recorded in Ellipse. For example, fifteen air compressors had signs marked “Do Not Inventory” and Defect Tags dated 01/10/19.

The movement of parts in Ellipse has not been analyzed to determine the usefulness/value/necessity of unused/obsolete inventory and there is no documented process to dispose of identified items.
Precious Metals
The MOW maintains spools of copper wire in the MOE basement. Personnel removing wire are to write on the spool the remaining length of wire. However, there are no documented procedures to determine if wire has been removed or to verify remaining length of wire on spools. Below are photos of loose copper wire and the copper wire spools.

Tool Inventory Counts
The OMC has calibrated torque wrenches and multimeters, hand tools, tool sets, and tool kits in the following locations: MOW’s Traction Power and SigCom, MOE’s 46 Toolboxes, MOE Tool room and Shop floor, and Facilities Maintenance (FM).

Calibrated Tools
The OMC’s Quality Assurance Administrator (QAA) maintains separate calibration tracking spreadsheets and binders of calibration documentation for the tools used at each of the three locations (Traction Power, SigCom, and MOE). As part of an on-going process, the QAA reviewed calibrated tools and testing equipment throughout the year as annual calibrations were required. The QAA tracked active and inactive items, as well as items noted as “calibration no longer required” to maintain a historical log of items purchased.

Internal Audit reviewed the QAA’s calibration tracking spreadsheets and in the binders, and determined:

- 145 active items were listed as:
  - 13 past due calibrations
  - 132 active calibrations
- 217 non-active items were listed as:
  - 47 not located
  - 93 inactive, decommissioned, retired, or returned
  - 77 not requiring calibration, due to being either:
    - Spares
    - Used for spare parts
    - No longer required calibration, or
    - Used for troubleshooting
- Six of FM active items had not been submitted for inclusion on the calibration schedule.

Upon Internal Audit’s inquiry, past due and FM items have been added to the calibration schedule.
**MOW**

In the fall of 2018, MOW management began securing vehicle keys, specialty tools, tool cabinet keys, and the MOE parts room key in the CribMaster storage container. The CribMaster is a vending machine type container with a carousel for key storage and a divided drawer system for tool storage. Items in the CribMaster were accessible and trackable through the employee’s Valley Metro badge. The MOW Assistant Manager/CribMaster Administrator received Usage Reports from CribMaster emailed daily to monitor activity of items checked out.

For items not in the CribMaster, MOW management had a community of shared tools that were used for work on the light rail alignment by Traction Power and SigCom personnel. As a result, monthly, the MOW Manager issued Ellipse workorders that required Traction Power and SigCom personnel to inventory the department’s tools on community trucks and the Shop floor tools. The Ellipse workorder files recorded who performed the periodic counts. The Excel inventory tracking spreadsheets recorded the existence or absence of the tools counted.

Internal Audit reviewed the inventory tracking sheets and determined:

- Traction Power tracked 706 tools and 147 tool sets, of which:
  - 176 tools were indicated as missing, and
  - 78 tool sets were incomplete
- SigCom tracked 265 tools and 90 tool sets, of which:
  - 78 tools were indicated as missing, and
  - 42 tool sets were incomplete

Management could not validate the accuracy of the tracking spreadsheets or determine if tools were missing as of the current fiscal year.

Based on the Snap-On Incorporated and Grainger website pricing in November 2019, Internal Audit determined an approximate replacement values for the tools indicated as missing as; $23,000 for the 176 Traction Power tools and $9,100 for the 78 SigCom tools.

**MOE**

MOE management assigns toolboxes to the Light Rail Vehicle (LRV) Maintenance Technicians and Inspectors and maintains a community of tools on the Shop floor or in the Tool room for work on the light rail vehicles.

**Toolboxes**

The MOE had 46 toolboxes on the Shop floor, each furnished with either a 204-piece Snap-On tool set or a 211-piece JH Williams tool set. The toolboxes remained at the facility for work on the light rail vehicles. During the new-hire process, MOE personnel completed a New Employee Check List form and recorded the toolbox number assigned to Light Rail Vehicle (LRV) Maintenance Technicians and Inspectors. The employee and LRV Technical Trainer inventoried the toolbox and then recorded the results on the Contents of Employee Tool Box form.

During the employee’s off-boarding/termination process is the only other time the contents of toolbox is inventoried. Valley Metro then incurs the expense to replace any missing tools. Management stated the time and resources required to perform more frequent inventory counts is more costly then the expenses incurred to replace any missing tools.

Internal Audit observed the inventory process for four toolboxes took an average of 30 minutes each and the results were recorded on the Contents of Employee Tool Box inventory forms.
Review of four toolbox inventory forms found 22 of 823 tools assigned were marked as missing. For those 22 tools, Internal Audit determined an approximate replacement value as $726.

In September 2019, MOE management ordered ten new Snap-On toolboxes through Arizona’s State Contract (CTR040594) for $40,320, before shipping and taxes. These ten toolboxes will accommodate the upcoming increase in LRV staff. Each toolbox ($1,565 each) will be stocked with a 204-piece Snap-On tool set ($2,467 each) and will bring the total MOE toolboxes on the Shop floor to 56.

**Tool Room and Shop Floor**

The MOE facility has a Tool room across from the LRV supervisors’ office for additional tools used for work on the light rail vehicles. An inventory listing for this area was not provided, as such Internal Audit did not perform an inventory of items in the Tool room.

Nevertheless, Internal Audit observed items such as power tools, meters, torque wrenches, troubleshooting computers (PTUs), rail safety lanterns, and blue flags stored there. A **Tool Room Tool Sign Out** log was in place for employees to self-checkout and return these and other items (levels, N2 kits, Accu-gauges, and heat guns) to the room.
Internal Audit noted 42 of 843 entries on the Tool Room Tool Sign Out log throughout the fiscal year 2018-19 were not signed in, and notations evidencing management review were not present. Since the audit, management implemented a task for MOE supervisors to review the Tool Room Tool Sign Out log, verify tool status, and counsel employees with missing sign-ins.

LRV personnel also used tools located in functional areas (i.e. the brake shop or HVAC repair area) of the MOE Shop floor for LRV repair and maintenance. An inventory listing for these tools was not provided, as such Internal Audit did not perform an inventory of items on the Shop floor.

Facilities Maintenance
The Facilities Maintenance (FM) Manager had drafted procedures and forms for tracking the department’s tools. The FM Manager then used Internal Audit’s review of this area as a catalyst to implement those controls. In September 2019, FM completed a full inventory of tools, organized the department’s work space, and updated inventory documentation. Therefore, creating tighter internal controls over its 389 tools, 25 tool sets, and 28 tool kits. FM has tools on two assigned vehicles, within four assigned toolboxes, and shared tools within the shop.

Tracking spreadsheets were created to include:

- Tool description
- Manufacturer
- Part and serial numbers, as applicable
- Quantity
- Location
- Condition
- Employee and manager initials

Internal Audit observed the full inventory count and reviewed the tracking sheets were updated to reflect the count information. Additionally, the Tool Requisition Form (v. 08/29/19) below, was created and implemented to track and approve the purchase of new or replacement tools.

![Tool Requisition Form](image_url)
New controls over tool kits included a Tool Equipment Sign Out Procedure (v. 08/30/19), a sign out log, a listing of tracked tool kits, and the attachment of the bright green tag (as seen below) on each tracked item.

The FM team plans to perform another inventory in the Spring of 2020 and change the tracking spreadsheets, tool kit listings, forms, and procedures, as needed.

**Procurement**

The OMC’s non-contract procurement practice allows OMC personnel to process purchase orders through Ellipse. Contracts and Procurement personnel have no access to Ellipse. OMC purchase orders were processed for the MOE, by the LRV Maintenance Administrative Assistant II and for the MOW, by the OMC’s Senior Management Analyst. Purchase orders were supported by:

- Ellipse generated requisitions that were based on the stock minimums and re-order parameters set during stock code setup, or
- Manual requisitions based on LRV Maintenance work order or MOW service needs.

The LRV Maintenance Administrative Assistant II obtained the quotes, as applicable. The approval signatures from either the Superintendent of LRV Maintenance or the Assistant Superintendent of LRV Maintenance were obtained on the MOE requisitions.

The OMC’s Senior Management Analyst obtained the quotes, as applicable, and indicated that the MOW Manager has a standing approval for processing the Ellipse generated MOW requisition orders and any TVM service repairs.

Invoices are received at the OMC, matched to receiving documentation and purchase orders. Management’s signature for payment approval is obtained. The Chief Operations Officer signs if invoice exceeds $7,500. Requisition, receiving, and quote documents are kept on-file at the OMC and not forwarded to accounting with final invoices for payment processing. Finance receives the signed invoice and a copy of the purchase order.

Internal Audit review the Ellipse reports for “purchase orders received” during the fiscal year and determined the OMC processed MOE purchase orders totaling $2,369,606 through 115 vendors and MOW purchase orders totaling $567,840 through 65 vendors.

The OMC obtained Contracts and Procurement’s assistance and approval for the single or aggregate annual purchases exceeding $150,000 listed on the next page. The Board of Director’s approval is required for a goods/services contract/purchase order at or above $150,000. Internal Audit identified the following five vendors with purchases greater than $150,000 and verified if Board approval and contracts were currently in place:
**OMC Non-Capitalized Rail Parts and Tool Inventory Audit Report**

### Vendor, Amount, Description, Contract #, Board Approval

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Amount</th>
<th>Description</th>
<th>Contract #</th>
<th>Board Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vulcanite</td>
<td>$226,720</td>
<td>Motor truck chevrons</td>
<td>17028 MCTOP</td>
<td>11/30/17</td>
</tr>
<tr>
<td>Bridgestone Industrial Products</td>
<td>$572,750</td>
<td>Air spring assemblies</td>
<td>17028 MCTOP</td>
<td>11/30/17</td>
</tr>
<tr>
<td>Hutchinson Aerospace &amp; Industry</td>
<td>$235,132</td>
<td>Bolster anchors and lateral stops</td>
<td>Sole Source-Purchase Order Only</td>
<td>02/22/18</td>
</tr>
<tr>
<td>Penn Machine Co.</td>
<td>$184,803</td>
<td>Rubber block tire kits</td>
<td>Board Approved Purchase Order, Contract 19011</td>
<td>03/17/16</td>
</tr>
<tr>
<td>NASG, Holdings, Inc.</td>
<td>$153,661*</td>
<td>LVR window glass</td>
<td>None, then 19023</td>
<td>05/16/19</td>
</tr>
</tbody>
</table>

*Contract was initiated and obtained as purchase order spend approached $150,000.

Since Contracts and Procurement personnel have no access to Ellipse and are not involved in OMC’s purchases less than $150,000, they cannot proactively monitor for exceeding approval thresholds. The OMC’s Senior Management Analyst monitors thresholds.

**OMC Systems**

The OMC has two applications, Ellipse to order, receive, issue, and track inventory items and the DSX system to grant access via badges to the inventory storage areas. Access to Ellipse and the DSX System was granted to Valley Metro employees, as applicable to job function and to specific contracted vendors, as business needs warranted.

Internal Audit reviewed the Ellipse active user listings and compared them to the active and terminated employee listings provided by Valley Metro Human Resources (HR). Two of 144 active Ellipse users were no longer engaged by Valley Metro. One employee was termed 05/21/2019 and one contracted vendor was released, no term date available. Upon Internal Audit’s inquiry, access was removed for both individuals by the Ellipse Administrator. There were 22 additional Valley Metro employees terminated during fiscal year 2018-19 that had Ellipse access. Internal Audit calculated the number of days between HR’s termination date and the Ellipse access removal date, and summarized below:

<table>
<thead>
<tr>
<th>Days</th>
<th>Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-7 days</td>
<td>6</td>
</tr>
<tr>
<td>16-25 days</td>
<td>5</td>
</tr>
<tr>
<td>36-58 days</td>
<td>4</td>
</tr>
<tr>
<td>106-185 days</td>
<td>7</td>
</tr>
</tbody>
</table>

The Ellipse Administrator disclosed that user access was modified or terminated as notified by the department/contractor or during periodic reviews, however department notification was not consistent and timely.

Internal Audit reviewed the DSX system reports for the OMC stockrooms and compared them to the active and terminated employee listings. Five of 88 cardholders were no longer engaged by Valley Metro. One employee termed 06/18/2014, another employee termed 6/20/2017, and three former contractors, no term dates available, but none of the five were active in past 90 days. Upon Internal Audit’s inquiry, access was removed for all five individuals.

Per the OMC’s Administrative Assistant III, DSX system access was modified or removed only as notified by the department/contractor. Additionally, it was noted the physical badges required for access should be surrendered upon termination of employment. In September 2019, the OMC’s Administrative Assistant III started reviewing the DSX System users and continues to monitor and correct.
Standard Operating Procedures
The OMC has a shared drive containing the division’s Standard Operating Procedures (SOPs) to guide staff through 17 Operational areas within the division. The Quality Assurance Administrator (QAA) maintained an Excel spreadsheet that listed the OMC’s SOPs as an index. The SOPs Index as of 06/04/19, listed 251 active procedures of which:

- 80 procedures had revision dates within the past two years,
- 171 procedures had revision dates prior to 2017, of which:
  - 22 procedures required updates, because they did not reflect current processes.

For example, SOP 1800.11 Calibration of Tools and Test Equipment Rev. B (v. 4/26/12) did not indicate processes for tools and testing equipment items that:

- Were not located for calibration,
- Did not pass calibration testing, and were either:
  - Made inactive,
  - Decommissioned/Retired, or
  - Returned
- Did not require calibration testing, and were either:
  - Spares,
  - Used for spare parts, or
  - Used in shop to troubleshoot.

During Internal Audit’s inquiry, the QAA disclosed a process to review the SOPs regularly. The last review occurred in September 2018 but results of the review were not documented. On December 16, 2019, the OMC issued the updated SOP 100.01, Standard Operating Procedures and Rulebook Review Rev. B, effective 12/03/19. The revised SOP included an annual review of SOPs by “the applicable discipline associated with the SOP.”
Audit Recommendation

No Established Inventory Management Policy

A written Inventory Management Policy for the parts and tools used at the OMC does not exist. Procedures were not documented, and the processes followed were inefficient in addressing the handling of precious items (e.g., copper and steel), and the reconciliation, disposal, and obsolescence of parts and tools. Management could not provide a documented base knowledge of all items on-site to include in the OMC tools and parts inventories.

The OMC has not conducted a full inventory of the parts and tools for the MOE and MOW. A reconciliation of parts on-site to the parts recorded in Ellipse and the tools on-site to the Excel tracking spreadsheets has not been completed. Additionally, the stock movement of parts in Ellipse has not been analyzed to determine the usefulness/value/necessity of unused/obsolete inventory.

Without a written Inventory Management Policy and documented procedures, parts and tool records may be incomplete and inconsistent, and obsolete inventory may remain on-site and on the books, and parts, tools, and precious items may be unsecured.

Recommendations:

Management should establish a written:

(A) Inventory Management Policy to address:

(1) Accounting and securing precious items, metals, parts, and tools;
(2) Disposal of obsolete or broken parts and tools;
(3) Reconciliation of on-hand quantities of parts and tools, and
(4) Employee counseling and/or reimbursement for lost or damaged agency assets.

(B) Set of current procedures to address:

(1) Performance of full inventory counts of all parts and tools;
(2) Enhancement of the inventory process to not display on-hand quantities during cycle and full counts;
(3) Standardization of inventory records, so consistent inventory documentation and descriptions are used on logs and in Ellipse;
(4) Determining and disposing of obsolete inventory;
(5) Securing and disposing of precious items;
(6) Investigation requirements for inventory count discrepancies;
(7) Management oversight of tool check-out and return processes, and
(8) Timely removal of physical and logical access to the inventory and associated data.
Views of Responsible Officials:

Taking into account the attached comments, management will establish a written Inventory Management Policy that addresses the four (4) components listed in the audit recommendation. Also, management will establish or modify current written procedures that addresses the other eight (8) components listed in the audit recommendation. These policies and procedures will be written in a manner that will provide the most operationally efficient and economical method.

Responsible Parties:

Chief Financial Officer & Chief Operations Officer

Due Date:

August 31, 2020
To: Mary Modelski - Internal Audit

From: Ray Abraham, Chief Operations Officer

Date: December 23, 2019

Re: OMC Non-Capitalized Rail Parts and Tools Inventory Audit

Below are additional comments related to the OMC Non-Capitalized Rail Parts and Tools Inventory Audit for attachment to the report...

1. **Inventory Counts (Page 5)** - The items that do not have a stock code would be those in which a quantity would not need to be on hand. They would not be stock coded as they are procured when needed in the field (MOW).

2. **The counts were completed typically one to four days later (Page 7)** - Count sheets will now be prioritized to be counted upon receipt of them.

3. **Stockroom personnel indicated they reviewed inventory records to investigate any discrepancies, but they did not record the specifics of the reviews and indicated no variance on the reports. Therefore, Internal Audit was unable to test the discrepancy investigation process**. (Page 7) - Any variances are corrected through research. If the issue cannot be identified and a correction cannot be performed, the discrepancy will be noted on the sheet.

4. **Obsolete Inventory (Page 8)** - Inventory parts register. Inventory counts of all items that should be in Ellipse will be conducted by the Asset Management Consultant and identified for entry to the upcoming new asset maintenance system. Obsolete items are directed from staff (MOW) to finance for approval to remove from inventory.

5. **The MOW maintains spools of copper wire in the MOE basement. Personnel removing wire are to write on the spool the remaining length of wire**. However, there are no documented procedures to determine if wire has been removed or to verify remaining length of wire on spools. (Page 9) - We will begin using cable seals to secure to the ends of the cables (See Attached Picture). A procedure will be developed to monitor and replace.
6. Based on the Snap-On Incorporated and Grainger website pricing in November 2019, Internal Audit determined an approximate replacement values for the tools indicated as missing as; $23,000 for the 176 Traction Power tools and $9,100 for the 78 SigCom tools (Page 10). It is important to note that the missing tools identified could be a cumulation of shrinkage over a long period of time.

7. Procurement (Page 13) - At manager level, the MOW purchaser has authority to purchase up to $25,000. When necessary, an approved requisition is received from the MOW manager for specific items. Hutchinson was approved and contracts handled bid prior to the PO. (See attached Board approval Feb 2018). Contracts and Procurement staff can have access to Ellipse. They do not choose to use it. One CA is trained on Ellipse. Ellipse Administrator can run a report anytime if C&P wants it. Supply agreement suppliers are sent to C&P for a supply agreement. The current run of PO’s for the year (see attached) shows no vendor over $150,000 unless board approved and on contract (or C&P approved sole source PO over $50k) was obtained.

(A) Inventory Management Policy to address:

8. Accounting and securing precious items, metals, parts, and tools (Page 16) - See comment 5. Also, once the larger stockroom has been built it will allow us more room to create lockable storage.

9. Disposal of obsolete or broken parts and tools (Page 16) - We have been engaged with finance regarding this issue.

(B) Set of current procedures to address:

10. Enhancement of the inventory process to not display on-hand quantities during cycle and full counts (Page 16) - Not sure why this is needed. During cycle counts the counter will not know if there is a discrepancy with the QTY’s.

11. Investigation requirements for inventory count discrepancies (Page 16) - We do not agree to eliminate the Stock on-hand quantities from the cycle count sheets. This will create another tedious procedure that will not benefit the process.
Information Summary

DATE
January 9, 2020

AGENDA ITEM 5

SUBJECT
Internal Audit Update

PURPOSE
To update the Audit and Finance Subcommittee on Internal Audit activities.

BACKGROUND/DISCUSSION/CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Item presented for information only.

CONTACT
Mary Models
Director, Internal Audit
mmodelskivalleymetro.org
602-322-4453

ATTACHMENT
None
**Valley Metro**  
**Audit and Finance Subcommittee**  
**Internal Audit Update**  
**January 2020**  

**Update:**  
**Fiscal Year 19/20 Audit Plan**

<table>
<thead>
<tr>
<th>Process</th>
<th>Status</th>
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<tbody>
<tr>
<td>Credit card transactions</td>
<td>Not started - April</td>
</tr>
<tr>
<td>Travel expenses</td>
<td>Not started - April</td>
</tr>
<tr>
<td>Professional Development</td>
<td>Kick-off – 1/27</td>
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<tr>
<td>Full-Time Employee Additions</td>
<td>Complete</td>
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<tr>
<td>Contract Management (specific)</td>
<td>Not started – April/June</td>
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<tr>
<td>Paratransit Contract Management</td>
<td>Kick-off -</td>
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<tr>
<td>OMC Non-Capitalized Rail Parts and Tools Inventory</td>
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<tr>
<td>Hardware/Software Management</td>
<td>Delayed - February</td>
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<tr>
<td>Performance Evaluation</td>
<td>Delayed - February</td>
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<tr>
<td>Internal Safety and Security Audit Review</td>
<td>Not started – February/March</td>
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<tr>
<td>CSD Invoice Processing</td>
<td>Not started - March</td>
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<tr>
<td>HR Information Management System (HRMIS) Implementation</td>
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<td>ERP Implementation</td>
<td>Monitoring</td>
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<td>External Audits – anticipated:</td>
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<td>Maricopa Co. – Paratransit</td>
<td>Complete</td>
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<tr>
<td>City of Phoenix - Fare Revenue</td>
<td>Report January</td>
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<tr>
<td>City of Phoenix – Contract Risk Assessment</td>
<td>Report March</td>
</tr>
<tr>
<td>ADOT – Rail Safety Audit</td>
<td>Report January</td>
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</table>
Information Summary

DATE
January 9, 2020

SUBJECT
Audit Exceptions Update

PURPOSE
To provide an update to the Audit and Finance Subcommittee on the progress of audit exceptions.

BACKGROUND/DISCUSSION/CONSIDERATION
The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 2500 Monitoring Progress states: The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

COST AND BUDGET
Funding for monitoring the progress of audit exceptions is included in the FY 2019/20 Valley Metro Budget.

COMMITTEE PROCESS
None

RECOMMENDATION
Items presented for information only.

CONTACT
Mary Modelsiki
Director, Internal Audit
602.322.4453
mmodelski@valleymetro.org

ATTACHMENTS
Audit exceptions log
# Exception Summary

## Overdue items:

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Management Action</th>
<th>Due Date</th>
<th>Status/Responsible Party</th>
<th>Estimated Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Purchasing Files Updated – Close-out process</td>
<td>8/31/2019</td>
<td>Purchasing Manager</td>
<td>11/15/2019</td>
</tr>
<tr>
<td>6</td>
<td>DBE Payments – Reconcile</td>
<td>8/31/2019</td>
<td>CFO</td>
<td>Not provided</td>
</tr>
</tbody>
</table>
## Exception Summary

### Upcoming Due Dates:

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Management Action</th>
<th>Due Date</th>
<th>Status/ Responsible Party</th>
<th>Estimated Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Relocation Process – Reimbursements</td>
<td>1/31/2020</td>
<td>Chief Financial Officer and Human Resource Director</td>
<td>1/31/2020</td>
</tr>
<tr>
<td>8</td>
<td>Position Requisition Form</td>
<td>1/31/2020</td>
<td>Chief Financial Officer and Human Resource Director</td>
<td>1/31/2020</td>
</tr>
<tr>
<td>9</td>
<td>Network Access Not Removed</td>
<td>3/7/2020</td>
<td>IT Manager and Chief Procurement Officer</td>
<td>3/7/2020</td>
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<tr>
<td>10</td>
<td>Travel Policy Clarification</td>
<td>-</td>
<td>Pending Review by Audit</td>
<td>Next Travel Audit</td>
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<tr>
<td>11</td>
<td>Travel Policy Exceptions</td>
<td>-</td>
<td>Pending Review by Audit</td>
<td>Next Travel Audit</td>
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<tr>
<td>12</td>
<td>Policy Compliance Documented Approves Not Maintained</td>
<td>-</td>
<td>Pending Review by Audit</td>
<td>Next Travel Audit</td>
</tr>
<tr>
<td>13</td>
<td>Policy Compliance, Incomplete Documents in Reconciliation – Credit Cards</td>
<td>-</td>
<td>Pending Review by Audit</td>
<td>Next Travel Audit</td>
</tr>
</tbody>
</table>
exception summary

issues reported as remediated this month*:

<table>
<thead>
<tr>
<th>Audit</th>
<th>Recommendation</th>
<th>Management Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>None reported this month</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Internal Audit will test these items in the next review.
Ref # Finding Title Department Finding Description Recommendations Management Response Report Date Due Date Responsible Party APS Notes
1 Outdated policies and procedures over Information Technology (IT) IT Valley Metro did not have current policies and procedures in place to address necessary areas of risk related to hardware and/or software. The current version of policies and procedures provided by IT management was dated 2013. This version of the policies and procedures lacked sufficient direction and instruction on the following areas, but not limited to: • Remote access to the system • Approved and appropriate use of personal devices on the network • Naming convention • Patch implementation, testing, and oversight • Process for ensuring new software and hardware populations correctly and completely in Lansweeper, etc. • Acquisition of hardware and software IT management and staff have changed significantly since 2013. These changes have resulted in undocumented directives and philosophies as to how to manage and lead IT. Insufficient direction and instruction allowed for inconsistent processes and practices within the environment. Best practices would be to have a documented consistent process in place in order to mitigate risk and ensure strategies are carried out.

Management should define a process by which an annual basis policies and procedures are reviewed and updated as needed and appropriate. Updates should be communicated and appropriate training provided to necessary individuals in order for such individuals to execute their duties or provide backup support of other team members.

We intend to review all policies and procedures to ensure that our policies and procedures comply with the strictest requirements/best practices.

2/17/2018 3/31/2018 Management Information Technology & Executive leadership team
1/1/2020 - Per Chief Administrative Officer the remaining two policies needed, Acceptable Use Policy and the Access Control Policy, will both be published by January 16, 2020.

2 Policy Compliance – Supporting Documents Not Maintained within Cardholder Reconciliation Packets Financial & Procurement Credit card reconciliation packets are being submitted and processed without all policy required signatures or documentation for technology and sequential purchases. Four cardholders did not maintain in their credit card reconciliation packets evidence of technology purchase approval for five transactions, totaling $7,933. Although one cardholder maintained in their credit card reconciliation packet evidence of technology purchase approval, itemized receipts and packets slips for the purchase of four HP All-in-one computers, the packet lacked evidence supporting the business need for sequential transactions. Additionally, Hewlett Packard is an Arizona State Contract. This state contract requires the issuance of a purchase order to order merchandise. The Credit Card Administrator should have made the determination a credit card was not the appropriate form of payment and noted such in their review notes.

Management should provide training and/or policy changes that outline when it is acceptable to use an agency credit card and when it is not appropriate. Documentation and justification of exemptions to the policy need clarity and communication. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads when exception exists or when all policy-required documentation is lacking.

Management concurs with the recommendation. Management will update the procedures for the Credit Card Administrator to include a review for potential sequential transactions, including additional follow-up with the cardholder and Division Head. Additionally, cardholder training will include a review of the appropriateness of credit card use versus purchase orders.

2/21/2019 3/31/2019 Chief Financial Officer
11/26/2019 - Per the CFO The Credit Card Administrator has updated procedures to ensure better review of packets for compliance. Credit Card and procurement training is updated to provide guidance on the appropriate use of credit cards versus purchase orders.

3 Policy Clarifications – Credit Card, Acceptable Use Financial & Procurement The Credit Card, Acceptable Use policy (v. 10/10/18) did not reflect current practices. 
• Policies did not address the need for cardholder Division Heads to attend training and acknowledge responsibilities assigned in the policy. 
• Policies did not identify the required approval documentation/ signatures for travel, local dining and technology purchases, nor the need to maintain them within credit card reconciliation packets. 
• Policies did not clarify that within the Travel policy, Management limited authorization to purchase travel and training related expenses to the Travel Administrators. 

Management should align the Credit Card, Acceptable Use policy intent with associated forms and practices. In order to hold cardholders accountable for approved and timely submissions of their credit card transactions, the policy should clearly define the required approval documentation, the form names, submission deadlines and reference other Valley Metro policies.

Management partially concurs with the recommendation. The credit card policy is not the appropriate place to define the required approval documentation for other policies. Those requirements all reside within the policies and responsibility for maintaining and reviewing the documentation is defined within those policies. Multiple copies of complete travel packets, for example, should not be required to be maintained in each credit card packet that has an associated charge. The credit card policy will refer to other relevant policies and note that credit card use must be consistent with and proper documentation maintained to support that transactions were properly approved pursuant to those policies.

2/21/2019 3/31/2019 Chief Financial Officer
11/26/2019 - Per the CFO the draft updated policy addresses this finding. The draft policy is being reviewed currently and should be finalized in the coming weeks. The new Chief Procurement Officer starts on December 2. I would like her to review the policy before it is finalized. I anticipate having the final policy complete by the end of December.

4 Policy Non-Compliance not Identified or not Properly Escalated Financial & Procurement Four cardholders had four transactions that did not comply with the Credit Card, Acceptable Use policy. Two transactions did not fall within the Credit Card Administrators sample population: 
• A transaction for $330 in SamsonBack tickets indicated eight tickets purchased, while supporting documents showed cardholder received ten tickets. A list of who was the recipient of these tickets was not present.
• A $163 bagel purchase included an email that indicated another employee used the cardholder’s credit card information on file to complete the transaction

Additionally, the Credit Card Administrator's review identified two transactions as noncompliant/questionable; however, escalation or follow-up did not occur. 
• The Agency issued the cardholder’s credit card on 8/10/17; however, the cardholder reported the charge posted on 10/29/17 for $69.00 at Maya in Scottsdale as fraudulent.

Wells Fargo denied reversal of such charge due to the card being present at the location to complete the transaction. Internal Audit confirmed Wells Fargo cancelled the card and reissued a new card; however, Finance maintained no documentation to evidence further action taken by Valley Metro to recover the $69.

Management should utilize a report such as, the Wells Fargo Commercial Card Expense Report, the Abila Current Consolidated Unposted General Ledger Transactions report or any other report, to provide transaction characteristics to facilitate the review. The review should focus upon fields such as description and/or specific transaction criteria that Management pre-established based on historical anomalies. Additionally, the Credit Card Administrator should document the method used to review the credit card transactions and follow-up actions taken.

Management concurs with the recommendation. Management recognizes that sampling the transactions for compliance runs the risk of not reviewing potential violations. Simply enlarging the sample does not eliminate the risk. Management does not see value in entering the sample size, however management will review the criteria used to determine which transactions to capture that are at higher risk of policy violations. Management will also develop a procedure to ensure that proper follow-up is conducted when the Credit Card Administrator identifies a potential violation.

2/21/2019 3/31/2019 Chief Financial Officer
11/26/2019 - Per the CFO The Credit Card Administrator has updated procedures to ensure better review of packets for compliance and follow-up with Credit Card Holders.
<table>
<thead>
<tr>
<th>Ref #</th>
<th>Finding Title</th>
<th>Dept</th>
<th>Finding Description</th>
<th>Recommendations</th>
<th>Management Response</th>
<th>Report Date</th>
<th>Due Date</th>
<th>Responsible Party</th>
<th>AFS Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Contract Closeout Documentation - Not Maintained</td>
<td>Finance, Procurement</td>
<td>Contracts and Procurement did not maintain evidence to support the contract closout process or completed the applicable closeout documentation for seven contracts. Three contracts had service end dates before July 1, 2018 and four contracts had final products invoiced before July 1, 2018. Four contracts with Federal funds required submission of a contract recap to the City of Phoenix (CoP). The table below is a summary of the seven contracts and indications of closestout processes or documentation.</td>
<td>Management should establish and communicate clear processes and procedures for contract closeout and periodic self-audit of closed contracts to monitor for compliance with those procedures.</td>
<td>The Procurement Manual released in 2018 and subsequent update in 2019 include procedures for the proper closeout of contracts. The Chief Procurement Officer (CPO) provides training to contract administrations and follow up to ensure that contracts are closed properly. The CPO and procurement managers will perform periodic reviews of the contract files to ensure that contract administrators are communicating clear processes and procedures for contract closeout and periodic self-audit of closed contracts.</td>
<td>6/5/2019</td>
<td>8/31/2019</td>
<td>Chief Financial Officer</td>
<td>11/26/2019 - Per CFO Procurement Managers are reviewing contract files for completeness and ensuring that contracts are being closed appropriately.</td>
</tr>
<tr>
<td>6</td>
<td>Contract Payment Reconciliation and Follow-up Documentation - Not Maintained</td>
<td>Finance, Procurement</td>
<td>To satisfy the Disadvantaged Business Enterprise (DBE) requirements, vendors were required to report total contract payments in the City of Phoenix's Certification and Compliance System, B2GNow (B2G). B2G payments did not match the Valley Metro contract payment records for two of five contracts, totaling a net $94,776. Evidence of re-recognition process or follow-up actions for the discrepancies did not exist. Valley Metro used federal funds for eight of the 17 contracts reviewed therefore, DBE requirements were applicable. The vendors were required to report contract payments in B2G to satisfy DBE requirements. However, the three contracts to Transit Vehicle Manufacturers (TVM) for rolling stock procurements did not require the vendors to report contract payments thereby reducing the testing population to five. The table below is a summary of the reported contract payments in B2G and a comparison of those amounts to Valley Metro contract payment records for the five contracts.</td>
<td>Management should establish a reconciliation process for matching vendor reported contract payments to the Valley Metro payment records. Additionally, the process should include documentation of follow-up actions taken with the vendor and the City of Phoenix, as applicable.</td>
<td>Valley Metro and its vendors report payments to the City of Phoenix as required by the Federal Transit Administration. Valley Metro’s reporting is a reconciliation of the actual payments made to vendors. While there have been no issues with any previous FTA Traumatic Review related to reporting payments, we agree that regular verification and recollection of payments reported by vendors would help ensure that there are no findings in the future. The Chief Procurement Officer will develop a procedure for contract administrators to reconcile vendor payments reported to the City of Phoenix.</td>
<td>6/5/2019</td>
<td>8/31/2019</td>
<td>Chief Financial Officer</td>
<td>11/26/2019 - Per the CFO a new position is being identified to manage the Disadvantaged Business Enterprise (DBE) process for Valley Metro. This position will coordinate with the City of Phoenix to ensure compliance with all aspects of DBE administration and reporting.</td>
</tr>
<tr>
<td>7</td>
<td>Relocation Process</td>
<td>Finance, Division</td>
<td>One employee terminated employment with Valley Metro after five months and had been provided a relocation allowance. Upon termination, the employee entered into an agreement to repay the relocation allowance by making monthly payments for six months. The total relocation payment was $10,000, but the total of the repayment agreement required a pay back of $7,699.20. For a year after the termination, the employee has not repaid the amount required by the agreement.</td>
<td>Management agrees with the recommendation. Finance will document how relocation reimbursements are handled with regard to taxes that were withheld. Finance and Human Resources will develop a process to ensure that there is proper follow up for relocation reimbursement and that funds are reimbursed appropriately.</td>
<td>The current process captures relevant information on paper, with control checks against positions assumed in the adopted budget. The enterprise resource planning system currently being procured will provide better control. The position will be formalized and shared between Division management to ensure all requirements area addressed, documented, approved, and memorialized.</td>
<td>12/14/2019</td>
<td>1/31/2020</td>
<td>CFO and HR Director</td>
<td>12/31/2019 - Per Controller they are working on the Accounts Receivable Collection process and plans to have it done by 1/31/2020.</td>
</tr>
<tr>
<td>8</td>
<td>Position Requisition</td>
<td>Human Resources</td>
<td>Valley Metro does not have an integrated position control management system. As a result, Division management completes a requisition to initiate the recruitment process. The form identifies the position title, pay grade, proposed salary, who the position reports to, and the Division the position will report. In addition, it identifies the reason for the request, the purpose of the job and allocation of payroll costs. We reviewed 90 requisitions and noted: - 1 Not Signed by Division Management - 8 Not Signed by Budget - 6 CPO did not mark “approved” box</td>
<td>HR and Finance should collaborate to determine the components necessary to be completed and captured prior to an employee being recruited or on-boarded. Such process should be clearly documented and shared between Division management to ensure all requirements are addressed, documented, approved, and memorialized.</td>
<td>The current process captures relevant information on paper, with control checks against positions assumed in the adopted budget. The enterprise resource planning system currently being procured will provide better control. The position requisition form will be updated to ensure clarity and the process will be properly communicated to all division directors, managers and supervisors.</td>
<td>12/14/2019</td>
<td>1/31/2020</td>
<td>CFO and HR Director</td>
<td>1/6/2020 - No update at this time.</td>
</tr>
<tr>
<td>9</td>
<td>Network Access</td>
<td>Information Technology</td>
<td>During fiscal year 2018/19, 71 employees terminated. Two of these employees still had active network accounts. One of the employee’s had their password changed, so the employee would not be able to access the system. The other employee access was revoked. Since there is no centralized function that tracks contract employees, we were unable to test whether contract employees’ network access was released from the network. IT staff indicated that they are not consistently notified when a contract employee terminates.</td>
<td>Establish a centralized process to track employees and contract employees to ensure they are properly tracked from hire, modification in roles/responsibilities through termination. In addition, establish a mechanism and/or process to ensure all termination procedures are completed for all employees and contract employees.</td>
<td>Information Technology will assign a Business Analyst to assess the existing employee termination process and recommend modifications to the existing implementation of a new process to ensure timely and consistent termination of access. Information Technology will implement those recommendations agreed upon by HR and IT to ensure that all information systems access is revoked in a timely and consistent manner and IT devices are recovered. Contracts and Procurement staff will review existing contracts and ensure that there are requirements for contractors to notify Valley Metro timely when contract staff are replaced. Contracts and Procurement will ensure that such requirements exist in all future procurements and resultant contracts.</td>
<td>11/24/2019</td>
<td>3/7/2020</td>
<td>IT Manager and Chief Procurement Officer</td>
<td>1/6/2020 - No update at this time.</td>
</tr>
<tr>
<td>Ref #</td>
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<td>AFS Notes</td>
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<tr>
<td>10</td>
<td>Travel Policy Clarification</td>
<td>Finance</td>
<td>The Travel policy: encourages individuals to stay at the conference or training host hotel site. If the host hotel nightly rate exceeds the GSA Lodging Rate Schedule, the excess host hotel rate is authorized. GSA §101-11.303 states: “The maximum amount that you may be reimbursed under actual expense is limited to 100 percent (rounded to the next higher dollar) of the applicable maximum per diem rate.” 19 of 93 travel instances were identified where the daily rate for lodging was in excess of the GSA published rate but under the 300 percent cap. The rates ranged from $55 to over $10 per night above the allowed GSA rate. Total spending on lodging for travel during fiscal year 2017 was $59,551, of which a total of $2,539 was spent in excess of GSA lodging limits (42.26%). Additionally, the Travel Authorization form states: “Hotel expenses are reimbursable up to the maximum GSA hotel rate.” Also, “the traveler is responsible for the difference in the rates.” Evidence of reimbursement by the traveler of the amount in excess of the GSA-rate did not exist. <strong>Recommendations:</strong> Management should align the Travel policy intent with associated forms and practices. If circumstances warrant travel to be completed in less than 21-day of the submission the Agency Travel, Conference and Out-of-Country Training form, the policy should reflect such verbiage. The Travel Authorization form should be revised to include identification if the user is staying at the host hotel and the rate exceeds the GSA rate. Otherwise, revisions to verbiage related to “hotel expense are reimbursed up to the maximum GSA hotel rate; and a traveler is responsible for the difference in the rates” should be considered. Further clarity should be added to the Travel policy advising the traveler if they are taking part in the meal provided by the host, the per diem amount should reflect accordingly. Travelers should be held accountable for submission of their Expense form within the five-days after travel has been completed. Finally, management should ensure appropriate signatures are gained prior to booking or reconciling final travel expenses.</td>
<td>Management concurs with the recommendation. Additional clarity is being added to the Travel Policy and procedures will be updated to ensure that documentation is proper and complete.</td>
<td>4/6/2018</td>
<td>NA</td>
<td>Chief Financial Officer</td>
<td>Pending Next Audit</td>
<td></td>
</tr>
</tbody>
</table>

<p>| 11    | Travel Policy Exceptions | Finance | After reviewing 93 travel requests, 87 instances were in compliance. In six instances, documentation was insufficient to determine whether costs were appropriate. The six instances were: <strong>One</strong> traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost companion nor explanation was not included. Therefore, evidence to verify the saving was not present. <strong>One</strong> traveler used a more expensive vehicle option for transportation for a San Francisco hotel to the Oakland airport at the end of the conference. The cost was $96. An explanation as to why this vehicle was selected did not exist within the travel file. <strong>One</strong> traveler utilized the terminal parking at Phoenix Sky Harbor airport for two days. Resulting in a reimbursed expense of $50.00 ($25 a day) verses $22 ($11 a day). The Travel policy states: “economy parking should always be used”. This was the travelers' first trip for Valley Metro and was unaware of the Travel policy parking requirements. <strong>One</strong> traveler purchased the CEO a $150 ticket for the Rail Rodeo Awards Banquet and submitted the expense. The traveler did obtain the CEO approval on her Expense form; but additional approval was not obtained from the CFO nor Board of Directors on the expense for the CEO. <strong>On two occasions</strong> airfare was purchased at four and six days prior to departure resulting in fares of $1,052.00 (Savannah GA) and $1,285.20 (San Francisco). The Travel policy states: traveler(s) are to “submit the Agency Travel, Conference and Out-of-Country Training Form at least 21-days in advance to travel so that the Travel Administrators can purchase travel at least 14-days prior to departure”. The travel was approved, but the reasons why these purchases were made less than 14-days prior to departure was not documented within the travel file. The Travel policy states: “Extenuating circumstances may arise during travel which may require unanticipated expenses. Whenever possible, approval should be received from the CEO and CFO prior to incurring the expense”. Evidence to demonstrate follow-up on unusual expenses was not maintained with Expense forms. This is resulting in expenses being Travel policy exceptions. <strong>Recommendations:</strong> Management should require travelers acknowledge review of the current travel policy on an annual basis. Travel Administrators should document within the travel file any unusual requests for travel expenses and receive appropriate approval for such requests prior to booking. Travelers should be required to explain any unusual expenses incurred on the Expense form prior to being approved for reimbursement. | Management concurs with the recommendation. Annual refresher training will be provided to ensure compliance with the Travel Policy. | 4/6/2018 | NA | Chief Financial Officer | Pending Next Audit |</p>
<table>
<thead>
<tr>
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<th>Responsible Party</th>
<th>AFS Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Policy Compliance – Documented Division Head Approvals Not Maintained</td>
<td>Finance &amp; Procurement</td>
<td>Six cardholders did not have evidence of the Division Head’s review/approval by means of a dated Division Head signature for 18 monthly credit card reconciliation packets.</td>
<td>Management should expand the policy’s training requirement beyond the cardholders to include applicable employees in the Agency’s credit card transaction process. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation.</td>
<td>Management disagrees with the recommendation. The intent of the credit card policy is to ensure that credit card transactions comply with the procurement policies and procedures. It is management’s view that a cardholder’s manager is responsible for reviewing and approving the cardholder’s transactions. Management will revise the policy to clarify that a management staff (Manager or Director level) must review and approve transactions. Finance staff will confirm that a management staff has approved the credit card packet and return unapproved packets to the cardholder.</td>
<td>2/22/2020</td>
<td>NA</td>
<td>Chief Financial Officer</td>
<td>Pending Next Audit</td>
</tr>
<tr>
<td>13</td>
<td>Policy Compliance – Insufficient/Incomplete Documents within Cardholder Reconciliation Packets</td>
<td>Finance &amp; Procurement</td>
<td>Credit card reconciliation packets were submitted and processed without all policy-required signatures or documentation. One cardholder’s Pre-Approval Local Dining and Refreshments form for a credit card transaction, totaling $113, was for a FTA meeting, did not have the CFO and CEO approval signatures, only the Division Head signature existed. Eight cardholders did not have the Pre-Approval Local Dining and Refreshments forms in their credit card reconciliation packets. Fifty-seven credit card transactions, totaling $16,237, were for committee/employee meetings and events. Evidence of a completed form could not be located. Although six cardholders obtained Pre-Approval Local Dining and Refreshments forms for 16 credit card transactions, totaling $1,861, were for committee/employee meetings and events, cardholders did not maintain the approval forms in their credit card reconciliation packets.</td>
<td>Management should expand the cardholder’s training requirements beyond the Credit Card, Acceptable Use policy to include other policies wherein credit card purchases maybe applicable, specifically the Agency Local Dining and Refreshments policy. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation.</td>
<td>Management disagrees with the recommendation. Complete documentation for authorized travel or for local dining does not need to be included in the credit card packet, nor should the Credit Card Administrator review travel related charges to ensure that they are authorized. That is all the responsibility of the travel administrator as described in the travel policy, or the Controller as described in the Local Dining policy. Additionally, the Local Dining policy fails to acknowledge the accepted and longstanding practice of providing meals at Committee and Board meetings and inadvertently suggests that a local dining approval form is needed for those. Management will update the local dining policy to clarify that standing committee meetings are exempt from the requirements.</td>
<td>2/21/2019</td>
<td>NA</td>
<td>Chief Financial Officer</td>
<td>Pending Next Audit</td>
</tr>
</tbody>
</table>
DATE
January 9, 2020

SUBJECT
RPTA Fiscal Year 2020 (FY20) Mid-Year Budget Adjustment

PURPOSE
To request authorization for the Mid-Year Budget Adjustment update to the Valley Metro RPTA Operating and Capital Budget for FY20.

BACKGROUND | DISCUSSION | CONSIDERATION
In June 2019, the TMC recommended and the Board approved the FY20 Operating and Capital Budget. The cost factors used to develop the budget have changed and adjustments are warranted to update the expenditures planned for the remainder of the fiscal year.

The total operating forecast has been revised and will increase by $4.1M, or 2% of the adopted budget. Fixed route service purchased from Phoenix is increasing due addition of approximately 250,000 miles for various routes in Scottsdale which were previously funded through local contributions. Fixed Route service in the East Valley is up due to additional service as part of the October 2019 and April 2020 service changes. Both the RideChoice and Paratransit programs are experience trips higher than planned. Additional members have also joined the RideChoice program since the budget was adopted, therefore we’ve also added those costs to the revised forecast.

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Description</th>
<th>Increase (Decrease) Amt</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Route Service (Purchased from City of Phoenix)</td>
<td>Increase miles purchased for Scottsdale service</td>
<td>$ 1,971,000</td>
<td>PTF</td>
</tr>
<tr>
<td>Fixed Route Service (East Valley)</td>
<td>October 2019 and April 2020 service increases- Routes 104, 136.</td>
<td>$ 448,000</td>
<td>PTF Federal Member Cities</td>
</tr>
<tr>
<td>RideChoice Program</td>
<td>Trips higher than plan along with addition of Tolleson, Scottsdale, and Goodyear to the program</td>
<td>$ 413,000</td>
<td>Member Cities</td>
</tr>
<tr>
<td>Paratransit Program</td>
<td>Trips higher than plan</td>
<td>$ 1,309,000</td>
<td>PTF Member Cities</td>
</tr>
<tr>
<td><strong>Operations Total</strong></td>
<td></td>
<td><strong>$ 4,141,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
Our revised capital forecast is up by $3.4M, or 2% of the adopted budget, primarily due to the timing of delivery for fleet. Several buses along with a paratransit vehicle that were anticipated to be received in FY19 will arrive in FY20. Vanpool replacements have increased by an additional 9 vehicles this year. We’ve received some favorable per unit pricing for the vanpools so we have some budget underrun to help with the purchase of the 9 vehicles. We are deferring construction for the Laveen PNR along with the replacement of a bus wash at the Mesa Operations and Maintenance Facility.

### Capital Activities:

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Description</th>
<th>Increase (Decrease) Amt</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bus Fleet</td>
<td>Adjusting budget to align with timing of deliveries. Several buses anticipated to be delivered in FY19 were delayed to FY20.</td>
<td>$4,352,000</td>
<td>PTF Federal</td>
</tr>
<tr>
<td>Paratransit Fleet</td>
<td>One Glendale vehicle scheduled for delivery in FY19 to be delivered in FY20.</td>
<td>$68,000</td>
<td>PTF</td>
</tr>
<tr>
<td>Vanpool Fleet</td>
<td>Addition of 9 additional replacement vehicles.</td>
<td>$123,000</td>
<td>Federal</td>
</tr>
<tr>
<td>Facilities</td>
<td>Deferred Laveen PNR construction to FY21, increased design and construction support services for Peoria and Buckeye PNR's. Deferred bus wash at Mesa O&amp;M Facility until FY21.</td>
<td>$(1,097,000)</td>
<td>PTF Member Cities</td>
</tr>
<tr>
<td><strong>Capital Total</strong></td>
<td></td>
<td>$3,446,000</td>
<td></td>
</tr>
</tbody>
</table>

**COST AND BUDGET**
Changes proposed are incorporated into overall agency uses and sources of funds below:
USES OF FUNDS ($000,000)

Operating Expenditures

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY20</th>
<th>FY20 Amended</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Route Operations</td>
<td>$99.2</td>
<td>$101.7</td>
<td>$2.4</td>
<td>2%</td>
</tr>
<tr>
<td>Demand Service Operations</td>
<td>41.0</td>
<td>42.7</td>
<td>1.7</td>
<td>4%</td>
</tr>
<tr>
<td>Vanpool Operations</td>
<td>0.9</td>
<td>0.9</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Planning</td>
<td>2.1</td>
<td>2.1</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Commute Solutions</td>
<td>1.3</td>
<td>1.3</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Administration and Finance</td>
<td>13.1</td>
<td>13.1</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Regional Services</td>
<td>4.6</td>
<td>4.6</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total RPTA Operating</strong></td>
<td>$162.2</td>
<td>$166.3</td>
<td>$4.1</td>
<td>3%</td>
</tr>
<tr>
<td>VMR Personnel Costs</td>
<td>$26.5</td>
<td>$26.5</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>VMR RARF Disbursements</td>
<td>0.5</td>
<td>0.5</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>AZ Lottery Funds Disbursements</td>
<td>11.2</td>
<td>11.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total Pass-Through Funds</strong></td>
<td>$38.2</td>
<td>$38.2</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Operating Uses</strong></td>
<td>$200.4</td>
<td>$204.5</td>
<td>$4.1</td>
<td>2%</td>
</tr>
</tbody>
</table>

Capital Expenditures

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY20</th>
<th>FY20 Amended</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Fleet</td>
<td>$39.3</td>
<td>$43.8</td>
<td>$4.5</td>
<td>12%</td>
</tr>
<tr>
<td>Regional Facilities</td>
<td>5.6</td>
<td>4.5</td>
<td>(1.1)</td>
<td>-20%</td>
</tr>
<tr>
<td>Other Regional Projects</td>
<td>1.0</td>
<td>1.0</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Member Agency Disbursements</td>
<td>5.4</td>
<td>5.4</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>25.3</td>
<td>25.3</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total RPTA Capital</strong></td>
<td>$76.6</td>
<td>$80.0</td>
<td>$3.4</td>
<td>4%</td>
</tr>
<tr>
<td>Rail Program Disbursements</td>
<td>$88.4</td>
<td>$88.4</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total VMR Capital</strong></td>
<td>$88.4</td>
<td>$88.4</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Capital Uses</strong></td>
<td>$165.0</td>
<td>$168.4</td>
<td>$3.4</td>
<td>2%</td>
</tr>
</tbody>
</table>

| Total Uses                     | $365.4| $373.0       | $7.6     | 2%       |
## SOURCES OF FUNDS ($000,000)

### Operating Revenues

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>FY20</th>
<th>FY20 Amended</th>
<th>Change ($)</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transportation Funds</td>
<td>$86.1</td>
<td>$91.3</td>
<td>$5.3</td>
<td>6%</td>
</tr>
<tr>
<td>Regional Area Road Funds</td>
<td>5.1</td>
<td>5.1</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Transit Service Agreements</td>
<td>48.4</td>
<td>47.4</td>
<td>(1.0)</td>
<td>-2%</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>8.9</td>
<td>9.0</td>
<td>0.2</td>
<td>2%</td>
</tr>
<tr>
<td>Fare Revenues</td>
<td>11.6</td>
<td>11.3</td>
<td>(0.3)</td>
<td>-2%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>1.3</td>
<td>1.3</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Carry forward and Reserves</td>
<td>1.2</td>
<td>1.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total RPTA Operating</strong></td>
<td><strong>$162.5</strong></td>
<td><strong>$166.7</strong></td>
<td><strong>$4.1</strong></td>
<td><strong>3%</strong></td>
</tr>
<tr>
<td>VMR Reimbursements</td>
<td>26.7</td>
<td>26.7</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>AZ Lottery Funds</td>
<td>11.2</td>
<td>11.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total Pass-Through Funds</strong></td>
<td><strong>$37.9</strong></td>
<td><strong>$37.9</strong></td>
<td><strong>$0.0</strong></td>
<td><strong>0%</strong></td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>$200.4</strong></td>
<td><strong>$204.5</strong></td>
<td><strong>$4.1</strong></td>
<td><strong>2%</strong></td>
</tr>
</tbody>
</table>

### Capital Revenues

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>FY20</th>
<th>FY20 Amended</th>
<th>Change ($)</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transportation Funds</td>
<td>$25.4</td>
<td>$25.4</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>34.5</td>
<td>38.2</td>
<td>3.7</td>
<td>11%</td>
</tr>
<tr>
<td>Member Contributions</td>
<td>0.0</td>
<td>0.2</td>
<td>0.2</td>
<td>100%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>0.3</td>
<td>0.3</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Carry forward and Reserves</td>
<td>16.4</td>
<td>15.9</td>
<td>(0.5)</td>
<td>-3%</td>
</tr>
<tr>
<td><strong>Sub-Total RPTA Capital</strong></td>
<td><strong>$76.6</strong></td>
<td><strong>$80.0</strong></td>
<td><strong>$3.4</strong></td>
<td><strong>4%</strong></td>
</tr>
<tr>
<td>VMR PTF Rail Program</td>
<td>52.2</td>
<td>52.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>VMR PTF Reserve Funds</td>
<td>36.2</td>
<td>36.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total VMR Capital</strong></td>
<td><strong>$88.4</strong></td>
<td><strong>$88.4</strong></td>
<td><strong>$0.0</strong></td>
<td><strong>0%</strong></td>
</tr>
<tr>
<td><strong>Total Capital Sources</strong></td>
<td><strong>$165.0</strong></td>
<td><strong>$168.4</strong></td>
<td><strong>$3.4</strong></td>
<td><strong>2%</strong></td>
</tr>
</tbody>
</table>

**Total Sources**

| Total Sources | $365.4 | $373.0 | $7.6  | 2%   |
STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:

- Goal 2: Advance performance based operation

COMMITTEE PROCESS
Financial Working Group: December 17, 2019 for information
RTAG: December 17, 2019 for information
TMC: January 8, 2020 for action
AFS: January 16, 2020 action
Board: January 30, 2020 for action

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the Mid-Year Budget Adjustment update to the Valley Metro RPTA Operating and Capital Budget for FY20.

CONTACT
Paul Hodgins
Chief Financial Officer
602-523-6043
phodgins@valleymetro.org

ATTACHMENT
None
## Valley Metro RPTA
### FY20 Mid-Year Budget Adjustment

January 2020

## Changes – Operations Activities

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Description</th>
<th>Increase (Decrease) Amt</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Route Service (Purchased from City of Phoenix)</td>
<td>Increase miles purchased for Scottsdale service</td>
<td>$1,971,000</td>
<td>PTF</td>
</tr>
<tr>
<td>Fixed Route Service (East Valley)</td>
<td>October 2019 and April 2020 service increases- Routes 104, 136.</td>
<td>$448,000</td>
<td>PTF, Federal Member Cities</td>
</tr>
<tr>
<td>RideChoice Program</td>
<td>Trips higher than plan along with addition of Avondale, Tolleson, Scottsdale, and Goodyear to the program</td>
<td>$413,000</td>
<td>Member Cities</td>
</tr>
<tr>
<td>Paratransit Program</td>
<td>Trips higher than plan</td>
<td>$1,309,000</td>
<td>PTF, Member Cities</td>
</tr>
<tr>
<td><strong>Operations Total</strong></td>
<td></td>
<td><strong>$4,141,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
### Uses of Funds - Operating ($000,000)

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY20</th>
<th>FY20 Amended</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Route Operations</td>
<td>$99.2</td>
<td>$101.7</td>
<td>$2.4</td>
<td>2%</td>
</tr>
<tr>
<td>Demand Service Operations</td>
<td>41.0</td>
<td>$42.7</td>
<td>1.7</td>
<td>4%</td>
</tr>
<tr>
<td>Vanpool Operations</td>
<td>0.9</td>
<td>$0.9</td>
<td>-</td>
<td>0%</td>
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<tr>
<td>Planning</td>
<td>2.1</td>
<td>$2.1</td>
<td>-</td>
<td>0%</td>
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<tr>
<td>Commute Solutions</td>
<td>1.3</td>
<td>$1.3</td>
<td>-</td>
<td>0%</td>
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<tr>
<td>Administration and Finance</td>
<td>13.1</td>
<td>$13.1</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Regional Services</td>
<td>4.6</td>
<td>$4.6</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total RPTA Operating</strong></td>
<td>$162.2</td>
<td>$166.3</td>
<td>$4.1</td>
<td>3%</td>
</tr>
<tr>
<td>VMR Personnel Costs</td>
<td>$26.5</td>
<td>$26.5</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>VMR RARF Disbursements</td>
<td>0.5</td>
<td>0.5</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>AZ Lottery Funds Disbursements</td>
<td>11.2</td>
<td>11.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total Pass-Through Funds</strong></td>
<td>$38.2</td>
<td>$38.2</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Operating Uses</strong></td>
<td>$200.4</td>
<td>$204.5</td>
<td>$4.1</td>
<td>2%</td>
</tr>
</tbody>
</table>

### Sources of Funds - Operating ($000,000)

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>FY20</th>
<th>FY20 Amended</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transportation Funds</td>
<td>$86.1</td>
<td>$91.3</td>
<td>$5.3</td>
<td>6%</td>
</tr>
<tr>
<td>Regional Area Road Funds</td>
<td>5.1</td>
<td>5.1</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Transit Service Agreements</td>
<td>48.4</td>
<td>47.4</td>
<td>(1.0)</td>
<td>-2%</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>8.9</td>
<td>9.0</td>
<td>0.2</td>
<td>2%</td>
</tr>
<tr>
<td>Fare Revenues</td>
<td>11.6</td>
<td>11.3</td>
<td>(0.3)</td>
<td>-2%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>1.3</td>
<td>1.3</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Carry forward and Reserves</td>
<td>1.2</td>
<td>1.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total RPTA Operating</strong></td>
<td>$162.5</td>
<td>$166.7</td>
<td>$4.1</td>
<td>3%</td>
</tr>
<tr>
<td>VMR Reimbursements</td>
<td>26.7</td>
<td>26.7</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>AZ Lottery Funds</td>
<td>11.2</td>
<td>11.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total Pass-Through Funds</strong></td>
<td>$37.9</td>
<td>$37.9</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>$200.4</td>
<td>$204.5</td>
<td>$4.1</td>
<td>2%</td>
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</tbody>
</table>
### Operating Funding Changes

<table>
<thead>
<tr>
<th>Operating Sources</th>
<th>RideChoice Program</th>
<th>Paratransit Program</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transportation Funds</td>
<td>$41,000</td>
<td>$1,523,000</td>
<td>$1,564,000</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>180,000</td>
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<td>172,000</td>
</tr>
<tr>
<td>Avondale</td>
<td>-</td>
<td>(5,000)</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Chandler</td>
<td>-</td>
<td>(258,000)</td>
<td>(258,000)</td>
</tr>
<tr>
<td>El Mirage</td>
<td>-</td>
<td>(111,000)</td>
<td>(111,000)</td>
</tr>
<tr>
<td>Fountain Hills</td>
<td>(10,000)</td>
<td>-</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Gilbert</td>
<td>105,000</td>
<td>(214,000)</td>
<td>(109,000)</td>
</tr>
<tr>
<td>Glendale</td>
<td>-</td>
<td>197,000</td>
<td>197,000</td>
</tr>
<tr>
<td>Goodyear</td>
<td>32,000</td>
<td>-</td>
<td>32,000</td>
</tr>
<tr>
<td>Maricopa County</td>
<td>(373,000)</td>
<td>519,000</td>
<td>146,000</td>
</tr>
<tr>
<td>Mesa</td>
<td>114,000</td>
<td>(186,000)</td>
<td>(72,000)</td>
</tr>
<tr>
<td>Peoria</td>
<td>-</td>
<td>256,000</td>
<td>256,000</td>
</tr>
<tr>
<td>Scottsdale</td>
<td>217,000</td>
<td>(12,000)</td>
<td>205,000</td>
</tr>
<tr>
<td>Surprise</td>
<td>35,000</td>
<td>(165,000)</td>
<td>(130,000)</td>
</tr>
<tr>
<td>Tempe</td>
<td>68,000</td>
<td>(202,000)</td>
<td>(134,000)</td>
</tr>
<tr>
<td>Tolleson</td>
<td>2,000</td>
<td>(6,000)</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Youngtown</td>
<td>-</td>
<td>(20,000)</td>
<td>(20,000)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$411,000</strong></td>
<td><strong>$1,308,000</strong></td>
<td><strong>$1,719,000</strong></td>
</tr>
</tbody>
</table>

### Operating Funding Changes (contd)

<table>
<thead>
<tr>
<th>Operating Sources</th>
<th>Fixed Route Service (East Valley)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transportation Funds</td>
<td>1,843,000</td>
</tr>
<tr>
<td>Fixed Route Fare Revenue</td>
<td>(405,000)</td>
</tr>
<tr>
<td>Chandler</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Gila River Indian Community</td>
<td>1,000</td>
</tr>
<tr>
<td>Mesa</td>
<td>(546,000)</td>
</tr>
<tr>
<td>Phoenix</td>
<td>10,000</td>
</tr>
<tr>
<td>Tempe</td>
<td>(453,000)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$448,000</strong></td>
</tr>
</tbody>
</table>
# Changes – Capital Activities

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Description</th>
<th>Increase (Decrease) Amt</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bus Fleet</td>
<td>Adjusting budget to align with timing of deliveries. Several buses anticipated to be delivered in FY19 were delayed to FY20.</td>
<td>$ 4,352,000</td>
<td>PTF Federal</td>
</tr>
<tr>
<td>Paratransit Fleet</td>
<td>One Glendale vehicle scheduled for delivery in FY19 to be delivered in FY20.</td>
<td>$ 68,000</td>
<td>PTF</td>
</tr>
<tr>
<td>Vanpool Fleet</td>
<td>Addition of 9 additional replacement vehicles.</td>
<td>$ 123,000</td>
<td>Federal</td>
</tr>
<tr>
<td>Facilities</td>
<td>Deferred Laveen PNR construction to FY21, increased design and construction support services for Peoria and Buckeye PNRs. Deferred bus wash replacement at Mesa O&amp;M Facility until FY21.</td>
<td>$(1,097,000)</td>
<td>PTF Federal, Member Cities</td>
</tr>
</tbody>
</table>

Capital Total $ 3,446,000

<table>
<thead>
<tr>
<th>Uses of Funds - Capital ($000,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uses of Funds</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Regional Fleet</td>
</tr>
<tr>
<td>Regional Facilities</td>
</tr>
<tr>
<td>Other Regional Projects</td>
</tr>
<tr>
<td>Member Agency Disbursements</td>
</tr>
<tr>
<td>Debt Service</td>
</tr>
<tr>
<td>Sub-Total RPTA Capital</td>
</tr>
<tr>
<td>Rail Program Disbursements</td>
</tr>
<tr>
<td>Sub-Total VMR Capital</td>
</tr>
<tr>
<td>Total Capital Uses</td>
</tr>
</tbody>
</table>
Sources of Funds - Capital ($000,000)

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>FY20</th>
<th>FY20 Amended</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transportation Funds</td>
<td>$25.4</td>
<td>$25.4</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>34.5</td>
<td>38.2</td>
<td>3.7</td>
<td>11%</td>
</tr>
<tr>
<td>Member Contributions</td>
<td>0.0</td>
<td>0.2</td>
<td>0.2</td>
<td>100%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>0.3</td>
<td>0.3</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Carry forward and Reserves</td>
<td>16.4</td>
<td>15.9</td>
<td>(0.5)</td>
<td>-3%</td>
</tr>
<tr>
<td><strong>Sub-Total RPTA Capital</strong></td>
<td>$76.6</td>
<td>$80.0</td>
<td>$3.4</td>
<td>4%</td>
</tr>
<tr>
<td>VMR PTF Rail Program</td>
<td>52.2</td>
<td>52.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>VMR PTF Reserve Funds</td>
<td>36.2</td>
<td>36.2</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Sub-Total VMR Capital</strong></td>
<td>$88.4</td>
<td>$88.4</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Capital Sources</strong></td>
<td>$165.0</td>
<td>$168.4</td>
<td>$3.4</td>
<td>2%</td>
</tr>
</tbody>
</table>

Recommendation

Staff recommends that the TMC forward to the Board of Directors authorization for the Mid-Year Budget Adjustment update to the Valley Metro RPTA Operating and Capital Budget for FY20.
Information Summary

DATE
January 9, 2020

AGENDA ITEM 8

SUBJECT
Intergovernmental Agreements, Contract Change Orders, Amendments and Awards

PURPOSE
To provide an update to the Audit and Finance Subcommittee on upcoming Intergovernmental Agreements, Contract Amendments and Awards that will be presented to the Boards of Directors for action. For additional background information, the Board Information Summaries are included.

The following items will be presented to the Boards of Directors for approval:

A. Transit Asset Management (TAM) Consulting Services Contract Award
Execute a three-year contract with two option years for TAM consulting services with Dye Management Group, Inc. for an amount not to exceed $1,250,736.

B. Expansion and Replacement Vehicles for the Regional Vanpool Program Contract Award
Enter into a five-year contract with Creative Bus Sales to purchase and modify up to $16,586,350 vanpool vehicles for the Valley Metro regional vanpool program.

C. Federal Transit Administration Pass-Through Grant Agreements
Execute the IGAs and change order with the City of Phoenix for the listed grants.

D. Rail Transportation Services Contract Change Order
Execute a contract change order with ACI for rail transportation services to include additional staffing for an amount not to exceed $2,018,794 for the period February 1, 2020 to June 30, 2022.

E. Federal Transit Administration Pass-Through Grant Agreements
Execute the IGAs and change order with the City of Phoenix for the listed grants.

RECOMMENDATION
For information only.

CONTACT
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org
602-262-7433

ATTACHMENT
Information Summaries for items listed above.
Information Summary

DATE
January 9, 2020

AGENDA ITEM 8A

SUBJECT
Transit Asset Management (TAM) Consulting Services Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a three-year contract with two option years for TAM consulting services with Dye Management Group Inc. for an amount not to exceed $1,250,736.

BACKGROUND | DISCUSSION | CONSIDERATION
In 2016 the FTA published the final rule, including minimum requirements, for transit agencies to establish a Transit Asset Management Plan (TAMP) by October 1, 2018. The final rule requires transit agencies to establish a system to monitor and manage public transportation assets that improve safety and increase reliability and performance, and to establish performance targets.

Valley Metro has developed a TAM plan. The plan contains various tasks and procedures that Valley Metro would like to implement to enhance our TAM program. Valley Metro staff has begun to evaluate the operations business processes and strategies in place for TAM, however asset management knowledge and expertise is needed to fully develop and advance our program.

The consultant will assist in the comprehensive evaluation of our program and assist with new processes and procedures where needed. The tasks below are a portion of what is included in the scope of work:

- Review existing asset management policies, implementation plan and procedures specific to its transit (bus and light rail transit) operations;
- Review lifecycle maintenance strategies unique to each physical asset category and assist with condition assessments;
- Review existing equipment inventory and scrub data in the current maintenance program
- Assistance with a needs assessment for a decision support tool and prioritization for financial forecast and budget allocation.

In June 2019, Valley Metro issued a Request for Proposal for TAM consulting Services. A total of six firms submitted proposals as follows:

1. Dye Management Group, Inc.
2. eVision Partners, Inc.
A selection committee comprised of staff from Valley Metro and City of Phoenix evaluated technical and price proposals. The top three technical firms were interviewed. The Selection Committee arrived at its award recommendation using a “Best Value” process which allows for a contract award based on a combination of technical and price factors. Based on this process, the evaluation committee has selected Dye Management Group, Inc. as the firm whose proposal offers the “best value” to the agency.

The following table shows the technical, price and combined scores for the top three proposers:

<table>
<thead>
<tr>
<th>Rank and Firm</th>
<th>Technical Score</th>
<th>Price Score</th>
<th>Combined Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dye Management</td>
<td>651.2</td>
<td>231</td>
<td>882.2</td>
</tr>
<tr>
<td>2. eVision Partners</td>
<td>557.4</td>
<td>300</td>
<td>857.4</td>
</tr>
<tr>
<td>3. Kimley-Horn</td>
<td>632.6</td>
<td>129</td>
<td>761.6</td>
</tr>
</tbody>
</table>

An independent cost estimate including a cost comparison and price analysis have been completed. The proposed price has been deemed fair and reasonable based on the price analysis.

COST AND BUDGET
RPTA’s cost for the TAM Consultant Services over the contract term is estimated not to exceed $437,758 and VMR’s cost is estimated not to exceed $812,978. The cost for the consulting services is included in the Valley Metro RPTA and Valley Metro Rail Adopted FY 2020 Operating and Capital Budget. Contract obligations beyond FY 2020 are incorporated into the Valley Metro Rail & RPTA Five-Year Operating Forecast and Capital Program (FY2020 thru FY2024).

The source of funding is from member cities.

STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:
• Goal 2: Advance performance based operation

COMMITTEE ACTION
RTAG: December 17, 2019 for information
TMC/RMC: January 8, 2020 for action
Boards of Directors: January 30, 2020 for action

RECOMMENDATION
Staff recommends that the TMC/RMC forward to the Boards of Directors authorization for the CEO to execute a three-year contract with two option years for TAM consulting services with Dye Management Group, Inc. for an amount not to exceed $1,250,736.

CONTACT
Ray Abraham
Chief Operations Officer
602-652-5054
rabraham@valleymetro.org

ATTACHMENT
None
DATE
January 9, 2020

AGENDA ITEM 8B

SUBJECT
Expansion and Replacement Vehicles for the Regional Vanpool Program Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to enter into a five-year contract with Creative Bus Sales to purchase and modify up to $16,586,350 of federally funded vanpool vehicles for the Valley Metro regional vanpool program.

BACKGROUND | DISCUSSION | CONSIDERATION
Vanpooling is a convenient, stress-free, environmentally-friendly alternative to driving alone to work. A group of six to 15 people who live and work near each other form the group. Riders pay a monthly fare that covers vehicle maintenance, insurance and roadside assistance. Today, more than 2,700 Valley residents commute daily via 375 Valley Metro vanpools with an average commute distance of 75 miles round trip, taking thousands of vehicles off roads during rush hour traffic.

Valley Metro vans are purchased using federal Surface Transportation Block Grant Program funds. All vanpool vans are owned, maintained, and disposes of by Valley Metro according to Federal Transit Administration (FTA) standards. The vans are purchased by the contractor from original equipment manufacturers (OEMs) and modified to meet customer needs with specific seating arrangements, lighting, stanchion bars, grab handles, and other items.

As Valley Metro has an on-going need for a contractor to purchase and modify replacement and expansion vehicles for the vanpool program, a two-step invitation for bid (IFB) was issued on October 10, 2019. Creative Bus Sales and Schetky Bus and Van Sales submitted bids. As required by the solicitation, each firm included signed certifications of federal requirements for authorization to propose on FTA funded projects with their bid.

Contract award is recommended to Creative Bus Sales based on being the low responsive/responsible bid.

Valley Metro is seeking a five-year contract to purchase vans as needed by the program. Future vanpool fleet needs are forecasted below but actual purchases will be based on demand.
COST AND BUDGET
Vanpool vehicles are purchased with federal Surface Transportation Block Grant Program funding allocated by the Maricopa Association of Governments. No local or regional funds are utilized. The table below illustrates the forecasted replacement and expansion vanpool vehicles over the contract’s five years. Actual purchases will be determined by customer demand.

<table>
<thead>
<tr>
<th>Vanpool Fleet</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacement</td>
<td>52 vehicles</td>
<td>46</td>
<td>46</td>
<td>37</td>
<td>45</td>
<td>226</td>
</tr>
<tr>
<td></td>
<td>$2,152,500</td>
<td>$2,151,000</td>
<td>$2,215,850</td>
<td>$1,850,000</td>
<td>$2,250,000</td>
<td>$10,619,350</td>
</tr>
<tr>
<td>Expansion</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>125</td>
</tr>
<tr>
<td></td>
<td>$1,126,250</td>
<td>$1,159,250</td>
<td>$1,195,250</td>
<td>$1,236,250</td>
<td>$1,250,000</td>
<td>$5,967,000</td>
</tr>
<tr>
<td>Totals</td>
<td>77 vehicles</td>
<td>71</td>
<td>71</td>
<td>62</td>
<td>70</td>
<td>351</td>
</tr>
<tr>
<td></td>
<td>$3,278,750</td>
<td>$3,310,250</td>
<td>$3,411,100</td>
<td>$3,086,250</td>
<td>$3,500,000</td>
<td>$16,586,350</td>
</tr>
</tbody>
</table>

STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:
• Goal 2: Advance performance based operation

COMMITTEE PROCESS
RTAG: December 17, 2019 for information
TMC: January 8, 2020 for action
Board of Directors: January 30, 2020 for action

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to enter into a five-year contract with Creative Bus Sales to purchase and modify up to $16,586,350 vanpool vehicles for the Valley Metro regional vanpool program.

CONTACT
Jim Hillyard
Chief Administrative Officer
602-495-8234
jhillyard@valleymetro.org

ATTACHMENT
None

\(^{1}\) The vans have a four-year, 100,000 mile service life and are, therefore, categorically exempted from testing by the FTA bus testing regulation. Vanpool van proposers are not transit vehicle manufacturers, but are vehicle dealers, as well as aftermarket outfitters that change seating configurations and certify that all Federal Motor Vehicle Safety Standards are met.
DATE
January 9, 2020

AGENDA ITEM 8C

SUBJECT
Federal Transit Administration Pass-Through Grant Agreements

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute IGAs with the City of Phoenix to allow Valley Metro to be reimbursed for eligible activities.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro is being provided federal funds through the Federal Transit Administration (FTA) from six grant programs. The table below summarizes the funding available:

<table>
<thead>
<tr>
<th>Grant</th>
<th>FTA Program</th>
<th>Federal Share</th>
<th>Local Share</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TBD</td>
<td>5307 – Formula</td>
<td>$19,815,783</td>
<td>$3,857,071</td>
<td>$23,672,854</td>
</tr>
<tr>
<td>TBD</td>
<td>5307 – Formula (Avn-Gdy UZA)</td>
<td>$3,606,660</td>
<td>$2,486,660</td>
<td>$6,093,320</td>
</tr>
<tr>
<td>TBD</td>
<td>5310 – Enhanced Mobility</td>
<td>$626,703</td>
<td>$548,703</td>
<td>$1,175,406</td>
</tr>
<tr>
<td>TBD</td>
<td>5337 – SOGR HiBus</td>
<td>$20,503</td>
<td>$5,126</td>
<td>$25,629</td>
</tr>
<tr>
<td>TBD</td>
<td>5337 – SOGR HiBus (Avn-Gdy UZA)</td>
<td>$78,995</td>
<td>$19,749</td>
<td>$98,744</td>
</tr>
<tr>
<td>TBD</td>
<td>5339 – Bus and Bus Facilities</td>
<td>$3,952,500</td>
<td>$697,500</td>
<td>$4,650,000</td>
</tr>
<tr>
<td>TBD</td>
<td>STBG</td>
<td>$3,255,000</td>
<td>$0</td>
<td>$3,255,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$31,356,144</strong></td>
<td><strong>$7,614,809</strong></td>
<td><strong>$38,970,953</strong></td>
</tr>
</tbody>
</table>

- Funds from the Section 5307 Urbanized Area Formula Program are awarded for preventive maintenance and fleet replacement.
- Funds from the Section 5307 Urbanized Area Formula Program for the Avondale-Goodyear Urbanized Area are awarded for operating assistance and fleet replacement.
- Funds from Section 5310, Enhanced Mobility for Seniors and Individuals with Disabilities Program awarded for operating support for Ride Choice and travel training.
- Funds from Section 5337, State of Good Repair Hi Capacity Bus Program, are awarded for preventive maintenance.
- Funds from Section 5337 for the Avondale-Goodyear Urbanized Area, State of Good Repair Hi Capacity Bus Program, are awarded for preventive maintenance.
- Funds from the Section 5339, Bus and Bus Facilities Program, are awarded for replacement fleet.
• Funds from the Surface Transportation Program flexed from the Federal Highways Administration are awarded for replacement and expansion fleet for the vanpool program.

The City of Phoenix is the designated recipient for all FTA grant funds for the region. Valley Metro undertakes projects approved for FTA grant funding, then submits requests to Phoenix for reimbursement of actual expenses incurred. Phoenix then executes a drawdown of funds from FTA to pass-through the reimbursement to Valley Metro.

The pass-through IGAs are required in order for Phoenix to reimburse Valley Metro for eligible expenses.

COST AND BUDGET
All expenses are in the approved FY 2020 Adopted Operating and Capital Budget and 5-Year Capital Program. The grant funds will offset expenses, reducing the net cost to the Public Transportation Fund and member agency budgets.

STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:

• Goal 2: Advance performance based operation

COMMITTEE PROCESS
RTAG: December 17, 2019 for information
TMC: January 8, 2020 for action
Board of Directors: January 30, 2020 for action

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute the IGAs and change order with the City of Phoenix for the listed grants.

CONTACT
Paul Hodgins
Chief Financial Officer
602-523-6043
phodgins@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
January 9, 2020

AGENDA ITEM 8D

SUBJECT
Rail Transportation Services Contract Change Order

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract change order with Alternate Concepts, Inc. (ACI) for rail transportation services to include additional staffing in an amount not to exceed $2,018,794 for the period February 1, 2020 to June 30, 2022.

BACKGROUND | DISCUSSION | CONSIDERATION
Rail Transportation Services are currently provided to Valley Metro under a 5-year base contract plus one 3-year option and one 2-year option with, ACI. In March 2017, the Board of Directors authorized the CEO to execute a contract with ACI to provide rail transportation services from January 1, 2017 to June 30, 2027. The award amount is $56,140,384 for the 5-year base term of the contract. The contract includes rail transportation services for the original 20-mile rail alignment, Central Mesa Extension, and the Northwest Extension.

In June 2019, the Board of Directors authorized the CEO to execute a change order to the contract for the Gilbert Road Extension (GRE) for $2,509,838.

ACI manages, coordinates and controls all activities necessary for light rail operations. Work being performed under this contract includes: providing qualified Light Rail Vehicle (LRV) operators, managers, supervisors, administrative and support staff, and Operations Control Center (OCC) staffing. Other activities under the contract include initial and continual training for personnel; assisting Valley Metro with start-up and light rail extension activities; coordination of special events and activities along the light rail alignment; management and mitigation of any situation impacting light rail operations; and accident investigation and reporting.

The request for a change order to the ACI contract is to include additional staffing beginning February 1, 2020. The additional staffing is needed during the OMC expansion project to physically throw rail switches and to assist in rail movement in the OMC rail yard while construction work is being completed. The OMC construction work in the rail yard is scheduled to begin in April 2020 and continue through January 2021. The staffing is needed for at least one shift each day. Also, training staff is needed for the new light rail vehicles that will begin arriving in the spring 2020 and for street car...
Vehicles that will be arriving in the fall of 2020. The change order includes additional staffing as listed below:

- 6 Transportation Supervisors
- 1 Trainer

The change order being requested would be effective February 1, 2020 through June 30, 2022. Staff will be coming back to the Board in the fall of 2020 for approval of another change order to add additional operators for the Tempe Streetcar Operations.

COST AND BUDGET
The cost of the change order with ACI over the remaining 2.5 years of the 5-year base term of the contract is for an amount not to exceed $2,018,794 and is detailed in the chart below:

<table>
<thead>
<tr>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Staffing</td>
<td>$342,955</td>
<td>$829,757</td>
<td>$846,082</td>
</tr>
</tbody>
</table>

For the Fiscal Year 2020, The VMR contract change order obligation is $342,955, which is included in the VMR FY20 mid-Year Operating and Capital Budget. Contract Obligations beyond FY20 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2020 thru FY2024).

The table below details the funding sources:

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail Operations – Member Cities</td>
<td>$48,994</td>
<td>$118,537</td>
<td>$362,607</td>
<td>$530,138</td>
</tr>
<tr>
<td>Tempe Streetcar Operations</td>
<td>-</td>
<td>$26,562</td>
<td>$362,607</td>
<td>$389,169</td>
</tr>
<tr>
<td>OMC Expansion Project Costs</td>
<td>$293,961</td>
<td>$365,919</td>
<td>-</td>
<td>$659,880</td>
</tr>
<tr>
<td>Streetcar Project Costs</td>
<td>-</td>
<td>$185,931</td>
<td>-</td>
<td>$185,931</td>
</tr>
<tr>
<td>South Central Ext. Project Costs</td>
<td>-</td>
<td>$132,808</td>
<td>$120,868</td>
<td>$253,676</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$342,955</strong></td>
<td><strong>$829,757</strong></td>
<td><strong>$846,082</strong></td>
<td><strong>$2,018,794</strong></td>
</tr>
</tbody>
</table>

STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:
- Goal 1: Increase customer focus
• Goal 2: Advance performance based operation

COMMITTEE PROCESS
RTAG: December 17, 2019 for information
RMC: January 8, 2020 for action
Board of Directors: January 30, 2020 for action

RECOMMENDATION
Staff recommends that the RMC forward to the Boards of Directors authorization for the CEO to execute a contract change order with ACI for rail transportation services to include additional staffing for an amount not to exceed $2,018,794 for the period February 1, 2020 to June 30, 2022.

CONTACT
Ray Abraham
Chief Operations Officer
602-652-5054
rabraham@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
January 9, 2020

AGENDA ITEM 8E

SUBJECT
Federal Transit Administration Pass-Through Grant Agreements

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute
Intergovernmental Agreements (IGAs) with the City of Phoenix to allow Valley Metro to
be reimbursed for eligible activities.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro is being provided federal funds through the Federal Transit Administration
(FTA) from four grant programs. The table below summarizes the funding available:

<table>
<thead>
<tr>
<th>Grant</th>
<th>FTA Program</th>
<th>Federal Share</th>
<th>Local Share</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TBD</td>
<td>5307 – Formula</td>
<td>$1,746,108</td>
<td>$436,527</td>
<td>$2,182,635</td>
</tr>
<tr>
<td>TBD</td>
<td>STBGP</td>
<td>$23,619,942</td>
<td>$4,782,239</td>
<td>$28,402,181</td>
</tr>
<tr>
<td>TBD</td>
<td>CMAQ from ALCP</td>
<td>$9,245,331</td>
<td>$558,838</td>
<td>$9,804,169</td>
</tr>
<tr>
<td>TBD</td>
<td>STBGP from ALCP</td>
<td>$5,392,013</td>
<td>$325,922</td>
<td>$5,717,935</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$40,003,394</td>
<td>$6,103,526</td>
<td>$46,106,920</td>
</tr>
</tbody>
</table>

- Funds from the Section 5307 Urbanized Area Formula Program are awarded for
  preventive maintenance.
- Funds from the Surface Transportation Program flexed from the Federal Highways
  Administration are awarded for OMC Expansion, Capitol/I-10 West and LRV
  acquisition.
- Funds from Congestion Mitigation/Air Quality flexed from the Federal Highways
  Administration awarded for Gilbert Road Extension.
- Funds from the Surface Transportation Program flexed from the Federal Highways
  Administration are awarded for Gilbert Road Extension.

The City of Phoenix is the designated recipient for all FTA grant funds for the region.
Valley Metro undertakes projects approved for FTA grant funding, then submits
requests to Phoenix for reimbursement of actual expenses incurred. Phoenix then
executes a drawdown of funds from FTA to pass-through the reimbursement to Valley
Metro.
The pass-through IGAs are required in order for Phoenix to reimburse Valley Metro for eligible expenses.

**COST AND BUDGET**
All expenses are in the approved FY 2019 Adopted Operating and Capital Budget and 5-Year Capital Program. The grant funds will offset expenses, reducing the net cost to the Public Transportation Fund and member agency budgets.

**STRATEGIC PLAN ALIGNMENT**
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:
Goal 2: Advance performance based operation

**COMMITTEE PROCESS**
RTAG: December 17, 2019 for information
RMC: January 8, 2020 for action
Board of Directors: January 30, 2020 for action

**RECOMMENDATION**
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute the IGAs and change order with the City of Phoenix for the listed grants.

**CONTACT**
Paul Hodgins
Chief Financial Officer
602-523-6043
phodgins@valleymetro.org

**ATTACHMENT**
None
Information Summary

DATE
January 9, 2020

AGENDA ITEM 9

SUBJECT
Executive Session

PURPOSE
The Audit and Finance Subcommittee may vote to enter Executive Session for discussion or consultation and for legal advice with the attorney or attorneys of the public body and to consider its position and instruct its attorneys regarding the public body’s position concerning matters listed on the agenda, personnel matters and contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation; all as authorized by A.R.S. Sections 38-431.03 A.1, A.3., and A.4.

The agenda for Executive Session involves discussion and consultation regarding Valley Metro’s internal audit and quality control process.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
The Audit and Finance Subcommittee may vote to enter Executive Session.

CONTACT
Michael Minnaugh
General Counsel
602-262-7433
mminnaugh@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
January 9, 2020

AGENDA ITEM 10

SUBJECT
Executive Session Action Items

PURPOSE
The Audit and Finance Subcommittee may take action related to items discussed as part of Agenda Item 9.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
The Audit and Finance Subcommittee may take action related to the items discussed as part of Agenda Item 9.

CONTACT
Michael Minnaugh
General Counsel
602-262-7433
mminnaugh@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
January 9, 2020

AGENDA ITEM 11

SUBJECT
Future Agenda Items Request and Report on Current Events

PURPOSE
Chair Arredondo-Savage will request future agenda items from members and members may provide a report on current events.

Future Items

<table>
<thead>
<tr>
<th>Item</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE Audit Report</td>
<td>TBD</td>
</tr>
<tr>
<td>o Mechanism to track contract employees</td>
<td></td>
</tr>
<tr>
<td>o Contract employees cost/benefit analysis</td>
<td></td>
</tr>
<tr>
<td>o Board/policy discussion of budget process for FTE's</td>
<td></td>
</tr>
<tr>
<td>o HR evaluation of employee turnover</td>
<td></td>
</tr>
<tr>
<td>Audit Exceptions Update</td>
<td>TBD</td>
</tr>
<tr>
<td>o Management status for overdue/past due items</td>
<td></td>
</tr>
<tr>
<td>External Audits:</td>
<td></td>
</tr>
<tr>
<td>o City of Phoenix Fare Revenue</td>
<td>December 2019/January 2020</td>
</tr>
<tr>
<td>o City of Phoenix Contract Management Risk Assessment</td>
<td>January/February 2020</td>
</tr>
<tr>
<td>o Maricopa County Paratransit</td>
<td>November/December 2019</td>
</tr>
<tr>
<td>Present Comprehensive Annual Financial Reports for acceptance</td>
<td>February 2020</td>
</tr>
<tr>
<td>Key Budget Assumptions update</td>
<td>February 2020</td>
</tr>
<tr>
<td>Professional Development Audit</td>
<td>February 2020</td>
</tr>
<tr>
<td>Enterprise Resource Planning contract award</td>
<td>February 2020</td>
</tr>
<tr>
<td>Present Annual Budgets for information</td>
<td>March 2020</td>
</tr>
<tr>
<td>Hardware/Software Management Audit</td>
<td>March 2020</td>
</tr>
<tr>
<td>Contract Management (Specific) Paratransit</td>
<td>March 2020</td>
</tr>
<tr>
<td>Audit Plan Areas of Concern for future Audit information</td>
<td>March/April 2020</td>
</tr>
<tr>
<td>Present 5-Year Plans</td>
<td>April 2020</td>
</tr>
<tr>
<td>Agency Credit card Audit</td>
<td>April 2020</td>
</tr>
<tr>
<td>Travel Audit</td>
<td>April 2020</td>
</tr>
<tr>
<td>Draft Audit Plan for information</td>
<td>April/May 2020</td>
</tr>
<tr>
<td>Present Annual Budgets and 5-Year Plans for Action</td>
<td>May 2020</td>
</tr>
<tr>
<td>Proposed Audit Plan for FY21</td>
<td>May/June 2020</td>
</tr>
</tbody>
</table>

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