MEETING OF THE
Audit and Finance Subcommittee

Date:
September 12, 2019

Starting Time
12:00 p.m.

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

If you require assistance accessing the meetings on the
10th floor, please go to the 14th floor or call 602.262.7433.
Agenda
September 5, 2019

Audit and Finance Subcommittee
Thursday, September 12, 2019
10th Floor, Lake Powell Conference Room (10A)
101 N. 1st Avenue, 10th Floor
10:00 a.m.

Action Recommended

1. Public Comment

The public will be provided with an opportunity at this time to address the committees on non-agenda items and 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 June 18, 2019 Audit and Finance Subcommittee meeting are presented for approval.

3. Bus Service Contracts Audit

Mary Models, Director, Internal Audit, will present the results of the Bus Service Contracts Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

4. Internal Audit Update

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

5. Internal Audit Exceptions Update

The Internal Audit Exceptions log is presented for information.
6. **Intergovernmental Agreements, Contract Change Orders, Amendments and Awards**

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

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.

8. **Executive Session Action Items**

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

9. **Future Agenda Items**

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

10. **Next Meeting**

The next meeting of the Audit and Finance Subcommittee is **October 10, 2019 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](http://www.valleymetro.org).
DATE
September 5, 2019

SUBJECT
Public Comment

PURPOSE
The public will be provided with an opportunity at this time to address the committees on non-agenda items and 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
Chief Financial Officer
602-262-7433
phodgins@valleymetro.org

ATTACHMENT
None
Minutes

September 5, 2019

AGENDA ITEM 2

Audit and Finance Subcommittee
Tuesday, June 18, 2019
Lake Powell Conference Room
101 N. 1st Avenue, 10th Floor
10:00 a.m.

Meeting Participants
Vice Mayor Eric Orsborn, City of Buckeye, Chair
Mayor Kate Gallego, City of Phoenix
Councilmember Robin Arredondo-Savage, City of Tempe
Vice Mayor Bill Stipp, City of Goodyear
Councilmember Brigette Peterson, Town of Gilbert – by phone

Chair Orsborn called the meeting to order at 12:01 p.m.

1. Public Comment

None.

2. Minutes

REVISED minutes from the May 9, 2019, Audit and Finance Subcommittee meeting presented for approval.

IT WAS MOVED BY COUNCILMEMBER ARREDONDO-SAVAGE, SECONDED BY MAYOR GALLEGRO AND UNANIMOUSLY CARRIED TO APPROVE THE MAY 9, 2019 AFS MINUTES.

3. RPTA Fiscal Year 2020 (FY20) Proposed Operating and Capital Budget and Five-Year Operating Forecast and Capital Program (FY20 through FY24)

Paul Hodgins, Chief Financial Officer, provided a brief overview of the updated changes to the Valley Metro RPTA FY20 Proposed Operating and Capital Budget and Five-year Operating Forecast and Capital Program (FY20 through FY24). The updated budget included the following:

- FY20 Budget Update – Changes from May version
- Uses of Funds: Operating
- Uses of Funds: Capital
Councilmember Arredondo-Savage addressed the professional development and travel budget. She said that justification for the growing budget needs to be made by indicating the number of staff taking advantage of training opportunities.

Mr. Hodgins said that a report to track professional development and training opportunities is being developed and will be shared with AFS on a quarterly basis.

IT WAS MOVED BY MAYOR GALLEGO, SECONDED BY COUNCILMEMBER ARREDONDO-SAVAGE, AND UNANIMOUSLY CARRIED TO APPROVE THE VALLEY METRO RPTA FISCAL YEAR 2020 (FY20) PROPOSED OPERATING AND CAPITAL BUDGET AND FIVE-YEAR OPERATING FORECAST AND CAPITAL PROGRAM (FY20 THROUGH FY24).

4. Valley Metro Rail, Inc. Fiscal Year 2020 (FY20) Proposed Operating and Capital Budget and Five-Year Operating Forecast and Capital Program (FY20 through FY24)

Paul Hodgins, Chief Financial Officer, provided a brief overview of the updated changes to the Valley Metro Rail, Inc. FY20 Proposed Operating and Capital Budget and Five-year Operating Forecast and Capital Program (FY20 through FY24). The updated budget included the following:

- FY20 Budget Update – Changes from May version
- Uses of Funds: Operating
- Uses of Funds: Capital
- Sources of Funds: Operating
- Sources of Funds: Capital
- Employee Development
- Travel Budget – VMR
- Budget Process – FY21

IT WAS MOVED BY COUNCILMEMBER ARREDONDO-SAVAGE, SECONDED BY VICE MAYOR STIPP, AND UNANIMOUSLY CARRIED TO APPROVE THE VALLEY METRO RAIL, INC. FISCAL YEAR 2020 (FY20) PROPOSED OPERATING AND CAPITAL BUDGET AND FIVE-YEAR OPERATING FORECAST AND CAPITAL PROGRAM (FY20 THROUGH FY24).
5. **Fiscal Year 19/20 Audit Plan for Approval**

Mary Modelski, Manager, Internal Audit, provided an overview of the Revised FY19/20 Audit Plan and requested authorization to execute the proposed FY19/20 Audit Plan.

The proposed Audit Plan includes:

- Credit Card Transactions
- Travel expenses
- Professional Development
- Full-Time Employee Additions
- Contract Management (specific)
- OMC Non-Capitalized Rail Parts and Tools Inventory
- Internal Safety and Security Audit Review
- CSD Invoice Processing
- Human Resource Information Management System (HRIS) Implementation
- ERP Implementation
- External Audit(s)

Ms. Modelski explained the processes of her proposed audit plan. She said that the items above the green line will be formal audit reports that will be provided to the AFS for acceptance. The items below the green line are more consulting-type engagements where a memo report will be provided for AFS acceptance and also to provide guidance to management. The credit card and travel continue on this fiscal year plan because there are some outstanding findings. She said recommendation is to have it for three consistent years of no findings to ensure that internal controls are operating effectively. Mr. Hodgins is in the process of updating the Travel and Credit Card policies.

There was discussion about concerns of oversight of acquiring FTEs through contract staff.

Mayor Gallego said that as we look at full-time employee additions, we don’t want to create a system where there is a more significantly oversight of full-time employee additions versus employees who are working effectively full-time through consulting contracts. She asked if this concern is being addressed in the Contract Management process.

Ms. Modelski clarified that the Contract Management process is more aligned with the bus service contracts and ensuring that they are monitoring and managing their KPIs. With the full-time employee contractors, Internal Audit determines whether it is cost effective to have contracted employees or make them full-time employees. These are two separate type audits. Audits are focused on contracts for services or goods received versus focusing on individuals and how they are operating within Valley Metro.
Mayor Gallego said that she just wants to make sure that a system isn’t created where there is push to make full-time additions to be added through contracts. There should be oversight of individuals who are working full-time whether through contracts or directly through Valley Metro.

Councilmember Arredondo-Savage asked how Internal Audit determines which contracts are selected to be audited, specifically vendor contracts. She asked if it is a random decision or if AFS members can make suggestions of which contracts to audit.

Ms. Modelski replied that solicitation information is requested from different departments. Right now Internal Audit is working with CSD and Safety and Security. Also, if there is any specific contracts AFS wants Internal Audit to review. For example, the bus service contract was requested by one of the Transit Directors to look at how Valley Metro was operating that service. Internal Audit will be providing this audit report in August.

Councilmember Arredondo-Savage mentioned fare collection and reduced fares would be good items to audit. Another item to audit would be paratransit contract. These are things that the Board is willing to incorporate into the audit plan.

Ms. Modelski said that the paratransit audit as secondary to the bus services contract audit. This portion was intentionally removed from the current bus services contract because the paratransit has just been renewed as of July 1, 2018 and with the significant issues that arose, Internal Audit would wait until after December 2019 for service to stabilize. She said that it can be added into the second rotation of contract audits.

Vice Mayor Stipp suggested that he and Councilmember Tolmachoff, as the two newest members of the AFS, meet with Ms. Modelski over the summer months to discuss the function of Internal Audit team and basically a general overview of the Internal Audit Department.

**IT WAS MOVED BY COUNCILMEMBER ARREDONDO-SAVAGE, SECONDED BY MAYOR GALLEGRO AND UNANIMOUSLY CARRIED TO AUTHORIZE THE DIRECTOR, INTERNAL AUDIT TO EXECUTE THE REVISED PROPOSED FY19/20 AUDIT PLAN.**

6. **Contract Management Audit**

Ms. Modelski reported that there are six audit findings in this audit that included the following:

- Contract Closeout Documentation. Recommendation due date: August 31, 2019
- Inaccurate General Ledger Coding. Recommendation due date: To be fully implemented with a new Enterprise Resource Planning system.
- Contract Payment Reconciliation and Follow-up Documentation. Recommendation due date: August 31, 2019
- Delegation not documented and Post-Award Sole Source verification. Recommended due date: August 31, 2019
- Accurate Listing of Current Contracts. Recommendation due date: To be fully implemented with a new Enterprise Resource Planning system.
- Contract File Documentation. Recommendation due date: To be fully implemented with a new Enterprise Resource Planning system.

Ms. Modelski said that management had updated their Contract and Procurement manual that was released in 2018. There were additional items that were added to the manual that covered many of the items audited in the first part of this review. She said that these six findings will go into the Audit Exceptions Log until recommendations are met and audit is clean.

Vice Mayor Stipp said that he noticed that most of the findings recommendations were based on the Enterprise Resource Planning (ERP) system implementation. He asked what can be done to remedy these items until the ERP has been implemented.

Mr. Hodgins said that recommendation is to have a contract documentation storage module as electronic storage within the ERP system. Aside of that, there is still a requirement that documentation be maintained and stored and we will be providing training as well as ensure that documents are electronically stored properly with the current technology we have and still looking at a long term solution.

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER ARREDONDO-SAVAGE AND UNANIMOUSLY CARRIED TO ACCEPT THE CONTRACT MANAGEMENT AUDIT.

7. Internal Audit Update

Mary Modelski, Director, Internal Audit, provided an update of actions taken in Internal Audit and discussed the following:

Work in progress:
- Contract Management audit - Awaiting management response
- Bus Service Contracts audit – Underway
- Annual Risk Assessment – Continuing to receive feedback of areas of concern/change
- Audit exceptions – Current status of deficiencies under a separate attachment
Observations:
• Finance – ERP selection process
• Human Resources – HRIS Implementation engaged in standing meeting
• ADOT – Awaiting report to follow-up with Safety & Security on remediation efforts

Councilmember Arredondo-Savage asked what the process is for follow-up when recommendations are made to audit findings.

Ms. Modelski said that when the recommendation date matures is when follow-up takes place for audit finding recommendations.

Councilmember Arredondo-Savage said that the Board needs to address Internal Audit authority to hold management accountable for complying with recommendation due dates.

Mayor Gallego asked for clarification of ADOT’s responsibility versus Valley Metro Safety and Security.

Mr. Smith said that ADOT is mandated by state and federal government to monitor and audit Valley Metro Safety and Security procedures. Valley Metro Internal Audit is not directly responsible for the implementation or audit of Safety and Security procedures. However, Valley Metro management recognizes that Internal Audit plays a role in helping to ensure that Safety and Security are finding shortcomings or gaps before a formal audit takes place. Internal Audit is working with Safety and Security to ensure the procedures are in compliance with ADOT. Valley Metro’s primary responsibility is to ADOT as the designated agency for Safety and Security oversight.

Ms. Modelski said that ADOT is drafting a report of their findings from last year and it will be expected the end of summer. Mr. Smith will receive it and have 30 days to respond and the final report will be provided at the end of this calendar year.

Mayor Gallego suggested that AFS should have a discussion about outstanding audit items.

Mr. Hodgins will put this item on a future agenda and will include Adrian Ruiz, Director, Safety, Security and Quality Assurance to provide a report on the audit findings.

This item was presented for information only.

8. Internal Audit Exceptions Update

Ms. Modelski provided an update of the Audit Exceptions Log.

This item was presented for information only.
9. **Transit Life Cycle Plan – Bus Update**

Mr. Hodgins provided a presentation overview of the Transit Life Cycle Plan – Bus Update to the AFS that included the following:

- Transportation Excise Tax
- Comparison of 20 year totals – actual and forecast
- TLCP Policy Allocations
- TLCP Guiding Principles
- Prop 400 Revenues
- Operating Program Changes
- Improvements Added
- Capital Program Changes
- Fleet Purchases
- Expenditure Summary
- Revenue Summary
- Cash Flow Summary
- Jurisdictional Equity
- Regional PTF Costs
- Jurisdictional Equity Summary by Sub-Region

Next Steps
- Address issues within model
- Finalize changes and improvements
- August committee process for approval

Vice Mayor Stipp asked how Maricopa County figures into the Jurisdictional Equity by region.

Mr. Hodgins explained that expenses within Maricopa County areas do get allocated, mostly to the West Valley Paratransit service area and the Ajo rural route. Any paratransit expenses that are Maricopa County islands within Phoenix do get allocated to Maricopa County jurisdictional equity. He said any county islands within Tempe or Chandler would be allocated to the East Valley costs.

This item was presented for information only.

10. **Transit Life Cycle Plan – Rail Update**

Mr. Hodgins provided a presentation overview of the Transit Life Cycle Plan – Rail Update to the AFS that included the following:

- Transportation Excise Tax
- Comparison of 20 year totals – actual and forecast
• TLCP Policy Allocations
• Capital Project Schedule
• High Capacity Transit Map
• Prop 400 Rail Revenues
• Capital Project Changes
• Capital Funding Changes
• 2019 Corridor Cost Estimates
• 2019 Other Capital Costs
• 2019 Capital Revenues
• 2019 Cash Flow Summary
• Next Steps
  o Finalize cost estimate for Northwest Extension Phase II
  o Review CMAQ programming
  o August committee process for approval

Mr. Smith said that the Rail Update is based on the outcome of the Anti-Light Rail Initiative in August 2019.

11. Intergovernmental Agreements, Contract Change Orders, Amendments and Awards

Paul Hodgins, Chief Financial Officer, provided an update on upcoming intergovernmental agreements, contract awards, amendments and change orders that included the following items:

A. Non-Revenue Vehicle Fuel Purchase
B. Security Orchestration, Automation, and Response Software Contract Award
C. Wayfinding Map Design Services Contract Award
D. Allied Universal Services (AUS) Contract Change Order
E. Employee Benefits Consulting Services Contract Award
F. Rail Transportation Services Contract Change Order
G. Light Rail Vehicle (LRV) Line Filter Choke Overhaul Contract Award
H. Ticket Vending Machine (TVM) and Hand Held Validators (HHV) Hardware and Software Support Contract Award
I. South Central Light Rail Extension/Downtown Hub Construction Manager at Risk Contract Amendment

This was item presented for information only.

12. Future Agenda Items

• ADOT Audit Report
13. **Next Meeting**

The next meeting of the Audit and Finance Subcommittee is August 15, 2019 at 12:00 p.m.

With no further discussion, the meeting adjourned at 10:57 a.m.
DATE  AGENDA ITEM 3
September 5, 2019

SUBJECT
Bus Service Contracts Audit

PURPOSE
Present the results of the Bus Service Contracts Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

BACKGROUND/DISCUSSSION/CONSIDERATION
The Fiscal Year 2018/2019 Internal Audit Plan approved by the AFS on June 14, 2018, included a review of Contract Management. Three vendors provide bus services under Regional Public Transportation Authority (RPTA) contracts were selected for their first internal audit. The objective of the audit was to determine if RPTA awarded the three bus services contracts in accordance with agency policies and is monitoring the performance of the contracts.

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee accept the Bus Service Contracts Audit.

CONTACT
Mary Models
Internal Audit Director
mmodels@valleymetro.org
602-322-4453

ATTACHMENT
Bus Service Contracts Audit
Contract Management
Bus Services Audit
September 2019

VALLEY METRO
Audit Report
Internal Audit

Distribution
Audit and Finance Subcommittee
Scott Smith, Chief Executive Officer
Paul Hodgins, Chief Financial Officer
Raymond Abraham, Chief Operations Officer
Michael Minnaugh, General Counsel
To Scott Smith, Chief Executive Officer:

The purpose of this report is to communicate the results of the Contract Management – Bus Services Audit. A selection of specific contracts and their management are part of Regional Public Transportation Authority’s (RPTA) Fiscal Year 2019/20 Internal Audit Plan.

This report includes the following sections: Objective, Scope, Methodology, Background and Audit Findings/Recommendations.

Based on Internal Audit’s review, this report contains ten recommendations to improve contract management of the three bus service providers. RPTA has contracted with these vendors to provide bus services to the region. The bus contractors and amount spent through April 30, 2019 are:

- Total Ride: $24,506,995
- First Transit: $337,995,103
- Second Generation: $2,812,380

During the course of this audit, individuals throughout RPTA and the three bus contractors assisted by providing information and documentation for Internal Audit’s testing of various aspects of the bus service contract and RPTA monitoring processes. Internal Audit appreciates their assistance.

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

Mary Modelski
Internal Audit Director
August 28, 2019

Performed by:
Vickie Murphy
Senior Internal Auditor
Objective

Determine if RPTA awarded the three bus services contracts in accordance with agency policies and is monitoring the performance of the contracts.

Scope

The review focused on the bus services contracts with Total Ride, First Transit and Second Generation. Internal Audit reviewed the initial procurement practices leading up to the contracts in July 2011, July 2013 and November 2014, respectively, and all contract amendments since that date through April 2019. The timeframe under review was from July 1, 2011 through April 30, 2019 as to review for contracting monitoring since the inception. Financial payments from July 1, 2015 through April 30, 2019 were reviewed and analyzed. Activities and items that were incurred prior to or carried over from this timeframe and either fell into the scope or assisted in completion of the audit objectives were included within the population.

Methodology

This audit focused on the contract management for bus services contracts with Total Ride, First Transit and Second Generation. Documentation was reviewed to determine whether RPTA followed the established procurement processes from the initial request for proposal through all of the contract change orders and whether the contractors have delivered services as required by the contracts. The following RPTA policies, Federal Transit Administration (FTA) regulations and guidance were used as the basis for our review to determine compliance:

- RPTA Purchasing/Procurement policy (v. 06/16/11)
- FTA Circular 4220.1F, Revision 3 (v. 02/2011)
- FTA Circular 4220.1F, Revision 4 (v. 03/2013)
- Joint Internal Procurement Manual (v. 06/25/18)

Internal Audit reviewed Contracts and Procurement files for the initial Request for Proposal and all subsequent change orders to verify that these were done in accordance with the Regional Public Transit Authority Purchasing/Procurement policy (v. 6/16/11) (RPTA P&P) and the Internal Procurement Manual (v. 6/25/18).

Internal Audit reviewed the process for managing each of the contracts and reviewed the contract monitoring forms to determine that the monitoring occurred on an on-going basis; and whether the information monitored determined whether the contractors were in compliance with the contract terms and conditions.

Internal Audit reviewed payment applications for each contractor between July 1, 2015 and April 30, 2019 to determine whether the information in the pay application was properly supported and posted correctly in the RPTA accounting system (Abilia).
To achieve our audit objectives, Internal Audit performed the following audit procedures:

- Reviewed documents for all three contracts to determine compliance with the contract awarding and monitoring, recordkeeping requirements as provided in the FTA Circular 4220.1F, Revision 3 (02/2011) and RPTA Purchasing / Procurement policy, Section V (A) to include:
  - Awarding documentation included:
    - Contract requisitions
    - Solicitation
    - Selection
    - Board Approval
    - City of Phoenix/Arizona Department of Transportation notifications, as applicable
  - Monitoring Change Orders
- Reviewed the contract monitoring forms completed by Bus Operations to determine:
  - Applicable items were monitored
  - Monitoring forms were completed each month
  - Monitoring forms were completely filled out
  - Information on the forms was supported
  - KPIs were tracked
  - Liquidated damages were identified
- Reviewed the Pay Applications to determine if they included:
  - Approval signatures
  - Mathematically correct supporting invoices
  - Detailed support
  - Correct distribution codes
- Reviewed Disadvantage Business Enterprise (DBE) documentation to ensure it was accurately reported to the City of Phoenix and/or the Arizona Department of Transportation

**Background**

**Bus Services Contracts**
RPTA solicited, evaluated and awarded a total of three contracts from July 2011 through November 2014 to vendors for bus services; Total Ride, First Transit, and Second Generation.

**Total Ride**
RPTA released a Request for Proposals (RFP) for transit services in the west valley on September 16, 2010. The service was then being provided by ValuTrans Holdings, LLC and they had been providing RPTA bus service since July 2006 with the implementation of Rural Route 660.

Representatives from the cities of Avondale, Glendale, Tempe, and RPTA evaluated the RFP proposal and based on their review, the panel unanimously recommended to the RPTA Board on January 20, 2011 that a contract be awarded to Total Ride (also known as Total Transit, ValuTrans Holdings, LLC and West Valley Transit).
The contract was for fixed route bus services from the northwest and southwest portion of the Phoenix Metropolitan Area serving the communities of: El Mirage, Glendale, Goodyear, Maricopa County, Phoenix, Sun City, Sun City West, Surprise, Wittman, and the Town of Wickenburg.

Total Ride’s price proposal for the first year of the contract was $2.1 million. The pricing was based on a variable cost component for each route less fare revenues. The contract did not provide for automatic inflation factors. Any increases were to be negotiated.

The contract was initiated in July 2011 for four years with the option to renew up to four more years for a total of eight years. The initial contract was for $2,155,859. The contract was extended and expired in June 2019. There have been 13 change orders and the current total contract value is $26,262,233.

The costs of the bus service and revenues collected for the Total Ride contract since FY2016 are noted on the next page:
## Fixed Route Services (West Valley)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019 Thru May 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTA Formula Grant</td>
<td>$1,164,141</td>
<td>$1,115,121</td>
<td>$1,485,225</td>
<td>$1,016,172</td>
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<tr>
<td>TSR - Gila River Indian Community</td>
<td>932,384</td>
<td>844,154</td>
<td>704,675</td>
<td>-</td>
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<tr>
<td>TSR - Avondale</td>
<td>562,837</td>
<td>573,479</td>
<td>793,817</td>
<td>1,095,998</td>
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<tr>
<td>TSR - Goodyear</td>
<td>116,765</td>
<td>142,602</td>
<td>144,459</td>
<td>149,617</td>
</tr>
<tr>
<td>TSR - Peoria</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>239,741</td>
</tr>
<tr>
<td>TSR - Surprise</td>
<td>92,435</td>
<td>104,435</td>
<td>113,159</td>
<td>121,000</td>
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<tr>
<td>TSR - Tolleson</td>
<td>214,144</td>
<td>300,375</td>
<td>278,368</td>
<td>356,002</td>
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<td>Fixed Route Fare Revenue</td>
<td>634,525</td>
<td>629,803</td>
<td>723,224</td>
<td>421,471</td>
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<tr>
<td>Public Transit Funds</td>
<td>762,326</td>
<td>919,404</td>
<td>1,016,742</td>
<td>487,606</td>
</tr>
</tbody>
</table>

**Total Revenues:** $4,479,588 $4,629,373 $5,259,670 $3,887,607

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019 Thru May 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transit service contractors</td>
<td>$3,827,715</td>
<td>$3,995,066</td>
<td>$4,425,342</td>
<td>$3,185,949</td>
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<tr>
<td>Fuel Costs</td>
<td>398,787</td>
<td>477,432</td>
<td>591,139</td>
<td>477,028</td>
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<td>RPTA Personal Service Costs</td>
<td>90,337</td>
<td>66,595</td>
<td>73,270</td>
<td>(17,624)</td>
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<td>Overhead Allocations</td>
<td>32,464</td>
<td>23,902</td>
<td>24,405</td>
<td>25,232</td>
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<tr>
<td>Contingent liability insurance</td>
<td>4,754</td>
<td>8,417</td>
<td>-</td>
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<tr>
<td>Facility Utilities</td>
<td>7,754</td>
<td>6,609</td>
<td>5,931</td>
<td>-</td>
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<tr>
<td>Facility equipment maintenance and repairs</td>
<td>-</td>
<td>-</td>
<td>1,556</td>
<td>687</td>
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<tr>
<td>Facility Services</td>
<td>-</td>
<td>-</td>
<td>2,000</td>
<td>-</td>
</tr>
<tr>
<td>Data/Telecommunications</td>
<td>-</td>
<td>-</td>
<td>7,875</td>
<td>-</td>
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<td>COP Regional Support Services</td>
<td>74,526</td>
<td>70,079</td>
<td>85,025</td>
<td>106,821</td>
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<tr>
<td>Consultants</td>
<td>5,806</td>
<td>6,493</td>
<td>457</td>
<td>2,941</td>
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<tr>
<td>Maintenance agreements</td>
<td>37,592</td>
<td>38,380</td>
<td>41,741</td>
<td>35,859</td>
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<tr>
<td>Other Expenditures</td>
<td>36</td>
<td>(64,000)</td>
<td>8,805</td>
<td>13,022</td>
</tr>
</tbody>
</table>

**Total Expenditures:** $4,479,472 $4,628,973 $5,259,670 $3,837,850

**Bolded amount = bus contract covered by this audit.**

*Source: Abila system*

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**First Transit**

Prior to the issuance of a Request for Proposal (RFP), Tempe and RPTA staff conducted in-depth discussions and research regarding a unified procurement for fixed-route services. The two agencies worked jointly in developing the RFP’s Scope of Work and evaluation criteria. The RFP was issued on June 21, 2012.

At the end of the evaluation process, the panel reached consensus that the proposal from First Transit to unify RPTA and City of Tempe fixed-route services would be the most advantageous for RPTA and the City of Tempe.

The contract was issued to First Transit (also known as First Group) for local, circulator, LINK and express route bus services for the City of Tempe and the eastern and southeastern areas of the Phoenix metropolitan. The contract serves the communities of: Chandler, Gilbert, Mesa, Phoenix, Scottsdale, and Tempe. The contract was initiated in July 2013 for three years with the option to renew up to seven more years for a total of ten years.
First Transit's price proposal for the first year of the contract was $48.2 million. The pricing was based on a variable cost component plus a fixed-cost component. First Transit's three-year pricing included inflation rates of 3.6% in year two and 2.6% in year three of the contract.

A provision of the price proposal states prior to entering the option year period of the contract, and every third year during the option period (milestone years), pricing is subject to limited negotiations in three areas:

- Salary and benefits adjustments
- Performance incentives and financial values
- Contractor-provided capital equipment

First Transit, Inc. was awarded a contract for an initial three-year base term at a cost of $150,885,082. The contract was extended for a total of seven additional years and currently expires in June 2023. There have been nine change orders and the current total contract value is $640,408,191.

The costs of the bus service and revenues collected for the First Transit contract since FY2016 are noted on the next page:
## Fixed Route Services (East Valley)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019 Thru May 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTA Formula Grant</td>
<td>$6,355,627</td>
<td>$7,957,415</td>
<td>$4,655,165</td>
<td>$1,512,523</td>
</tr>
<tr>
<td>FTA JARC Operating Assistance</td>
<td>185,023</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TSR - Gila River Indian Community</td>
<td>69,002</td>
<td>111,297</td>
<td>130,740</td>
<td>-</td>
</tr>
<tr>
<td>TSR - Chandler</td>
<td>328,956</td>
<td>382,573</td>
<td>1,108,662</td>
<td>1,007,004</td>
</tr>
<tr>
<td>TSR - Mesa</td>
<td>3,245,058</td>
<td>3,915,740</td>
<td>4,521,197</td>
<td>4,352,971</td>
</tr>
<tr>
<td>TSR - Phoenix</td>
<td>3,771,293</td>
<td>5,549,100</td>
<td>7,080,334</td>
<td>7,588,779</td>
</tr>
<tr>
<td>TSR - Scottsdale</td>
<td>233,436</td>
<td>280,667</td>
<td>286,082</td>
<td>95,318</td>
</tr>
<tr>
<td>TSR - Tempe</td>
<td>12,389,777</td>
<td>14,661,246</td>
<td>17,226,718</td>
<td>19,177,998</td>
</tr>
<tr>
<td>Other revenue</td>
<td>192</td>
<td>-</td>
<td>3,490</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Route Fare Revenue</td>
<td>11,758,705</td>
<td>10,319,904</td>
<td>9,344,989</td>
<td>7,299,474</td>
</tr>
<tr>
<td>IRS fuel tax credit</td>
<td>3,413,076</td>
<td>564,563</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Public Transit Funds</td>
<td>21,803,554</td>
<td>27,523,265</td>
<td>30,160,642</td>
<td>16,574,333</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$63,733,699</strong></td>
<td><strong>$71,245,770</strong></td>
<td><strong>$74,518,019</strong></td>
<td><strong>$57,608,400</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019 Thru May 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transit service contractors</td>
<td>$54,083,467</td>
<td>$59,524,730</td>
<td>$64,223,746</td>
<td>$55,362,022</td>
</tr>
<tr>
<td>Fuel Costs</td>
<td>3,194,275</td>
<td>3,722,847</td>
<td>3,873,422</td>
<td>2,614,792</td>
</tr>
<tr>
<td>RPTA Personal Service Costs</td>
<td>794,617</td>
<td>855,994</td>
<td>873,588</td>
<td>847,846</td>
</tr>
<tr>
<td>Overhead Allocations</td>
<td>267,513</td>
<td>299,919</td>
<td>296,171</td>
<td>309,121</td>
</tr>
<tr>
<td>Contingent liability insurance</td>
<td>40,011</td>
<td>71,690</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facility Utilities</td>
<td>913,067</td>
<td>979,808</td>
<td>924,035</td>
<td>595,122</td>
</tr>
<tr>
<td>Facility equipment maintenance and repairs</td>
<td>248,127</td>
<td>303,136</td>
<td>298,410</td>
<td>209,602</td>
</tr>
<tr>
<td>Facility building maintenance and repairs</td>
<td>1,240,936</td>
<td>1,021,343</td>
<td>974,753</td>
<td>651,865</td>
</tr>
<tr>
<td>Facility material and supplies</td>
<td>-</td>
<td>315</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facility Services</td>
<td>871,102</td>
<td>1,012,262</td>
<td>1,144,599</td>
<td>708,624</td>
</tr>
<tr>
<td>Facility other misc expenses</td>
<td>141,985</td>
<td>114,213</td>
<td>109,175</td>
<td>95,680</td>
</tr>
<tr>
<td>COP Regional Support Services</td>
<td>1,126,180</td>
<td>1,077,780</td>
<td>1,055,327</td>
<td>1,348,905</td>
</tr>
<tr>
<td>Consultants</td>
<td>199,636</td>
<td>206,534</td>
<td>215,945</td>
<td>174,808</td>
</tr>
<tr>
<td>Maintenance agreements</td>
<td>528,933</td>
<td>498,323</td>
<td>417,435</td>
<td>388,038</td>
</tr>
<tr>
<td>Other Expenditures</td>
<td>90,761</td>
<td>(57,632)</td>
<td>98,610</td>
<td>206,681</td>
</tr>
<tr>
<td>Equipment</td>
<td>-</td>
<td>7,051</td>
<td>12,805</td>
<td>-</td>
</tr>
<tr>
<td>Site Improvements</td>
<td>-</td>
<td>6,327</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$63,740,608</strong></td>
<td><strong>$69,644,638</strong></td>
<td><strong>$74,518,019</strong></td>
<td><strong>$63,513,105</strong></td>
</tr>
</tbody>
</table>

Bolded amount = bus contract covered by this audit.

*Source: Abila system*

## Second Generation

On June 9, 2014, RPTA issued a joint Request for Proposals (RFP) with the RTA of Pima County to seek the economies of scale and competition that a joint procurement between the two agencies could provide. Proposals were received from Second Generation, Inc./Ajo Transportation and Total Ride.

The contract was for the operation of Route 685 Ajo/Gila Bend Rural Connector Service that operates along State Highway 85 and provides bus service to the communities of Ajo, Gila Bend, Buckeye, Goodyear, Avondale, Tolleson and Phoenix. Route 685 offers five round-trips each
weekday and two round trips on Saturdays. It also provides for the Buckeye short trip which is a circulator that runs weekdays from the Buckeye Community Center to the library.

The evaluation committee was comprised of RPTA and Regional Transportation Authority of Pima County staff. Proposals were evaluated on firm qualifications and experience, understanding/approach to the scope of services, and price. After review and scoring of the proposals, the evaluation committee identified Second Generation as the best value for RPTA. Second Generation (also known as Ajo Transportation) was awarded the contract for transit services for Ajo/Gila Bend areas that began November 1, 2014.

The contract was initiated for five years for $3,076,447 with the option to renew up to three more years for $2,056,805 for a total of eight years and a total of $5,133,252. The contract is in the process of being extended for the additional years, but currently expires in October 2019. There have been two change orders (e.g. Adding reimbursable items, change rates, hour of maintenance, and revenue hours) that did not modify the total contract value of $3,076,447.

Route 685 is funded with a combination of Public Transportation Funds (PTF), Federal Section 5311 (Rural Assistance) funds, Federal Job Access and Reverse Commute funds, and local funds from Maricopa County and Buckeye. The additional short-trip service for the City of Buckeye is funded by Federal Section 5311 (Rural Assistance), and by the City.

The costs of the bus service and revenues collected for the Second Generation contract since FY2016 are noted on the next page:
### Ajo/Gila Bend Connector

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019 Thru May 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTA Rural Operating Assistance</td>
<td>$466,606</td>
<td>$477,837</td>
<td>$514,254</td>
<td>$430,675</td>
</tr>
<tr>
<td>FTA JARC Operating Assistance</td>
<td>14,545</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR - Buckeye</td>
<td>35,423</td>
<td>36,959</td>
<td>37,525</td>
<td>35,010</td>
</tr>
<tr>
<td>Other revenue</td>
<td></td>
<td></td>
<td>732</td>
<td></td>
</tr>
<tr>
<td>Public Transit Funds</td>
<td>263,255</td>
<td>248,122</td>
<td>272,253</td>
<td>128,020</td>
</tr>
<tr>
<td>AZ Lottery Proceeds</td>
<td>23,808</td>
<td>28,663</td>
<td>30,087</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$803,638</td>
<td>$791,581</td>
<td>$854,851</td>
<td>$593,704</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019 Thru May 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transit service contractors</td>
<td>$618,003</td>
<td>$620,014</td>
<td>$649,252</td>
<td>$566,552</td>
</tr>
<tr>
<td>Fuel Costs</td>
<td>88,697</td>
<td>95,474</td>
<td>117,668</td>
<td>108,517</td>
</tr>
<tr>
<td>RPTA Personal Service Costs</td>
<td>66,723</td>
<td>49,679</td>
<td>48,847</td>
<td>48,633</td>
</tr>
<tr>
<td>Overhead Allocations</td>
<td>23,508</td>
<td>17,308</td>
<td>15,947</td>
<td>17,333</td>
</tr>
<tr>
<td>Contingent liability insurance</td>
<td>922</td>
<td>1,911</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facility equipment maintenance and repairs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>687</td>
</tr>
<tr>
<td>Facility building maintenance and repairs</td>
<td>-</td>
<td>-</td>
<td>3,500</td>
<td>-</td>
</tr>
<tr>
<td>Consultants</td>
<td>-</td>
<td>3,781</td>
<td>6,722</td>
<td>12,948</td>
</tr>
<tr>
<td>Maintenance agreements</td>
<td>-</td>
<td>3,124</td>
<td>4,835</td>
<td>4,060</td>
</tr>
<tr>
<td>Other Expenditures</td>
<td>5,478</td>
<td>545</td>
<td>8,079</td>
<td>4,847</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$803,331</td>
<td>$791,836</td>
<td>$854,851</td>
<td>$763,576</td>
</tr>
</tbody>
</table>

**Bolded amount = bus contract covered by this audit.**

*Source: Abila system*
Audit Findings and Recommendations:

Contract File Documentation
The procurement/contract file did contain:

<table>
<thead>
<tr>
<th>Second Generation</th>
<th>Total Ride</th>
<th>First Transit</th>
</tr>
</thead>
<tbody>
<tr>
<td>The initial requisition to initiate the contract</td>
<td>The initial requisition to initiate the contract</td>
<td>Support for change order 8</td>
</tr>
<tr>
<td>Identification of the price analysis and which of the three methods of analysis was chosen for the proposal</td>
<td>Support for change order 12</td>
<td>The independent cost estimate, summary of procurement, memo of negotiation or a technical evaluation for change order 9</td>
</tr>
<tr>
<td>The DBE letter from the Arizona Department of Transportation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These contracts span several policies. The initial contracts are covered by the *Regional Public Transportation Authority Procurement* policy (v. June 16, 2011). Section IV, F Competitive Negotiations (RFP) states:

(a) Initiation of the Competitive Negotiation Process
   “The department initiating the purchase initiates the competitive negotiation proposal process by forwarding a completed Requisition to the Procurement Department describing the scope of services requested, time for completion.”

(d) Consideration of Disadvantaged Business Enterprise Participation
   “The City of Phoenix DBE Administrator will evaluate the proposer’s response to the DBE information requested in the RFP to determine compliance with DBE program requirements for award of contract to the highest ranked responsible proposer.”

(g) Price Analysis
   “When competitive price quotations are sought, the Selection Committee shall conduct a price analysis to determine whether the compensation terms of the proposals offered by the Proposers under consideration are fair and reasonable for the anticipated work or services.”

The current procurement/contract files and the recent change orders are covered by the *Regional Public Transportation Authority and Valley Metro Rail* Internal Procurement Manual (v. June 25, 2018). The manual states:

Section 3.17 Contract Changes subsection (I)
“Minimum documentation required to formalize a contract modification or change order:
1. A properly executed requisition
2. A revised statement of work, scope of service, specification or drawings, as appropriate;
3. The technical evaluation of a Contractor's proposal;
4. A cost analysis or price analysis;
6. An Independent Cost Estimate (ICE)
7. A Contract Change Order form;
8. A Summary of Procurement; if appropriate
9. A Memorandum of Negotiation
10. Board of Directors’ approval (if applicable);
11. Sole Source Justification form (if applicable).”

section 3.15 Contract File Documentation (A) states:

“Contract file documentation shall be sufficient to constitute a complete history of the procurement transaction, including but not limited to, the basis for the procurement and award, the assignment of contract administration (including payment responsibilities) if any, and any subsequent action taken by Contracts and Procurement. The types of documentation addressed in this section are appropriate for all contracts including federally funded contracts. All documents in the official contract file shall comply with VALLEY METRO’s Record Retention Policy and its requirements.”

Procurement policies reflected processes that were inconsistent and procurement files were located in multiple locations. Without a centralized file, the process to ensure all required information was gathered is more difficult.

Failure to establish and communicate clear processes and procedures for contract documentation may result in contracts or change orders issued for the incorrect dollar amount or without approval. Failure to have an established process to verify the accuracy of the documentation to support expenses may increase the risk that RPTA grant-funding reimbursements be noncompliant with regulations.

Recommendations: 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.

Views of Responsible Officials: This finding was also identified in the Contract Management Audit, dated June 2019. 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 administrators 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 following proper procedures.

Responsible Party: Chief Financial Officer

Due Date: August 31, 2019
Change Order process not followed
There were three areas where the change orders did not follow the process as required by policy.

- In May 2016, RPTA processed change order 2 for First Transit in the amount of $4,100,000. The change order was for additional services, engine mid-life rehabilitation, Community Outreach and deferred maintenance. The costs had occurred in FY2014, FY2015, first seven months FY2016 and an estimate for the next five months of FY2016. Of the $4,100,000, $2,817,222.41 of the change order was for services already incurred and paid by RPTA. The contract requisition documented that the change order was funded as part of the contingency funds; therefore, it was not necessary to go to the board for approval. There was no documentation in the file that indicated it was negotiated.

- Change order 9 for First Transit was initially approved by the board for $290 million. The purchasing requisition was submitted for a total of $288,230,266. The budget analyst reviewed the requisition and noted that there was an error in the calculations which resulted in an overstatement of $110,000. Although the budget analyst identified an error in the calculation, it was not addressed and the change order was processed for the amount of the requisition.

- In July 2018, change order 8 for Total Ride was issued to address the move of the Grand Avenue Limited (GAL) from the City of Phoenix to RPTA beginning in April 25, 2018. The contract manager failed to submit the change order in April 2018 when the change actually occurred. In addition, the contract manager submitted the change order for only seven months (April through October) as a gap measure to authorize the contract to operate this service until the board met in the fall. In November 2018, RPTA included the additional costs of this route change to the completion of the contract as part of the bi-annual route change costs and contract amendment request.

The *Regional Public Transportation Authority Procurement* policy (v. June 16, 2011) Section V, B Contract Administration, 4 Change Order and Contract Amendments states:

“All formally bid contracts and contracts awarded through competitive negotiations shall require that the contractor advise RPTA in writing immediately upon notice of any unanticipated condition or contingency that may cause a change in the scope of work or an adjustment in the specified compensation. The written notice shall explain the circumstances giving rise to the unforeseen condition or contingency and shall set forth the proposed adjustment in compensation resulting therein. Such notice shall be given to RPTA prior to the time that contractor performs work or services giving rise to the proposed adjustment in compensation.”

(a) “The department initiating the purchase shall prepare a Change Order/Contract Amendment Requisition on the standardized form issued by the Procurement Department and attach supplemental information as necessary to adequately describe the Contract, the contract modification required, and the
reasons. The request shall be reviewed and approved by the Procurement Specialist and the appropriate Deputy Executive Director. For commodities and non-professional services, Procurement Department staff shall verify the estimated cost of the contract modification and shall transcribe the documentation onto an accepted change order form. The change order shall identify the cost of the contract modification in both dollar amount and percentage increase over the original Contract price. Procurement Department staff shall verify that the change order complies with the terms of the Board Resolution authorizing the original Contract.”

RPTA staff monitoring the bus contracts did not coordinate with or keep the procurement contract manager informed nor involved in the decision making process. Without procurement management involvement, contracts are not updated in a timely manner to ensure all policies are followed and required approvals are obtained.

**Recommendations:** Management should establish a process to ensure regular meetings occur between the purchasing staff and contract monitors to ensure more timely communication, actions and accuracy of contract documentation files.

**Views of Responsible Officials:** We agree with the recommendation outlined within this finding and will take the necessary steps to ensure communication between purchasing staff and the contract management staff is done more frequently.

**Responsible Party:** Contracts Administrator & Bus Service Delivery Manager

**Due Date:** September 3, 2019
Contract Monitoring Process

To monitor the three contracts, RPTA has created a monitoring form that is used to review the contractor. We reviewed the contents of the form and identified areas that were not included in each of the monitoring forms.

<table>
<thead>
<tr>
<th></th>
<th>Second Generation</th>
<th>Total Ride</th>
<th>First Transit After 7/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>DBE Reporting</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Federal Requirements</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Disincentives</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Facility Management</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preventive Maintenance</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Responsibilities</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We then reviewed all forms that should have been completed during the monitoring period. We found missing or incomplete forms. Prior to July 2016, the Maintenance Monitoring form was separate from the Standard Monitoring form and forms were dated. Upon reviewing the First Transit forms with dates, eight forms were competed more than 30 days after the month concluded. The chart below identifies the number of incidents identified.

**Monitoring Forms**

![Monitoring Forms Chart]

We then looked at the content of completed monitoring forms. Issues identified on the forms are listed on the next page.
<table>
<thead>
<tr>
<th>CONTRACTOR</th>
<th>MONITORING TOPIC</th>
<th>ISSUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIRST TRANSIT</td>
<td>Federal Participation</td>
<td>31 of the 32 monitoring forms were marked not applicable</td>
</tr>
<tr>
<td></td>
<td>DBE Requirements</td>
<td>12 of the 64 monitoring forms were marked not applicable.</td>
</tr>
<tr>
<td></td>
<td>Responsibility for legal compliance</td>
<td>28 of the 32 monitoring forms were marked not applicable.</td>
</tr>
<tr>
<td></td>
<td>Ownership of Documents</td>
<td>55 of the 64 monitoring forms were marked not applicable.</td>
</tr>
<tr>
<td></td>
<td>Disincentives/Incentives</td>
<td>These were not tracked until October 2013. 5 of the 32 monitoring</td>
</tr>
<tr>
<td></td>
<td></td>
<td>forms were marked “XXX” and 8 of the 32 of monitoring forms were</td>
</tr>
<tr>
<td></td>
<td></td>
<td>not marked.</td>
</tr>
<tr>
<td></td>
<td>Service Supervision</td>
<td>21 monitoring forms had “Didn’t review supervision levels”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>documented in the comments. 3 of the 21 monitoring forms were</td>
</tr>
<tr>
<td></td>
<td></td>
<td>marked not applicable and 18 of the 21 were marked as non-compliant.</td>
</tr>
<tr>
<td></td>
<td>Training and Professional Development</td>
<td>25 monitoring forms had 0 audits marked in the detailed section</td>
</tr>
<tr>
<td></td>
<td></td>
<td>which identified the “number of audits conducted for training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>evaluation”. 23 of the 25 monitoring forms were marked as</td>
</tr>
<tr>
<td></td>
<td></td>
<td>non-compliant. 2 of the 25 monitoring forms were marked</td>
</tr>
<tr>
<td></td>
<td>Vehicle Cleanliness</td>
<td>8 of the 32 monitoring forms, it was</td>
</tr>
<tr>
<td></td>
<td></td>
<td>documented “No Cleanliness insp. performed”.</td>
</tr>
<tr>
<td></td>
<td>Contractor Continuous Improvement</td>
<td>34 of the 64 monitoring forms documented within the comment section</td>
</tr>
<tr>
<td></td>
<td></td>
<td>that only 4 of the 5 KPIs were met. 18 of the 34 monitoring forms</td>
</tr>
<tr>
<td></td>
<td></td>
<td>were marked compliant. 16 of the 34 monitoring forms were marked</td>
</tr>
<tr>
<td></td>
<td></td>
<td>as non-compliant.</td>
</tr>
<tr>
<td>TOTAL RIDE</td>
<td>Federal Compliance</td>
<td>78 of the 82 monitoring forms were marked not applicable</td>
</tr>
<tr>
<td></td>
<td>Disincentives</td>
<td>43 of the 82 monitoring forms were marked not applicable</td>
</tr>
<tr>
<td></td>
<td>Total Preventable accidents</td>
<td>6 out of 82 monitoring forms were marked not applicable</td>
</tr>
<tr>
<td></td>
<td>Accident Reporting</td>
<td>4 of 82 monitoring forms were marked not applicable even though</td>
</tr>
<tr>
<td></td>
<td></td>
<td>accidents were noted on the KPI’s for that month.</td>
</tr>
<tr>
<td></td>
<td>Percent of Trips on time</td>
<td>The last 5 months were not completed due to a change in systems.</td>
</tr>
</tbody>
</table>

Through June 2018, the contract manager also completed a Key Performance Indicator (KPI’s) spreadsheet to supplement the contract monitoring forms. Six of the 35 KPI spreadsheets had revenue miles noted that did not match the revenue miles reported.
The Regional Public Transportation Authority Procurement policy (v. June 16, 2016) Section V, B Contract Administration, 1 General, states:

"The Project Manager shall be responsible for monitoring and reviewing the project in order to determine whether contract terms and conditions, including deliverables, are being met shall endeavor to resolve any problems concerning adherence to terms and conditions of the contract. The Procurement Specialist shall be responsible for resolving complex contract issues, including but not limited to performance, delivery dates quality assurance issues, and breach of contract terms and conditions."

The Regional Public Transportation Authority and Valley Metro Rail Internal Procurement Manual (v June 25, 2018) section 3.3 Project Manager Responsibility’s states:

"The Project Manager is responsible to oversee the contractor’s performance throughout the duration of the contract by ensuring performance in accordance with specific tasks, milestones, and review procedures stipulated in the contract. It is also the Project Manager’s responsibility to oversee the contractor’s performance through completion of work. The Project Manager may initiate review by other VALLEY METRO staff when deemed appropriate."

RPTA staff complete the monitoring forms throughout the month. The forms are saved on the network. There is no second review for consistency and completeness. Management reported during our audit period, the file server crashed resulting in some of the lost monitoring forms.

The monitoring forms document the contractor’s compliance with the contract and federal regulations. Incomplete or inaccurate forms do not provide an accurate picture of compliance. Failure to have an established process to verify the accuracy of the documentation to support expenses may increase the risk that RPTA grant-funding reimbursements be noncompliant with regulations.

Recommendations: Management should revise the monitoring forms to clarify monthly and annual monitoring items and separate out the maintenance monitoring items. In addition, management should establish an oversight process to ensure the reports are completed on time, accurately and provide training to staff as to attributes to be reviewed.
Views of Responsible Officials: We agree with the recommendations outlined within this finding. Contract Monitoring Reports have been modified to include the following:

1. Separate reports have been developed for monthly contract deliverables and annual contract deliverables.
2. Separate reports have been developed to track operations related contract deliverables versus maintenance related contract deliverables.
3. Program Supervisors and/or Coordinators responsible for completing these reports will be trained on the proper way to document each item listed in the report and notify management of any deficiencies.
4. All reports must be submitted to the Bus Service Delivery Manager no later than the 20th of the following month in which the activity was monitored.
5. A letter will be sent to contractors listed in this finding alerting them of the deficiency noted. The letter will also outline the desired outcome for any deficiency and a methodology to report any issues that prevents them from submitting the appropriate documentation to support the contract deliverable.

Responsible Party: Bus Service Delivery Manager

Due Date: December 2, 2019
Second Generation Contract Non-compliance
Based on review of 20 monitoring forms completed for Second Generation, the contract manager identified “non-compliant” on these specific monitoring attributes. The following table identifies the number of instances, the monitoring attribute and contract requirement:

<table>
<thead>
<tr>
<th>No. of instances</th>
<th>Monitoring attribute</th>
<th>Contract Requirement – Attachment A requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Annual background checks</td>
<td>“Any personnel involved in fare processing at any level shall undergo, prior to hiring, a background check and be bonded to ensure reliability. The background check shall be updated annually and be used to determine employability.”</td>
</tr>
<tr>
<td>14</td>
<td>Commercial Driver’s License (CDL)</td>
<td>“All drivers must have at the minimum a valid CDL; class C, with a P endorsement. At a minimum the training program should be forty (40) hours, of which at least twenty (20) hours must be individual behind-the-wheel, (excluding CDL certifications).&quot;</td>
</tr>
</tbody>
</table>
| 17               | Safety Plan                              | “The CONTRACTOR shall be responsible for ensuring the safety of passenger, employees, and assets. The CONTRACTOR shall be responsible for the following:  
• Have available a current System Safety Program Plan" |
| 15               | Security Plan                            | “The protection of RPTA and RTA assets is of most importance. Therefore, the following shall be in place:  
• System Security Plan” |
| 19               | Secured Facility                         | “Fenced area with functional surveillance system; including, but not limited to an appropriate number of cameras that will provide adequate coverage for RPTA and RTA vehicles, and sufficient record ability.” |

Although the contract requires all drivers have a CDL license, the buses that currently operate on the Buckeye Route do not require a CDL license based on Arizona state law. We were unable to verify that the drivers without CDL’s only drove the Buckeye Route.

In addition, we noted out of the five years tested, Second Generation only met the 50% of the employee pool drug-testing requirement for one year.

Second Generation contract, section 1.27 states:
“Ensure that employees comply with Federal Transit Administration (FTA) antidrug rules for testing including: pre-employment, reasonable cause, return to duty, post accident, and random. Furthermore, 50 percent of safety sensitive employees must be randomly tested on an annual basis. Compliance must conform to 49 CFR Part 40.”

There has been turnover with the RPTA staff responsible for monitoring this contract. The contractor is physically located in Ajo Arizona and RPTA staff have not consistently visited this location to monitor the contract requirements nor noted on the monitoring form why the attributes no longer required monitoring.
Failure to have an established process to verify the accuracy of the documentation to support expenses may increase the risk that RPTA grant-funding reimbursements be noncompliant with regulations.

**Recommendations:** Management should establish a process for monitoring the contract, which includes documenting visits to the contractor’s location and the enforcement actions taken to ensure compliance with the contract requirements.

**Views of Responsible Officials:** We agree with the recommendations outlined within this finding. Management has taken the steps to ensure the Program Coordinator assigned to this contract conducts a site visit to the Ajo Transportation bus depot on a monthly basis. In addition, a letter will be sent to this contractor alerting them of the deficiencies noted. The letter will also outline the steps that are required to address each deficiency with a deadline associated with each item to meet contract requirements.

In regards to the Commercial Driver’s License finding, we will amend the contract to waive this requirement for services operated in the Buckeye short trips. The vehicles used to transport passengers on this route do not require the operator to have a CDL. A class D driver’s license is all that is required for this size and type of vehicle operated on this route only.

**Responsible Party:** Bus Service Delivery Manager

**Due Date:** December 2, 2019
Pay Application Approval & Timing

We tested 50 pay applications for Total Ride and Second Generation and 52 pay applications for First Transit. We identified:

- Payments were made in excess of 30 days from receipt of the invoice.
- The Chief Operations Officer delegated signature authority to the Operations Manager, which resulted in the Operations Manager signing the document twice.
- One payment to Total Ride was incorrect. The cents were left off. Total Ride brought it to RPTA’s attention and it was corrected in the next payment.
- The Chief Financial Officer did not sign off on Finance reviews.

The chart below provides the number of specific incidents identified:

![Pay Applications Chart]

The process for approving a pay application is noted below.
The First Transit and Second Generation contracts both state:

“Billing and Payment

- Under this Contract, RPTA will pay for satisfactory and complete performance of work at the rate(s) specified in the Price Proposal Schedule..., with no additional charges for overhead, benefits, local travel or administrative support.............
- Time for Review and Approval. RPTA shall review, approve and make payment to the CONTRACTOR within thirty days (30) days after the receipt of an approved Progress Billing that satisfies the requirements of this Agreement........”

Payment review and approval is delegated to multiple individuals and departments. Clearly identified responsibilities for what portion of the review each individual is accountable for does not appear to be documented.

Without clearly identified roles of areas of responsibility for pay application review and approval, payments may be authorized inefficiently and/or incorrectly.

Recommendations: Management should refine the pay application review and approval process in cooperation with Finance to increase efficiency and ensure authorized approval.

Views of Responsible Officials: We agree with the recommendations outlined within this recommendation. Management will take steps to revise the pay application review and approval process. Management will make every effort to make payment to the contractor within thirty (30) days after the receipt of an invoice.

Accounts payable staff will be re-trained to review pay applications for proper signatures and ensure that all required signatures have been obtained prior to paying the invoice.

Responsible Party: Bus Service Delivery Manager, Chief Financial Officer, Operations Manager, Support & Analysis

Due Date: December 2, 2019
Managing Contract Costs
RPTA reimburse the bus contractor’s using pay applications. Pay applications capture the original contract amount, total change orders and current contract value. It also identifies all previous payments made on the contract and the amount of the current payment. RPTA’s payments cover three categories: 1) revenue miles or hours, 2) any additional contract provisions, and 3) additional items that RPTA has previously agreed to reimburse the contractor.

Although RPTA is capturing all the cost of the contracts, they are not consistently capturing the types of costs. Costs associated with engine mid-life repairs and reimbursements for miscellaneous items are not a cost for the contractors providing bus services. The contract costs are not accurately being reported because the total payment amount, including additional provisions and items, is subtracted from the contract value.

The manner in which reimbursements are recorded in RPTA’s accounting records does not accurately reflect the cost of bus revenue miles or hours. We identified reimbursements for items that were not part of the contract and were incorrectly recorded under the activity code 7000, “Transit Service Contracts”. These items included:

- Diesel Exhaust Fluid Additive (DEF) – the new buses purchased for Second Generation and Total Ride require an additive. Since the cost of this additive was not anticipated by the contractor, RPTA appears to have agreed to reimburse the contractor for the costs. These reimbursements were charged in Abila to Transit Service Contract (7000) rather than Vehicle Parts and Supplies (code 7010).
- Data Cable – RPTA reimbursed Total Ride for the installation of a data cable necessary for RPTA to access the VMS system. This reimbursement was charged to Transit Service Contract (7000) rather than Data/Telecommunications cost (code 7116).
- Hubner Articulated Joint Software Kits – Interface software was purchased for the Mesa and Tempe facilities. RPTA reimbursed First Transit for the software. These reimbursements were charged in Abila to Transit Service Contract (7000) rather than Data/Telecommunications cost (code 7116).
- Reflective Logos – RPTA reimbursed Total Ride for Signs with the reflective Valley Metro logo. These reimbursements were charged in Abila to Transit Service Contract (7000) rather than Signage (code 7510)
- Towing – RPTA reimbursed Second Generation six times for the towing costs of old buses that were replaced. These reimbursements were charged in Abila to Transit Service Contract (7000) rather than Vehicle Parts and Supplies (code 7010)
- Fuel – On November 1, 2017, First Transit fueled five buses at a local gas station. RPTA reimbursed First Transit for this fuel. These reimbursements were charged in Abila to Transit Service Contract (7000) rather than Fuel (code 720X).
- Air Show – RPTA reimbursed Second Generation twice for bus services associated with the Buckeye Air Shows (March 2017 and February 2018). Community Service performed by Total Ride and First Transit were recorded to Community Outreach projects (6020), but these costs were recorded to the Gila Bend project (2027).
In addition, we identified four instances where First Transit reimbursed RPTA for repairs to the Greenfield and Tempe facilities. The reimbursement for repairs to the facilities was reduced from the monthly amount owed to First Transit. To comply with Generally Accepted Accounting Principles (GAAP), reimbursements for costs should either be recorded as revenue or abate the original costs.

There were five instances where RPTA did not reclassify preventive maintenance to the preventive maintenance subclass because the amount of federal fund had been expended. By not reclassifying all preventive maintenance costs, the accounting records do not reflect the total cost associated with preventive maintenance.

Total Ride’s contract is based on revenue miles less cash collected. To ensure that Total Ride and First Transit are comparable and recorded in accordance with GAAP, the amount of cash collection is adjusted in the Total Ride project code to increase costs and recognize revenue. The contract with Second Generation is similar to Total Ride, where the amount paid is less the amount of cash received. Unlike Total Ride, accounting entries are not made to recognize increased cost and revenue. The financial records were understated by the amount of cash collected.

In addition to cash received, Total Ride receives payments from the City of Phoenix for monthly passes or prepaid fares. Each month the City of Phoenix calculates how much money should be distributed to each route. First Transit fares come directly to RPTA, but Total Ride fares go to Total Ride. After Total Ride collects the fares, the amount of monthly payments are reduced by the fares collected by Total Ride. RPTA receives the money from the City of Phoenix within 30 days. Total Ride had four instances where the reimbursement was in excess of 90 days before RPTA was able to recognize the reduction in contract fees. During this timeframe, the fee revenue for this route is understated.

The City of Avondale printed 5,000 tickets for free rides. There was 23 times that RPTA reimbursed Total Ride for free ride vouchers for a total of $274. Since their contract is net of cash collections, once RPTA paid Total Ride for the vouchers the same amount should have been reduced from the contract fees. As a result, RPTA overpaid Total Ride by $274.

GAAP requires integrity of the information in your accounting system and any systems (e.g., paper or electronic) that support the accounting records. To ensure accurate information, expense should be recorded in the appropriate account, applying the correct description or code, and entering the correct amount.

RPTA staff recognize that the accounting system is antiquated and cannot capture all transactions in a manner that allows for easy summarization so they rely on the paper pay application to track costs. The current pay application, does not distinguish between contract and non-contract costs.

By not manually tracking the difference between contract and non-contract costs, RPTA is overstating the cost of the bus service contracts. The accounting system does provide for a
breakdown by project and activity codes. By not tracking costs properly in the current system, any future enterprise system conversion will be more difficult to define and convert to.

**Recommendations:** Management should review the process expenses are posted to determine a structure that allows for categorization of costs that best represents the expense incurred.

**Views of Responsible Officials:** We agree with the recommendations outlined within this recommendation. Management will review the process for categorization of costs and will work with Finance to revise as directed. Finance and Operations will review the categorization of contract expenses to ensure that financial reporting meets agency needs.

**Responsible Party:** Bus Service Delivery Manager, Chief Financial Officer, Operations Manager, Support & Analysis

**Due Date:** December 2, 2019
**Invoice Support**
Each month, the bus contractors submit an invoice(s) and supporting documentation for the invoice(s). For each contractor, there were exceptions found with the supporting documentation provided.

**Second Generation**
An invoice is broken down by route, identifying the revenue hours and the rate for the routes. It lists the cash collected by each route. It then lists other items that should be reimbursed (DEF additive and drug testing). The bottom of the invoice lists: the amount spent on salaries, insurance premiums, and preventive maintenance. The invoice has the following items attached:

- Revenue Hours spreadsheet for each route.
- Revenue Miles spreadsheets for each route.
- Cash deposit slips.
- DEF additive spreadsheet.
- Drug testing invoices.

There is no support justifying the salaries or insurance premiums. Prior to February 2018, there was a list identifying the preventive maintenance performed for all invoices except two. After the February 2018 invoice date, no documentation was provided to support preventive maintenance. In addition, there is evidence to reconcile cash deposited to cash received.

During our testing, we also identified:

- Three instances where support for 685 route hours was not attached.
- One instance where the support was not accurate as the dates did not align with the days of the month that should have been billed.
- Five instances where the support for the Buckeye route was not attached.
- One instance where the support for DEF additive was not attached.
- Four instances where the deposit slips for the cash deposit did not support the number reported on the invoice.
- Two instances where the owner’s salary does not appear to be correct since it was the same dollar amount as the insurance premium and higher than what had been reported on previous and subsequent invoices.
- Nine instances where the preventive maintenance spreadsheet did not reconcile to the totals on the invoice.

The Second Generation Contract, section 1.42.2, Billing and Payment states:

“CONTRACTOR shall submit one (1) invoice containing a monthly fixed cost and a variable cost, which is determined by the actual number of revenue hours performed, and less revenues. Invoice must be submitted to RPTA by the 10th day of the month following the period in which the services were performed and must contain: date, contract number, revenue miles, revenue hours, total miles, total hours, missed miles,
incentives and/or disincentives as applicable, preventive maintenance expenses, supporting documentation, and invoice amount. Mileage and hours information needs to be detailed separately by weekday, Saturday and Sunday/Holiday service levels. Invoice shall be submitted free of mathematical errors and/or missing supporting documentation.”

**Total Ride**
An invoice is submitted for each route. On the Glendale Express invoice, a chart is stamped to identify the preventive maintenance that has been spent for all routes. Each route’s invoice has the following support attached:

- Summary form, listing: revenue miles, the rate, and reductions for cash collection and any disincentives that apply per route.
- Cash spreadsheet.
- Cash reconciliation (after October 2017)
- Copies of the City of Phoenix checks received.
- Community Outreach email requests.

Documentation to support hours spent on the community outreach or preventive maintenance is not attached to the invoice. However, a preventive maintenance spreadsheet is sent to the Contract Manager separately for their records.

For engine rebuild invoices, there is a copy of the RPTA authorization form, a printout from Total Rides maintenance system and the invoice from the third-party repair company.

During our testing, we identified:

- Two instances where the community outreach payments had no support attached.
- One instance where the Glendale Express route invoice did not identify preventive maintenance but a preventive maintenance charge was allocated on the payment application.
- Two invoices where copies of payments received from the City of Phoenix was not attached.
- One invoice where the support for the South Zoom route was not attached.
- One engine rebuild invoice did not have the authorization to proceed attached.
- Two preventive maintenance spreadsheets were not retained by the Contract Manager to support the monthly report.
- One preventive maintenance spreadsheet did not match the amount reported on the Glendale Express route invoice.

The Total Ride contract section 1.26, Data Gathering and Reporting Requirements, states:

“...The CONTRACTOR shall provide all information and reports as required and will permit access to books, records, accounts, other sources of information, and facilities as may be requested by RPTA. Where or when any information is required, or is in the
exclusive possession of another who fails or refuses to furnish this information, the CONTRACTOR shall so certify to RPTA, or the Federal Transit Administration (FTA), as appropriate, and shall set forth what efforts it has made to obtain the information. All data gathering and reporting shall conform to RPTA and FTA requirements.”

First Transit
An invoice is submitted by each route. The invoice is supported by:

- Revenue mile spreadsheet, listing: scheduled, missed, revenue, non-revenue and platform miles.
- Preventive maintenance spreadsheet
- List of journal entries for part usage.
- Invoices for DBE, some of which are listed on preventive maintenance spreadsheet.

The Community Outreach has separate invoices for outreach type (e.g., Mesa outreach, Tempe outreach, Bus Bridge, and Special Events). Each invoice for Community Outreach is supported by spreadsheet summaries and drivers’ reports for each event type.

During our testing, we identified:

- One instance where the detailed revenue mile spreadsheet was not attached.
- One instance where the detailed revenue miles spreadsheet did not support the invoice.
- One invoice was not mathematically correct.
- Six instances where the Preventive Maintenance spreadsheet was incorrectly calculated or the numbers were transposed.
- Ten instances where Community Outreach support documentation did not agree to the invoice amount.
- Eighty-six instances where individual dollar amounts on the Preventive Maintenance spreadsheets were not supported by the detailed invoices attached.
- Four instances where First Transit corrected the revenue miles on subsequent invoices.

The First Transit contract section 1.4.2 Billing and Payment, subsection 1.4.2.1 states:

“Under this Contract, RPTA will pay for satisfactory and complete performance of work at the rate(s) specified in the Price Proposal Schedule (Attachment 3.1 B), with no additional charges for overhead, benefits, local travel or administrative support. CONTRACTOR shall be paid on a monthly basis in arrears for services provided during the previous month. CONTRACTOR shall submit one (1) invoice containing a monthly fixed cost and a variable cost, which is determined by the actual number of revenue miles performed, and less performance damages. Invoice must be submitted to RPTA by the 10th day of the month following the period in which the services were performed and must contain: date, contract number, revenue miles, revenue hours, total miles, total hours, missed miles, incentives and/ or disincentives as applicable, preventive maintenance expenses, supporting documentation, and invoice amount. Mileage and hours information needs to be detailed separately by weekday, Saturday and Sunday/Holiday service levels. Invoice
shall be submitted free of mathematical errors and/or missing supporting documentation. Upon finding of an error and/or missing documentation, RPTA shall return the invoice to CONTRACTOR. CONTRACTOR shall promptly resubmit the revised invoice to the RPTA. Failure to identify an error does not waive any of the RPTA’s rights. Invoices shall be submitted as directed by RPTA.”

Bus Contract Monitors were more focused on the performance of the bus contracts rather than the financial aspects which included invoices and support documentation. Compliance monitoring should include all aspects of the contract.

Failure to have an established process to verify the accuracy of the documentation to support expenses may increase the risk that RPTA grant-funding reimbursements be noncompliant with regulations.

**Recommendations:** Management should work with contractors to ensure appropriate support is provided with the invoices and accurately reflect the cost incurred and posted on the pay applications.

**Views of Responsible Officials:** We agree with the recommendation outlined within this finding and will take the necessary steps to ensure appropriate support is provided with the invoices from the three (3) bus service providers. A revised process has already been established that provides supporting documentation verifying preventive maintenance costs with First Transit. A similar report will also be established with the other two contractors by the proposed deadline.

**Responsible Party:** Bus Service Delivery Manager & Operations Manager, Support & Analysis

**Due Date:** December 2, 2019
Federal Monitoring
The three bus contracts are partially funded by federal dollars. As such, RPTA is responsible for ensuring that the contract activity and associated costs comply with federal rules and regulations. We identified three areas where federal regulations were not properly monitored.

Change Orders
Nine of the change orders for First Transit and two from Second Generation did not include documentation that clearly identified whether the change order was in the original scope of work and allowable for federal funding reimbursement.

Disadvantaged Business Enterprise (DBE)
When a contract is issued that involves federal support, RPTA notifies the City of Phoenix or Arizona Department of Transportation (ADOT) to determine the DBE requirements for the bus service contractors. Bus service contractors are required to report payments received. Additionally, ADOT, requires RPTA to report DBE vendors to whom we have made payments.

The following table identifies the number of pay applications we reviewed; the number of payments that matched the DBE system; the number that were reported, payments that matched City of Phoenix DBE system and those payments not reported to ADOT.

<table>
<thead>
<tr>
<th></th>
<th>Second Generation</th>
<th>Total Ride</th>
<th>First Transit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications Reviewed</td>
<td>45</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td>Records matched</td>
<td>0</td>
<td>11</td>
<td>39</td>
</tr>
<tr>
<td>RPTA reported to ADOT</td>
<td>45</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Payments did not match</td>
<td>0</td>
<td>35</td>
<td>8</td>
</tr>
<tr>
<td>Not Reported to ADOT</td>
<td>45</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Red = out of compliance

Preventive Maintenance
Since RPTA uses federal funds for preventive maintenance, RPTA is responsible for ensuring the amount charged to preventive maintenance is accurate. The Contract Monitor did not verify the amount of preventive maintenance performed by the three contractors. We identified the following issues through the documentation attached:

- First Transit preventive maintenance spreadsheet was not supported.
- Second Generation Preventive Maintenance spreadsheet was not provided after February 2018.

Under RPTA’s grant agreements with the City of Phoenix, RPTA is required to provide detailed support for all federal expenditures. Under RPTA’s grant agreements with Arizona Department of Transportation, RPTA is required to review documentation supporting federal expenditures to ensure they meet the requirements for reimbursement. Under both agreements, RPTA is required to comply with federal regulations.
Federal Regulations (CFR) Title 49 Part 26 Subpart A- Section 26.11 required recipients to transmit the Uniform Report of DBE Awards or Commitments and Payments twice a year.

Federal Circular 4220.1F states:

“... In general, FTA expects each recipient to comply with the following procedures:

(1) Approval Requirements. FTA expects the recipient to have cost justifications supporting each change order it may issue. FTA also expects the recipient’s authorized official to approve any proposed change order before it is issued.

(2) Cost Restrictions. To be eligible for FTA assistance under the recipient’s grant or cooperative agreement, the cost of the change, modification, change order, or constructive change must be allowable, allocable, within the scope of its grant or cooperative agreement, and reasonable for the completion of project scope.”

Federal Regulations (CFR) Title 2 Part 200 Subpart D, Section 200.302 Financial Management (a) states:

“Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state’s own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.”

Section (b)(3) further states:

“Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.”

Contracts and Procurement did not have a reconciliation process established for matching vendor reported contract payments in DBE systems to RPTA payment records, nor was a process established to document any follow-up actions taken.

Bus Contract Monitors were more focused on the performance of the bus contracts rather than the financial aspects which included invoices and support documentation. Compliance monitoring should include all aspects of the contract.

Failure to have an established process to verify the accuracy of the documentation to support expenses may increase the risk that RPTA grant-funding reimbursements be noncompliant with regulations.

**Recommendations:** Management should establish a reconciliation process for matching vendor reported contract payments to the RPTA payment records. Additionally, the process should
include documentation of follow-up actions taken with the vendor and the City of Phoenix or Arizona Department of Transportation, as applicable.

**Views of Responsible Officials:** We agree with the recommendations outlined within this recommendation. Management will take steps with the three (3) bus service contractors to ensure appropriate support is provided. Steps will also be taken with the contractors to ensure they properly report payments in the City of Phoenix DBE system. In regards to the rural route contract, there was a misunderstanding of the reporting requirements for that contractor (Ajo). They were never directed to report their DBE expenses to the DBE website. We will work with this contractor to provide access to the DBE website and make sure they report their DBE paid expenses to that site each month.

Valley Metro and its vendors report payments to the City of Phoenix as required by the Federal Transit Administration. Valley Metro’s reporting is based on the actual payments made to vendors. While there have been no issues with any previous FTA Triennial Review related to reporting payments, we agree that regular verification and reconciliation 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.

**Responsible Party:** Bus Service Delivery Manager & Operations Manager, Support & Analysis

**Due Date:** December 2, 2019
State of Good Repair
As a provision in the contract with First Transit, First Transit is responsible for preventive maintenance. If First Transit performs the required preventive maintenance, RPTA will reimburse First Transit for the midlife rehabilitation of buses (e.g., engines, transmissions, etc.). Although the contract does not specifically provide for midlife rehabilitations, RPTA has also been reimbursing Total Ride for midlife rehabilitation as long as preventive maintenance is performed. These midlife rehabilitations qualify for State of Good Repair under the federal grant program.

Initially RPTA was reimbursing for the full cost of the midlife rehabilitation. In July 2017, RPTA determined that part of the midlife rehabilitation contains components that were part of the preventive maintenance program. RPTA calls these components “consumables”. At that point, RPTA notified First Transit that they will no longer be reimbursed for the consumable items.

We reviewed 234 midlife rehabilitation reimbursements made to First Transit and 11 midlife rehabilitation reimbursements made to Total Ride. The 245 midlife rehabilitations reimbursements were supported by an invoice, an authorization form, a printout from contractor’s system showing the maintenance performed, and the invoice from the third party that did the repair. We identified the following concerns:

- One midlife rehabilitation did not have the third party invoice; it was paid based on a First Transit maintenance system’s documentation.
- Two midlife rehabilitations were paid based on the third party estimate not the final third party invoice.
- For 43 midlife rehabilitation repair invoices, the itemized consumables did not support the amount reduced on the invoice.
- Two of the midlife rehabilitation authorization forms stated mileage for the “previous” procedure did not agree with the documentation for the original repair.

Since the State of Good Repair is paid for with federal dollars, RPTA must ensure that the midlife rehabilitations are properly supported.

Federal Regulations (CFR) Title 2 Part 200 Subpart D, Section 200.302 Financial Management Section (b)(3) states:

“Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.”

The review of engine rebuilds were done by a staff that had expertise in bus maintenance but not reviewed by management or the Contract Monitors. By not ensuring the information on the invoices, are accurate and properly documented can result in un-supported numbers.
Failure to have an established process to verify the accuracy of the documentation to support expenses may increase the risk that RPTA grant-funding reimbursements be noncompliant with regulations.

**Recommendations:** Management should establish a process to identify what consumables are removed from the midlife rehabilitation and establish a review process to reconcile the third party invoices to contractor’s invoice to ensure the payments are accurate.

**Views of Responsible Officials:** We agree with the recommendations outlined within this finding. A revised process has been established that outlines the supporting documentation requirements. In addition, a secondary maintenance staff member (Quality Assurance Program Coordinator) will review all supporting documentation and double check the cost of all consumables that should be deducted from the invoices. The Fleet Supervisor responsible for this task will underline all consumables to ensure they can be identified when they are electronically scanned. Previously, these items were highlighted and we believe the items were not visible on the scanned copies that were submitted for this audit.

**Responsible Party:** Bus Service Delivery Manager

**Due Date:** December 2, 2019
Contract Obligations
Detailed review of the bus contractors pay applications showed payment for items that were reimbursed, but not identified as part the contract, change order(s) or noted within the Contract Monitors files. Items reimbursed to the bus contractors included:

<table>
<thead>
<tr>
<th>Second Generation</th>
<th>Total Ride</th>
<th>First Transit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DEF fluids</td>
<td>Software</td>
</tr>
<tr>
<td></td>
<td>$6,811.93</td>
<td>$4,214.40</td>
</tr>
<tr>
<td></td>
<td>Software</td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>Air show service</td>
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<tr>
<td></td>
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<td></td>
<td>DEF fluids</td>
<td>Midlife Rehabilitation</td>
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<tr>
<td></td>
<td>$2,616.42</td>
<td>$267,697</td>
</tr>
<tr>
<td></td>
<td>Data cable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$674.02</td>
<td></td>
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</tbody>
</table>

Starting July 2016, First Transit ceased receiving incentives and RPTA stopped charging disincentives. Evidence to support why these actions ceased in the form of a modification to the contract were not found to exist in the form of a revised contract, change order or memo between RPTA and the contractors in the Contract Monitors file.

Section 2.21.1 (SG), section 4.22 (TR) and section 18 (FT) states:
“No prior, current, or post-award verbal conversations or agreement(s) with any officer, agent, or employee of RPTA shall affect or modify any terms or obligations of this RFP or any contract that may result from this procurement. Oral explanations or instructions will not be binding.”

Total Ride’s contract Section 1.8 states:
“The CONTRACTOR is responsible for the maintenance, administration, and upkeep of equipment and software used for this service.”

First Transit contract Section 5.1 states:
“Performance indicators are industry standard performance metrics developed by RPTA using historical data to measure the CONTRACTOR’s performance. To encourage and ensure CONTRACTOR performance to the requirements in this document, performance incentives shall be monitored, evaluated, and awarded monthly based upon the CONTRACTOR’s performance in specific service functions as outlined in the sections below. Performance incentives are activity specific and shall have both positive and negative implications. All positive performance standards and liquidated damages shall be strictly enforced by the RPTA. Any exceptions or waivers of either shall require approval of the RPTA project manager and RPTA’s contracting officer. All performance specifications must be strictly adhered to by the CONTRACTOR in order to meet the service standards and expectations of RPTA, its member cities and the public it serves.”

It appears RPTA executed verbal agreements with the contractors, as no written evidence to support such changes could be located. Lack of formalized documentation supporting agreed upon changes to the contract by all parties could lead to enforcement options and unanticipated costs potentially in the future.
**Recommendations:** Management should establish a process to document modifications to the contract agreed upon by both parties; file such agreements within the contract file; and, initiate a change order when the amounts are necessary.

**Views of Responsible Officials:** We agree with the recommendations noted within this finding. Please note the DEF item listed in this finding was due to a regulatory change enacted on all new diesel engines built beginning in 2017. The DEF fluid is now required on all buses with diesel engines to provide an after-burn treatment of the pollutants that emit from the exhaust. In addition, the software and cable expenses that were reimbursed are equipment diagnosis licenses that are required on certain bus builds. Staff will amend each contract noted to ensure it includes these items as eligible expenses that can be reimbursed to the contractor throughout the duration of each contract.

**Responsible Party:** Bus Service Delivery Manager

**Due Date:** December 2, 2019
Information Summary

DATE
September 5, 2019

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

ATTACHMENT
None
## Update:

### Fiscal Year 19/20 Audit Plan

<table>
<thead>
<tr>
<th>Process</th>
<th>Status</th>
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</thead>
<tbody>
<tr>
<td>Credit card transactions</td>
<td>On hold</td>
</tr>
<tr>
<td>Travel expenses</td>
<td>On hold</td>
</tr>
<tr>
<td>Professional Development</td>
<td>Not started</td>
</tr>
<tr>
<td>Full-Time Employee Additions</td>
<td>Underway</td>
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<tr>
<td>Contract Management (specific)</td>
<td>Not started</td>
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<td>OMC Non-Capitalized Rail Parts and Tools Inventory</td>
<td>Underway</td>
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<tr>
<td>Internal Safety and Security Audit Review</td>
<td>Awaiting SSQA</td>
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<tr>
<td>CSD Invoice Processing</td>
<td>Not started</td>
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<td>Human Resources Information Management System (HRMIS)</td>
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<tr>
<td>Implementation of ERP</td>
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<td>ERP Implementation</td>
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<td>External Audits:</td>
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<td>Maricopa Co. – Paratransit</td>
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<td>City of Phoenix - Fare Revenue</td>
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<td>City of Phoenix – Contract Risk Assessment</td>
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Fiscal year 18/19 summary - included in packet
Exception log - included in packet
Information Summary

DATE
September 5, 2019

AGENDA ITEM 5

SUBJECT
Audit exceptions update and FY 2018/19 Annual Summary of Follow-up Activities

PURPOSE
Update the Audit and Finance Subcommittee on the progress of audit exceptions.

BACKGROUND/DISCUSSSION/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 Modelski
Internal Audit Director
mmodelski@valleymetro.org
602-322-4453

ATTACHMENTS
Audit exceptions log
FY 2018/19 Annual Summary of Follow-up Activities
<table>
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<tr>
<th>Finding Title</th>
<th>Department</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>
</table>
| 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, including, 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 populates 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 individual in order for such individuals to execute their duties or provide backup support of other team members. The user community should also be educated on updates made to applicable policies and procedures to allow for consistent enforcement.                                                                 | We intend to revise all policies and procedures to ensure that our policies and procedures comply with the strictest requirements/best practices.                                                                                                                                                                                                                                                                                                                                                       | 02/07/18     | 03/31/18  | Manager, Information Technology & Executive Leadership Team                                           | 8/06/19: Per the IT Manager: "There is no change in status. The development of that policy has been constantly overshadowed by other initiatives with more business value and/or risk mitigation for the Agency since our move to a Weighted Shortest Job First method of prioritization. I will discuss with Jim this afternoon, and would be curious what our official process is for accepting the remaining risk of that audit finding and moving on."                                                                                                                                                                                                                                      |
| Incomplete Travel Reporting                                                 | Finance     | Eleven Travel Reimbursement Reports (TRR) provided to the Board of Directors (BOD) omitted certain trips and contained incorrect information. Of the 167 requested travel trips, totaling $218,310.38:  
1) Forty-eight completed trips were not included on the TRRs, totaling $58,590.75  
2) Three trips were over reported, totaling $5,209.37  
3) Twenty trips under reported due to inaccurate amounts reported for airfare changes, hotel reimbursements, rental car charges, miscalculated per diem payments, or calculation errors, totaling a net $1,348.59. A reconciliation as to what actually charged to a Valley Metro credit card did not take place.  
4) Four trips were cancelled, incurring Agency costs of $1,667.51 and the expense was not reported to the Board of Directors.                                                                                                                                                                                                 | Management should ensure the completeness and accuracy of the travel report submitted to the board by clarifying to staff the policies and procedures for reporting, and assigning an individual who is not involved in the preparation of the report to review and reconcile the report for accuracy of the information prior to the BOD submission.                                                                                                                                                                         | Management concurs with this recommendation. A more stringent review process will be put in place to ensure that reports to the Boards of Directors are complete and accurate.                                                                                                                                                                                                                                                                                                                                                       | 12/17/18     | 12/31/18  | Chief Financial Officer                                                                               | 8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.                                                                                                                                                                                                                                                                                                                                                                           |
| Travel Policy Compliance-Form Submission                                   | Finance     | Valley Metro (VM) travelers did not submit travel forms timely, two areas were identified:  
1) 71 Travel Authorization Forms (TA) were submitted less than 21 days prior to travel  
2) 26 Travel Expense Reports (TER) were submitted more than 11 days after the last travel date                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Management should update the Travel policy to address a process of accountability/ consequences for non-compliance to the policy to promote consistent enforcement and maintenance of fiscal responsibility.                                                                                                                                                                                                 | Management concurs with the recommendation, but notes that the policy as written does not accurately reflect the intent of the policy itself. The policy will be updated to both clarify the intent of early travel requests and to include accountability metrics for non-compliance.                                                                                                                                                                                                 | 12/17/18     | 03/29/19  | Chief Financial Officer                                                                               | 8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.                                                                                                                                                                                                                                                                                                                                                                           |
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<tbody>
<tr>
<td>Travel Policy Compliance-Form Approvals</td>
<td>Finance</td>
<td>The CEO submitted two Travel Authorization Forms not pre-approved by the Board Chairs. Roads &amp; Streets Conference in Tucson, AZ (3/29/18-3/30/18) Indicated as Not Applicable: In-State travel AzTA Board of Directors Retreat in Prescott, AZ (6/21/18-6/22/18) Indicated as Not Applicable: In-State travel</td>
<td>Management should submit all CEO Agency related travel to the Board Chairs for pre-approval and the Travel Administrators should not complete travel arrangements without documented Board approvals. The Travel policy should also reflect if CEO travel trip in state does not require Board pre-approval.</td>
<td>Management partially concurs with this recommendation. The CEO is not required to obtain preapproval from the Board Chairs for in-state travel. The Travel Policy will be updated to reflect this requirement.</td>
<td>12/17/18</td>
<td>03/29/19</td>
<td>Chief Financial Officer</td>
<td>8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.</td>
</tr>
<tr>
<td>Travel Policy Compliance-Credit Card Utilization</td>
<td>Finance</td>
<td>The Travel Administrators’ Valley Metro (VM) issued credit cards did not book and incur all travel/training expenses: 1) Seven VM Wells Fargo cardholders (Non-Travel Administrators) charged 64 transactions for travel/training expenses, totaling $25,835.26. 2) Six VM travelers charged ten transactions for travel related expenses on their personal credit cards and received Agency reimbursements, totaling $3,779.55</td>
<td>Management should provide Travel policy training on an annual basis and timely after policy and form updates to ensure travelers adhere to the requirement of coordinating travel through the Travel Administrators. Additionally, management should monitor travel documentation for compliance with the policy.</td>
<td>Management partially concurs with this recommendation. As noted in the previous travel audit, annual refresher training will be conducted and is currently scheduled. The internal audit incorrectly concludes that because charges were made on travelers’ credit cards, that travel was not coordinated with agency travel administrators. The current travel policy states that “Whenever possible, the Travel Administrator will pay airfare, registration fees, and lodging directly to airline, conference or training vendor and hotel/motel vendor.” It is not always possible for the Travel Administrator to pay charges directly. The apparent contradiction in how costs should be paid will be resolved in the updated travel policy.</td>
<td>12/17/18</td>
<td>03/29/19</td>
<td>Chief Financial Officer</td>
<td>8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.</td>
</tr>
<tr>
<td>Travel Policy Compliance-Travel Administrators</td>
<td>Finance</td>
<td>Valley Metro (VM) Travel Administrators did not adhere to the Travel policy, three areas identified: 1) Eighteen airfares were booked prior to Travel Authorization Form approval dates, totaling $6,916.00, evidence of authorization to book prior to formal approval of Travel Authorization Form not provided. (EnoMAX was a four-part leadership training offered to select employees) 2) Documentation to support approval and rational for two employees significant others to accompany the employees at the 2018 International Rail Rodeo was not be provided. Expenses included airfare, baggage fees and registration, totaling $789. 3) Seventeen Travel Expense Reports (TERs) were calculated inaccurately: 1) Fifteen travelers were overpaid: - One clerical addition error in prepaid items totaling $281.45 2) Two travelers were underpaid: - One meal deduction for $18 subtracted twice: $36.00 - One clerical addition error in prepaid items: $2.00</td>
<td>Management should provide Travel policy training on an annual basis and timely after policy and form updates. Additionally, verification for accuracy of completed TERs and supporting travel documentation by the travelers’ management prior to submission to Finance can ensure a segregation of duties from booking and reconciling travel expenses and monitor for compliance with the policy. Any modifications made to the TERs by Finance should be discussed for clarification and understanding prior to final processing.</td>
<td>Management partially concurs with this recommendation. As noted in the previous travel audit, annual refresher training will be conducted and is currently scheduled. Travel Expenses Reports are currently being reviewed by the Controller as the final check to ensure compliance. That process was put in place with the updated Travel Policy in July 2018 and therefore is not demonstrated with the travel in this audit, which was all completed before July 2018. Regarding the first two items noted (airfare booked prior to fully authorized travel authorization forms being submitted, and travel by significant others), the Travel Policy allows for exceptions that are approved by the CEO and CFO. In most, if not all, of the exceptions noted were authorized and therefore comply with current policy. No additional remediation is needed for this finding.</td>
<td>12/17/18</td>
<td>03/29/19</td>
<td>Chief Financial Officer</td>
<td>8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.</td>
</tr>
<tr>
<td>Finding Title</td>
<td>Department</td>
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<tr>
<td>Travel Policy Clarification</td>
<td>Finance</td>
<td>The Travel policies (v. 7/28/16 and v. 7/20/18) were unclear in regards to submission deadlines, exception procedures and role responsibilities. Five items identified: 1) Travel Authorization Form submission deadlines (v. 7/20/18) states: “Travelers are expected to have Travel Authorization Form completed and appropriately authorized early so conference/training fees, lodging and airfare can be arranged at least 30 days prior to travel to take advantage of conference/training discounts, conference lodging if available and less expensive flight options.” “Submit the Travel Authorization Form as soon as travel is identified so early registration discounts can be taken and at least 21 days in advance of travel…” 2) Travel Expense Report submission deadlines (v. 7/20/18) states: “If a Traveler accepts a Travel Advance, a settlement must be made based on actual expenses paid. If actual expenses are less than the estimated amount, the Traveler will reimburse the Agency for the unused balance and submit it with the Travel Expense report within ten business days of returning to work.”</td>
<td>Management should align the Travel policy intent with associated forms and practices. In order to hold Travelers accountable for timely submission of their Travel Authorization Forms and Travel Expense Reports, the policy should clearly define the submission deadlines. To properly document approved exceptions to the policy, the policy should clearly define the process and timeline for obtaining approvals. To ensure accountability assigned for accurate and complete reporting to BOD on Agency travel, the policy should identify the roles and define the reporting responsibilities. 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.</td>
<td>Management concurs with the recommendation. Apparent contradictions and inconsistencies within the policy will be clarified and corrected in an updated travel policy to be completed prior to calendar year end. In addition, the policy for travel cancellations will be included in the policy update and in the future will be properly documented and reported.</td>
<td>12/17/18</td>
<td>03/31/19</td>
<td>Chief Financial Officer</td>
<td>8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.</td>
</tr>
<tr>
<td>Policy Compliance – Supporting Documents Not Maintained within Cardholder Reconciliation Packets</td>
<td>Finance &amp; Procurement</td>
<td>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 approvals for five transactions, totaling $7,913. 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 on an Arizona State Contract. This state contract requires the issuance of a purchase order to acquire 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.</td>
<td>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.</td>
<td>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.</td>
<td>02/21/19</td>
<td>03/31/19</td>
<td>Chief Financial Officer</td>
<td>8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.</td>
</tr>
<tr>
<td>Finding Title</td>
<td>Department</td>
<td>Finding Description</td>
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<td><strong>Policy Clarifications – Credit Card, Acceptable Use</strong></td>
<td>Finance &amp; Procurement</td>
<td>The Credit Card, Acceptable Use policies (v. 7/28/16 and 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. Additionally, the Credit Card, Acceptable Use policy (v. 10/10/18) did not provide a clear process for users to follow. The policy:</td>
<td>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.</td>
<td>02/21/19</td>
<td>03/31/19</td>
<td>Chief Financial Officer</td>
<td>8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.</td>
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<tr>
<td><strong>Policy Non-Compliance not Identified or not Properly Escalated</strong></td>
<td>Finance &amp; Procurement</td>
<td>Four cardholders had four transactions that did not comply with the Credit Card, Acceptable Use policy. The following two transactions did not fall within the Credit Card Administrators sample population: A transaction for $300 in Diamondback 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. B $163 bagel purchase included an email that indicated another employee used the cardholder’s credit card information on file to complete the transaction.</td>
<td>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.</td>
<td>Management concurs with the recommendation. Management recognizes that sampling the transactions for compliance runs the risk of not reviewing potentially higher risk transactions 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.</td>
<td>02/21/19</td>
<td>03/31/19</td>
<td>Chief Financial Officer</td>
<td>8/28/19: Per the CFO, he received no additional comments from Leadership; therefore, he plans to finalize the policy in the upcoming weeks.</td>
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Purpose:

To provide a summary of the Fiscal Year 18/19 Internal Audit activities regarding follow-up efforts for the audit findings and recommendations.

Background:

The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 2500 states:

*The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.*

2500. A1- The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Audit Findings and Recommendations:

During the course of Fiscal Year (FY) 18/19, Internal Audit monitored and tracked the status of 45 audit concerns (27 findings and 18 recommendations) from the following internal and external audits/reviews:

- 12 based on external reviews:
  - City of Phoenix:
    - Procurement Audit, issued August 2017 (six recommendations)
    - Purchasing Card Audit, issued June 2018 (five recommendations)
  - City of Tempe:
    - Relocation Allowance Audit, issued November 2018 (one recommendation)

- 16 based on FY 17/18 Internal Audit reviews:
  - Hardware & Software Management Audit, issued December 2017 (seven findings)
  - Non-Revenue Fleet Audit, issued December 2017 (seven findings)
  - Travel & Entertainment Audit, issued April 2018 (two findings)

- 17 based on FY 18/19 Internal Audit reviews:
  - Travel & Entertainment Audit, issued December 2018 (six findings)
  - Credit Card Transactions Audit, issued February 2019 (five findings)
  - Contract Management Audit, issued June 2019 (six recommendations)
Audits/reviews are accessible via the Internal Audit website:
https://www.valleymetro.org/audit-reports

Summary/Conclusion:

Of the 45 audit concerns monitored, 25 have been remediated, six have future due dates, four will be reviewed during the next audit reviews of those areas and ten are open-past due.

One open-past due finding (due March 2018) is from the FY 17/18 Hardware & Software Management Audit and remains “Open” pending the ‘in-progress’ Asset Management policy.

Nine open-past due findings (due March 2019) are from the FY 18/19 Travel & Entertainment Audit and the FY 18/19 Credit Card Transactions Audit. As of June 2019, updated drafts for the Travel policy and the Credit Card, Acceptable Use policy are circulating among management for finalization to remediate these findings.

Internal Audit will continue to monitor and track the status of audit concerns resulting from internal and external audits/reviews.
Information Summary

DATE
September 5, 2019

AGENDA ITEM 6

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. Storage Area Network Expansion Purchase
Purchasing an additional 46 Terrabyte (TB) of additional storage hardware from Hewlett Packard in the amount of $92,400.

B. Cisco FLEX Licensing Agreement
Execute a three-year contract with Cisco Systems not to exceed $157,300 for the period of October 1, 2019 to September 30, 2022.

C. Enterprise Technology Services Contract Funding Increase
Increase the capacity of the five-year contract with Enterprise Technology Services by $1,560,045 for the period ending November 30, 2021.

D. Town of Queen Creek Intergovernmental Agreement
Execute an IGA with the Town of Queen Creek to reimburse Valley Metro for the cost of conducting a transit survey not to exceed $50,000.

E. Annual Corrosion Control Services Contract Award
Execute a 5-year contract for annual corrosion control services with National Corrosion in an amount not to exceed $188,630.

F. South Central Extension/Downtown Hub Construction Manager at Risk Contract Amendment
Execute a contract amendment with the South Central Extension/Downtown Hub CM@Risk contractor, Kiewit Infrastructure West Co., to construct early Downtown Phoenix utility relocations for an amount not to exceed $99,374,000.
G.  South Central Extension/Downtown Hub Third-Party Utility Relocation Work Orders

Execute work order with third-party utility companies for them to complete design and relocate their utilities from Lincoln Street to Baseline Road for the South Central Extension/Downtown Hub light rail project for an additional amount not to exceed $28,200,000.

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
September 5, 2019

AGENDA ITEM 6A

SUBJECT
Storage Area Network Expansion Purchase

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to purchase storage area network expansion from Hewlett Packard Enterprise in the amount of $92,400.

BACKGROUND/DISCUSSION/CONSIDERATION
Over the last 16 months Valley Metro has made significant improvements to its information security, information technology systems management, and geographical information systems management systems. As a result of these improvements, Valley Metro’s Storage Area Network (SAN) is projected to run out of space in the fourth quarter of calendar 2019 despite periodic removal of deprecated data. Staff is requesting authorization to purchase an additional 46 Terra Bytes (TB) of space.

The expansion hardware will be procured from Hewlett Packard Enterprise utilizing a cooperative contract awarded by the Arizona State Procurement Office. Purchasing under a cooperative contract saves Valley Metro resources due to the simplified acquisition process, the cooperative purchasing power of multiple agencies, and terms and conditions that have previously been negotiated.

COST AND BUDGET
The RPTA portion is $46,200 and the VMR portion is $46,200. All costs in FY 2020 are included in the adopted RPTA & VMR FY 2020 Operating and Capital Budget.

<table>
<thead>
<tr>
<th>Purchase</th>
<th>Vendor</th>
<th>Contract</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion Tray &amp; Drives</td>
<td>Hewlett Packard</td>
<td>State Contract: ADSPO16-112918</td>
<td>$92,400</td>
</tr>
<tr>
<td></td>
<td>Enterprise</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Subtotal                  | $92,400               |

COMMITTEE PROCESS
RTAG: August 20, 2019 for information
TMC/RMC: September 4, 2019 for action
Boards of Directors: September 19, 2019 for action

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

RECOMMENDATION
Staff recommends that the TMC/RMC forward to the Boards of Directors authorization for the CEO to purchase an additional 46 Terra Bytes (TB) of additional storage hardware from Hewlett Packard in the amount of $92,400.

CONTACT
Phil Ozlin
Manager, Information Technology
602-495-8253
pozlin@valleymetro.org

ATTACHMENT
None

\[1\] IT system improvements include:
- Replaced our call center workforce management and quality assurance software
- Expanded our Geographical Information Systems (GIS) capabilities
- Implemented a variety of Information Security systems to protect Valley Metro’s systems against cybercriminals
  - Cisco Advanced Malware Protection (AMP) for endpoint detection and response
  - Cisco Identity Services Engine (ISE) for identity management and network access control
  - Elasticsearch/Logstash/Kibana (ELK) for log aggregation and review
  - Nessus for vulnerability scanning
  - Demisto for security orchestration, automation, and response
- Implemented a variety of Information Technology tools to automate repetitive tasks and reduce labor requirements
  - Quest KACE Systems Management Appliance (SMA) for IT asset management
  - Microsoft Windows Server Update Services (WSUS) for patch management
  - Microsoft Deployment Tool (MDT) for imaging workstations
  - Microsoft Key Management Service (KMS) for software licensing management
Information Summary

DATE
September 5, 2019

AGENDA ITEM 6B

SUBJECT
Cisco FLEX Licensing Agreement

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a three-year contract with Cisco Systems not to exceed $157,300 for the period of October 1, 2019 to September 30, 2022.

BACKGROUND/DISCUSSION/CONSIDERATION
Valley Metro uses Cisco Systems products for much of its information technology networking. Historically, Valley Metro has licensed these products using one-year agreements. Cisco Systems recently began offering a new three-year flexible license agreement that has several advantages:

1. Reduced cost – compared to the one-year licenses, the three-year license will save Valley Metro $8,500 over the three-year period.
2. Improved training and support – the three-year license includes access to Cisco’s WebEx, training, and team messaging; and allows for 20% growth in the use of these services at no additional cost during the term of the agreement.

Based on the savings and additional features Valley Metro would like to utilize the opportunity presented by our 2019 Cisco licensing renewal to shift from the one-year to the three-year license.

The three-year licensing agreement will be procured using the Mohave Educational Services Cooperative’s contract with Cisco Systems reseller Extreme Integration. Purchasing from Cisco Systems through a cooperative contract saves Valley Metro resources due to the simplified acquisition process, the cooperative purchasing power of multiple agencies, and terms and conditions that have previously been negotiated.

COST AND BUDGET
A contract capacity of $157,000 is required to maintain existing service levels. The RPTA portion is $78,650 and the VMR portion is $78,650. All costs in FY 2020 are included in the adopted RPTA & VMR FY 2020 Operating and Capital Budget.

<table>
<thead>
<tr>
<th>Purchase</th>
<th>Vendor</th>
<th>Contract</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>FLEX Licensing Agreement</td>
<td>Extreme Integration</td>
<td>Mohave: 16B-EXTR-0723</td>
<td>$157,300</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>$157,300</strong></td>
</tr>
</tbody>
</table>
COMMITEE PROCESS
RTAG: August 20, 2019 for information
TMC/RMC: September 4, 2019 for action
Boards of Directors: September 19, 2019 for action

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

RECOMMENDATION
Staff recommends that the TMC/RMC forward to the Boards of Directors authorization for the CEO to execute a three-year contract with Cisco Systems not to exceed $157,300 for the period of October 1, 2019 to September 30, 2022.

CONTACT
Phil Ozlin
Manager, Information Technology
602-495-8253
pozlin@valleymetro.org

ATTACHMENT
None
DATE
September 5, 2019

SUBJECT
Enterprise Technology Services Contract Funding Increase

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to increase the capacity of the five-year contract with Enterprise Technology Services by $1,651,000 for the period ending November 30, 2021.

BACKGROUND/DISCUSSION/CONSIDERATION
Enterprise Technology Services (ETS) has provided IT services to Valley Metro since December 2011 through a contract with Knowledge Services established utilizing the Managed Service Provider cooperative contract awarded by the Arizona State Procurement Office. Under its current contract, established in December 2016 and valid through November 30, 2021, ETS provides Valley Metro with the following services:

- Onsite Helpdesk staff
- 24x7 virtual Helpdesk call center for triage and dispatch services
- Software-as-a-Service (SaaS) Helpdesk ticketing system
- SaaS system health monitoring for desktops and servers
- Onsite Systems Engineering
- Subleased data center colocation at Aligned Energy
- Emergency phone lines with special routing services
- Project work (e.g. location moves, equipment refreshes, cable management)
- Professional Services assistance

Following the establishment of the 2016 contract, Valley Metro recognized that its staffing level of two helpdesk technicians covering seven sites at one helpdesk technician per 206 users was insufficient and leading to lost employee productivity. As a result, over the next two years, Valley Metro added hours equivalent to 2.4 FTE of additional helpdesk technicians to the contract, bringing its current support level to one helpdesk technician per 110 users. This ratio is consistent with industry best practice and allows for the placement of two full-time technicians at the 101 administrative building, one at the Operations & Maintenance Center, one at the Mobility Center, and one technician dividing two days a week between satellite facilities. The introduction of

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1 East Valley Bus Operations & Maintenance (EVBOM) building, Mesa Transit Facility (MTF), Gilbert Road Extension (GRE) office, and Tempe Streetcar office
additional capacity saw a corresponding rise in service satisfaction ratings\(^2\) from poor to very good.

In addition, Valley Metro found it lacked the technical staffing for Windows system administration, server virtualization administration, infrastructure engineering, and Microsoft Exchange administration. As a result, Valley Metro added hours equivalent to 1.2 FTE to fulfill these functions.

Valley Metro staff also identified an opportunity to reduce the authority’s data center hosting costs from $102,000 per year at the Cyrus One data center to $34,800 per year by subleasing hosting at the Aligned Energy data center through the ETS contract. While reducing total hosting costs, the movement of this expenditure from the Cyrus One contract to the ETS contract requires an increase in the contract’s capacity.

Finally, on August 21, 2019 Valley Metro was notified that Knowledge Services, with the approval of the State of Arizona, will be increasing its fees on September 3, 2019. The cost for the roles Valley Metro currently employs through the ETS contract will remain the same for positions filled by existing contractors, but the Knowledge Services fees for any positions that are vacated and refilled will increase by six percent. A contingency not to exceed $91,000 has been added to the request for additional capacity to cover the fee increase for any of the contract positions that are vacated and refilled over the next 26 months.

As a result of these changes, staff requests that $1,651,000 be added to the contract authorization to continue the current level of services through November 2021. Without this increase, the current contract capacity will be exhausted in March 2020.

**COST AND BUDGET**
The additional capacity required to maintain existing service levels are $1,651,000. The RPTA portion is $825,500 and the VMR portion is $825,500. All costs in FY 2020 are included in the adopted RPTA & VMR FY 2020 Operating and Capital Budget.

<table>
<thead>
<tr>
<th>Purchase</th>
<th>Vendor</th>
<th>Contract</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Contract</td>
<td>Knowledge Services</td>
<td>State Contract: ADSPO17-174599</td>
<td>$2,174,185</td>
</tr>
<tr>
<td>Additional Capacity</td>
<td>Knowledge Services</td>
<td>State Contract: ADSPO17-174599</td>
<td>$1,651,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Subtotal</strong> $3,825,185</td>
</tr>
</tbody>
</table>

**COMMITTEE PROCESS**
RTAG: August 20, 2019 for information
TMC/RMC: September 4, 2019 for action
Boards of Directors: September 19, 2019 for action

\(^2\) Speed of response, speed of resolution, and quality of communication
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

RECOMMENDATION
Staff recommends that the TMC/RMC forward to the Boards of Directors authorization for the CEO to increase the capacity of the five-year contract with Enterprise Technology Services by $1,560,045 for the period ending November 30, 2021.

CONTACT
Phil Ozlin
Manager, Information Technology
602-495-8253
pozlin@valleymetro.org

ATTACHMENT
Staffing Modifications
Knowledge Services Memorandum of Understanding
## Staffing Modifications

The table below shows the changes in contract utilization since 2017 that necessitate increasing the contract capacity to reach its end date of November 2021.

<table>
<thead>
<tr>
<th>Modification</th>
<th>Date</th>
<th>Contract Lifetime Additional Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd Technician @ 16 hours/week</td>
<td>May 2017 – November 2021</td>
<td>$202,000</td>
</tr>
<tr>
<td>1st Engineer to 32 hours/week</td>
<td>June 2017 – November 2017</td>
<td>$197,000</td>
</tr>
<tr>
<td>1st Engineer to 40 hours/week</td>
<td>December 2017 – November 2021</td>
<td>$175,000</td>
</tr>
<tr>
<td>2017 Monitored System True-Up</td>
<td>November 2017</td>
<td>$19,000</td>
</tr>
<tr>
<td>2nd Engineer @ 24 hours/week</td>
<td>March 2018 – November 2018</td>
<td>$164,000</td>
</tr>
<tr>
<td>4th Technician @ 40 hours/week</td>
<td>April 2018 – November 2021</td>
<td>$393,000</td>
</tr>
<tr>
<td>5th Technician @ 24 hours/week</td>
<td>June 2018 – March 2019</td>
<td>$162,000</td>
</tr>
<tr>
<td>Data Center Sublease</td>
<td>October 2018 – November 2021</td>
<td>$107,000</td>
</tr>
<tr>
<td>2nd Engineer to 32 hours/week</td>
<td>November 2018 – April 2019</td>
<td>$25,000</td>
</tr>
<tr>
<td>5th Technician to 40 hours/week</td>
<td>April 2019 – November 2021</td>
<td>$116,000</td>
</tr>
</tbody>
</table>

**Subtotal:** $1,560,000

| State Contract 6% Rate Increase⁴  | September 2019             | $91,000                           |

**Total:** $1,651,000

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³ Engineer hired directly
⁴ Announced via email from Knowledge Services on August 21, and thus not available for RTAG on August 20
MEMORANDUM OF UNDERSTANDING (MOU)
MASTER SERVICES AGREEMENT FOR THE STATE OF ARIZONA

This Memorandum of Understanding (MOU) is intended to notify Vendor of certain State of Arizona Managed Service Provider (MSP) Program updates, as follows below.

1. Effective September 3, 2019, maximum Mark-up Rates will be modified as defined in the updated Not-to-Exceed Rate Card, posted at: https://www.knowledgeservices.com/azmsp/vendor-mts-msp-program-information/.
   a. Maximum Mark-Up Rates in the Not-to-Exceed Rate Card, shall be modified only for new postings that are created on and after September 3, 2019.
   b. For all other positions (postings that were created prior to September 3, 2019), the existing Not-To-Exceed Rate Card shall apply and shall continue to be posted at: https://www.knowledgeservices.com/azmsp/vendor-mts-msp-program-information/.

Information Summary

DATE
September 5, 2019

SUBJECT
Town of Queen Creek Intergovernmental Agreement

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute an Intergovernmental Agreement (IGA) with the Town of Queen Creek to reimburse Valley Metro for the cost of conducting a transit survey not to exceed $50,000.

BACKGROUND/DISCUSSION/CONSIDERATION
The goal of the Town of Queen Creek (TOQC) transit survey is to conduct a needs based assessment that 1) quantifies the number of likely ADA-qualified and/or seniors who have a need for a paratransit or RideChoice program services and 2) gain insight from qualifying residents regarding the type of assistance needed, trip frequencies, purposes and destinations, as well as detailed demographic attributes.

Although there is no federal requirement to provide ADA paratransit service in the TOQC, this survey will focus on the population of seniors and people with disabilities who meet the eligibility requirements for ADA paratransit service.

COST AND BUDGET
The IGA is based on the estimated cost not to exceed $50,000 to complete the Transit Survey. TOQC will pay for these services with the Town’s Arizona Lottery Funds.

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

• Goal 1: Increase customer focus
• Goal 2: Advance performance based operation
• Goal 3: Grow transit ridership

COMMITTEE PROCESS
TMC: September 4, 2019 for action
Board of Directors: September 19, 2019 for action

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute an IGA with the Town of Queen Creek to reimburse Valley Metro for the cost of conducting a transit survey not to exceed $50,000.
Approval of this IGA is contingent upon Town of Queen Creek Council action.

**CONTACT**
Wulf Grote, P.E.
Director, Capital and Service Development
602-322-4420
wgrote@valleymetro.org

**ATTACHMENT**
None

A copy of the intergovernmental agreement with the Town of Queen Creek is available upon request.
Information Summary

DATE
September 5, 2019

SUBJECT
Annual Corrosion Control Services Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a 5-year contract for annual corrosion control services with National Corrosion in an amount not to exceed $188,630.

BACKGROUND | DISCUSSION | CONSIDERATION
Corrosion control services are utilized for performing annual corrosion control testing, analysis, stray current monitoring and cathodic protection testing of the Light Rail Transit (LRT) System. The contractor will perform stray current measurement and evaluation of in service corrosion control associated with VMR’s direct current powered light rail transit system. Tasks included in the scope of work are:

- Rail to earth resistance measurements for the entire mainline and for the yard tracks.
- Rail to earth potential recording at key locations.
- Utility structure-to-earth potential measurements at randomly selected locations, principally the City of Phoenix, City of Tempe and City of Mesa ductile iron water pipelines and Southwest Gas Co. and El Paso Gas Co (if applicable) included in Valley Metro Rail’s construction.

Valley Metro issued a competitive solicitation in July 2019. The contractor must be certified by the National Association of Corrosion Engineers (NACE) as a corrosion specialist and have five years’ experience performing similar testing on a light rail system. A total of three firms submitted responses as follows:

1. National Corrosion
2. Corpro Companies
3. STV Incorporated dba STV New York, Inc.

National Corrosion was determined to be lowest, responsive, responsible bidder.
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**
The cost for the annual corrosion control services over the 5-year contract is in an amount not to exceed $188,630 which includes estimated costs for travel, lodging and meals. The cost for the annual corrosion control services is included in the Valley Metro Rail Adopted FY 2020 Operating and Capital Budget. Contract obligations beyond FY 2020 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2020 thru FY2024).

The source of funding is rail member cities.

**COMMITTEE PROCESS**
RTAG: August 20, 2019 for information
RMC: September 4, 2019 for action
Board of Directors: September 19, 2019 for action

**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

**RECOMMENDATION**
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a 5-year contract for annual corrosion control services with National Corrosion in an amount not to exceed $188,630.

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

**ATTACHMENT**
None
Information Summary

DATE
September 5, 2019

AGENDA ITEM 6F

SUBJECT
South Central Extension/Downtown Hub Construction Manager at Risk Contract Amendment

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract amendment with the South Central Extension/Downtown Hub Construction Manager at Risk (CM@Risk) contractor, Kiewit Infrastructure West Co., to construct early Downtown Phoenix utility relocations for an amount not to exceed $99,374,000.

BACKGROUND/DISCUSSION/CONSIDERATION
The South Central Extension/Downtown Hub is approximately 5.5 miles in length, and includes light rail construction within Downtown Phoenix and extends south along Central Avenue to Baseline Road.

Kiewit Infrastructure West Co. initially entered into a CM@Risk contract with Valley Metro in June 2017. This contract involves two primary phases: pre-construction services, which occurs parallel to the project’s design process, and the construction phase. Kiewit Infrastructure West Co. is working closely with the design consultant to coordinate design (which is approximately 90% complete) to minimize risks and assure constructability.

Full construction of this project will begin in 2020. However, in order to compete critical construction work prior to the 2023 Super Bowl, it is necessary to begin utility relocation work in the downtown area before the end of 2019.

In October 2019, crews will initiate utility relocation work on 5th Street, between Washington and Jefferson Streets, followed shortly thereafter with similar work on McKinley Street, between Central and 1st Avenues.

Valley Metro and City of Phoenix staff are actively communicating with downtown Phoenix stakeholders, businesses, Phoenix City Council members and Downtown Phoenix, Inc. to ensure successful and efficient execution of this early construction package.
COST AND BUDGET
The South Central Extension/Downtown Hub project will be funded by the Federal Transportation Administration, the City of Phoenix T2050 funding, and Regional Public Transportation Funds (PTF). The price for this utility package to the CM@Risk contractor is for an amount not to exceed $90,340,000. An additional 10% contingency to be held by staff, in the amount of $9,034,000, is needed to address unforeseen changes and circumstances that may arise during construction. The requested amount is summarized below.

<table>
<thead>
<tr>
<th>Utility Relocation Cost - Downtown Hub</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Line Relocations</td>
<td>$24,325,000</td>
</tr>
<tr>
<td>Sewer Relocation</td>
<td>$17,265,000</td>
</tr>
<tr>
<td>Storm Drain Relocation</td>
<td>$16,470,000</td>
</tr>
<tr>
<td>3rd Party Utility Relocation</td>
<td>$11,140,000</td>
</tr>
<tr>
<td>Sub-total</td>
<td>$69,200,000</td>
</tr>
<tr>
<td>Project Overhead</td>
<td>$16,608,000</td>
</tr>
<tr>
<td>Tax</td>
<td>$4,452,000</td>
</tr>
<tr>
<td>Total Change Order</td>
<td>$90,340,000</td>
</tr>
<tr>
<td>Contingency (10%)</td>
<td>$9,034,000</td>
</tr>
<tr>
<td>Total</td>
<td>$99,374,000</td>
</tr>
</tbody>
</table>

All costs identified herein are within the South Central Extension/Downtown Hub’s project cost forecast and expenses expected within FY20 are included in the Valley Metro Rail Adopted FY20 Operating and Capital Budget. Contract obligations beyond FY20 are incorporated into the Five-Year Operating Forecast and Capital Program (FY20 thru FY24).

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
- Goal 3: Grow transit ridership

COMMITTEE PROCESS
RTAG: August 20, 2019 for information
RMC: September 4, 2019 for action
Board of Directors: September 19, 2019 for action
RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a contract amendment with the South Central Extension/Downtown Hub CM@Risk contractor, Kiewit Infrastructure West Co., to construct early Downtown Phoenix utility relocations for an amount not to exceed $99,374,000.

CONTACT
Wulf Grote, P.E.
Director, Capital and Service Development
602-322-4420
wgrote@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
September 5, 2019

AGENDA ITEM 6G

SUBJECT
South Central Extension/Downtown Hub Third-Party Utility Relocation Work Orders

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute work orders with third-party utility companies for them to complete design and relocate their utilities from Lincoln Street to Baseline Road for the South Central Extension/Downtown Hub light rail project for an additional amount not to exceed $28,200,000.

BACKGROUND/DISCUSSION/CONSIDERATION
The 5.5-mile project will connect with the current light rail system in downtown Phoenix and run south along Central Avenue to Baseline Road. The project received environmental clearance from the Federal Transit Administration (FTA) in January 2017, which enabled the project to move forward with design, real estate acquisition and relocation of utilities in advance of receiving a federal grant for the project.

Since receiving environmental clearance, the Board has taken two separate actions to authorize the CEO to execute Work Orders with third party utility companies for their relocations as follows:
- April 2017 – Design costs for up to $2,323,255 (the Downtown Hub was not in the project at that time)
- January 2019 – Design and construction costs for up to $22,204,105 for the Downtown Hub (relocations north of Lincoln Street)

The following two actions are needed for all third-party utilities to be relocated south of Lincoln Street:
1. Provide additional funding to the utility companies to complete their design. This is because the light rail project’s design has progressed substantially since the initial Board action in April 2017 and more is now known about utility conflicts. Therefore, necessary utility relocations and associated costs have changed.
2. Provide funding for utility companies to construct their utility relocations. This action was not included in the April 2017 Board action because not enough was known at that time about utility relocation designs.

COST AND BUDGET
The South Central Extension/Downtown Hub will include Phoenix Transportation 2050 funds, regional Public Transportation Funds (PTF); and federal funds. Third party utility
design and relocation construction is included in the overall cost forecast established for the project.

The following table identifies third party utility companies affected by the light rail project south of Lincoln Street and the current costs estimates for them to design and relocate their utilities. The table includes design costs at 10% of relocation costs and includes a 10% contingency to be held by Valley Metro for unforeseen circumstances.

### Third Party Utility Design and Construction Cost Estimates

<table>
<thead>
<tr>
<th>Utility Company</th>
<th>Construction Cost</th>
<th>Revised Design Cost</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>APS</td>
<td>$3,500,000</td>
<td>$350,000</td>
<td>$3,850,000</td>
</tr>
<tr>
<td>AT&amp;T/TCA</td>
<td>$350,000</td>
<td>$35,000</td>
<td>$385,000</td>
</tr>
<tr>
<td>CenturyLink</td>
<td>$2,000,000</td>
<td>$200,000</td>
<td>$2,200,000</td>
</tr>
<tr>
<td>Cox Communications</td>
<td>$380,000</td>
<td>$38,000</td>
<td>$418,000</td>
</tr>
<tr>
<td>MCI/Verizon</td>
<td>$400,000</td>
<td>$40,000</td>
<td>$440,000</td>
</tr>
<tr>
<td>Salt River Project – Electric/Fiber</td>
<td>$9,000,000</td>
<td>$900,000</td>
<td>$9,900,000</td>
</tr>
<tr>
<td>Salt River Project - Irrigation</td>
<td>$3,540,000</td>
<td>$354,000</td>
<td>$3,894,000</td>
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<tr>
<td>Southwest Gas</td>
<td>$4,230,000</td>
<td>$423,000</td>
<td>$4,653,000</td>
</tr>
<tr>
<td>Sprint</td>
<td>$330,000</td>
<td>$33,000</td>
<td>$363,000</td>
</tr>
<tr>
<td>Telecom Group (TCG)</td>
<td>$250,000</td>
<td>$25,000</td>
<td>$275,000</td>
</tr>
<tr>
<td>ZAYO (Telecom Provider)</td>
<td>$1,230,000</td>
<td>$123,000</td>
<td>$1,353,000</td>
</tr>
<tr>
<td>Subtotals</td>
<td>$25,210,000</td>
<td>$2,521,000</td>
<td>$27,731,000</td>
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<td>10% Contingency</td>
<td>$2,521,000</td>
<td>$252,100</td>
<td>$2,773,100</td>
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<td>Total Board Authority Needed</td>
<td>$27,731,000</td>
<td>$2,773,100</td>
<td>$30,504,100</td>
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<td>April 2017 Board Authorization</td>
<td>None</td>
<td>($2,323,255)</td>
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<td>Additional Funding Needed</td>
<td>$27,731,000</td>
<td>$449,845</td>
<td>$28,180,845</td>
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All utility relocation costs are included in the Valley Metro Rail adopted FY20 Operating and Capital Budgets. Contract obligations beyond FY20 are incorporated into the Five-Year Operating Forecast and Capital Program (FY20 thru FY24).
STRATEGIC PLAN ALIGNMENT
These items are tied-in to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:
- Goal 2: Advance performance based operation
- Goal 3: Grow transit ridership

COMMITTEE PROCESS
RTAG: August 20, 2019 for information
RMC: September 4, 2019 for action
Board of Directors: September 19, 2019 action

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute work order with third-party utility companies for them to complete design and relocate their utilities from Lincoln Street to Baseline Road for the South Central Extension/Downtown Hub light rail project for an additional amount not to exceed $28,200,000.

CONTACT
Wulf Grote, PE
Director, Capital & Service Development
602-322-4420
wgrote@valleymetro.org

ATTACHMENT
None
DATE
September 5, 2019

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 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 in attendance.

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
September 5, 2019

SUBJECT
Executive Session Action Items

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

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 7.

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

ATTACHMENT
None
Information Summary

DATE
September 5, 2019

AGENDA ITEM 9

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.

BACKGROUND/DISCUSSION/CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
This item presented for information only.

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

ATTACHMENT
None.

Pending Items Request

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<tr>
<th>Item Requested</th>
<th>Date Requested</th>
<th>Planned Follow-up Date</th>
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