MEETING OF THE
Audit and Finance Subcommittee

Date:
September 10, 2020

Starting Time
12:00 p.m.

Location:
Via WebEx/Phone

If you require assistance accessing the meetings on the 10th floor, please go to the 14th floor or call 602.262.7433.
Audit and Finance Subcommittee
Thursday, September 10, 2020
Webex/Phone
12:00 p.m.

1. **Public Comment (yellow card)**

   Public comment is being taken in written format and will be entered into the official minutes of the meeting.

2. **Minutes**

   Minutes from the August 13, 2020 Audit and Finance Subcommittee meeting are presented for approval.

3. **Internal Audit Charter**

   Alexis Tameron Kinsey, Chief of Staff, will present the charter of the Internal Audit Office for discussion and possible action.

4. **Audit and Finance Subcommittee Charter**

   Alexis Tameron Kinsey, Chief of Staff, will present the charter of the AFS for discussion and possible action.

5. **Merit Pay for Staff**

   Paul Hodgins, Chief Financial Officer, will provide an update on merit pay for frontline workers.

6. **Internal Audit Update**

   Jennifer Davis, Sr. Internal Auditor, will provide an update on the actions taken in Internal Audit and external reviews.

7. **Internal Audit Exceptions Update**

   The Internal Audit Exceptions log is presented for information.

Action Recommended

1. **For Information**

2. **For action**

3. **For action**

4. **For action**

5. **For discussion and possible action**

6. **For information**

7. **For information**
8. **Payroll Tax Deferral Executive Order**

Paul Hodgins, Chief Financial Officer, will provide an overview of the Payroll Tax Deferral Executive Order.

9. **Prop 400 Revenue Forecast and Transit Life Cycle Program Impacts**

Paul Hodgins, Chief Financial Officer, will provide an overview of the Prop 400 Revenue Forecast and impacts on the Transit Life Cycle Program.

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

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

11. **Future Agenda Items**

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

The next meeting of the Audit and Finance Subcommittee is scheduled for **Thursday, October 15, 2020 at 12:00 p.m.**

Qualified sign language interpreters are available with 72 hours notice. Materials in alternative formats (large print, or flash drive) 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).
Information Summary

DATE
September 3, 2020

AGENDA ITEM 1

SUBJECT
Public Comment

PURPOSE
Public comment is being taken in written format and will be entered into the official minutes of the meeting.

COST AND BUDGET
None

RECOMMENDATION
This item is presented for information only.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COMMITTEE PROCESS
None

CONTACT
Scott Smith
Chief Executive Officer
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ATTACHMENT
None
Minutes

September 3, 2020

AGENDA ITEM 2

Audit and Finance Subcommittee
Thursday, August 13, 2020
Via WebEx/Phone
12:00 p.m.

Meeting Participants
Councilmember Lauren Tolmachoff, City of Glendale
Vice Mayor Bill Stipp, City of Goodyear
Councilmember Francisco Heredia, City of Mesa
Mayor Kate Gallego, City of Phoenix

Chair Stipp called the meeting to order at 12:02 p.m.

1. Public Comment

None.

2. Minutes

Chair Stipp said let’s move on to the approval of the minutes from the June 13th meeting. May I have a motion to approve?

IT WAS MOVED BY COUNCILMEMBER TOLMACHOFF, SECONDED BY COUNCILMEMBER HEREDIA, AND UNANIMOUSLY CARRIED TO APPROVE THE 2020 AFS MEETING MINUTES.

3. Executive Session

Chair Stipp said I will entertain a motion to move into Executive Session for discussion or consultation for the -- we’re not going to seek legal advice today, but we are going to discuss positions concerning the matters listed on the agenda and contracts that are subject to negotiations in pending or contemplated litigation or settlement discussions conducted in order to avoid or resolve litigation. This is for employment-related performance review for the Chief Financial Officer and the Chief Auditor which are subject to privacy rules so would I have a motion to go into Executive Session?

IT WAS MOVED BY COUNCILMEMBER TOLMACHOFF, SECONDED BY COUNCILMEMBER HEREDIA, AND UNANIMOUSLY CARRIED TO ENTER INTO EXECUTIVE SESSION.
4. **Executive Session Action Items**

No action taken.

5. **Fiscal Year 2021 Agency Internal Audit Plan**

Ms. Tameron-Kinsey said thank you. Mr. Chair, Members, at the CEO’s request, a functional-based risk assessment was developed in March by then Interim Director Vickie Murphy the results of which were shared with members of this Committee. The risk assessment is an identification and analysis of the relevant risks that determine how those risks should be managed. Internal audit focused on other high-risk areas identified by senior management and areas of interest also identified by the AFS.

For context purposes, Vickie met with division members as well as the General Counsel to discuss the objectives of each function and division they oversee and the risks that they were facing. They identified controls or actions that reduce or offset these risks. She then evaluated the remaining risks and confirmed all the information with the senior management before finalizing the risk assessment.

Based upon the risk assessment, she developed this risk-based audit plan for Fiscal Year 2021. On page 5, you will see that they include four operational audits, two compliance audits, and a couple special projects where Internal Audit would provide assistance. The plan also takes into account internal audits, general ops administration, development, and training. The plan itself is a living document that requires continual monitoring and revisions as conditions change, resource needs change or to meet the needs of Valley Metro.

The Audit and Finance Subcommittee is responsible for reviewing and improving the annual audit plan along with any changes to the plan that may occur throughout the year. And with that, I can answer any questions that you may have about the audit plan for Fiscal Year 2021.

Mr. Chair said great. Thank you, Ms. Tameron-Kinsey. Do any of the board members have any questions for Ms. Tameron-Kinsey? No. Outstanding. I think the action that we need to take here is to approve the Fiscal Year 2021 agency Internal Audit Plan. May we have a motion to approve the Fiscal Year 2021 Internal Audit Plan?

**IT WAS MOVED BY COUNCILMEMBER TOLMACHOFF, SECONDED BY MAYOR GALLEGO, AND UNANIMOUSLY CARRIED TO APPROVE THE 2020 AFS MEETING MINUTES.**

6. **Draft Internal Audit Charter**

Chair Stipp said next up is the draft of the Internal Audit Charter.

Ms. Tameron-Kinsey said thank you. Mr. Chair, members, I will address both the AFS charter and the internal audit charter draft.
7. Draft Audit and Finance Subcommittee Charter

As you know, in March I worked with Vickie to draft the internal audit charters that align with the requirements of the International Auditors Audit Standards. In addition to the audit function charter, the IIA audit standards recommend that the governing body, which is the AFS, also have a charter. Again, working with Vickie to draft this charter as well and, as you know based upon our last discussion at the last AFS meeting, I also worked with and ran the original drafts through auditors with City of Phoenix and the City of Tempe.

The charter is based on -- the AFS charter is based on the Board of Directors documents that established the AFS. The versions of both included in the packet have incorporated the edits and suggestions discussed at the last AFS meeting in May and some of the questions that rose from members in addition to submitted questions by members.

At the request of Chairwoman Arredondo-Savage, I provided redline versions to committee members to highlight the edits that were made, to add comments and questions previously raised, and to provide relevant references to audit standards and the IPPF which is the international professional practices framework implementation guide. It is what auditors term the red book.

I also provided specific practice advisories issued by IIA that further define organizational independence to further define and outline functional reporting versus administrative reporting structure. Those are supposed to work in coordination with each other to ensure that the audit function is free from management interference as well as undo political influence from public officials.

In addition, there was questions about the definition of governance. I also provided the advisories on governance and the definitions that provide for the relationship with risk and controls and an assessment of those risks to the organization.

The Audit and Finance Subcommittee is responsible for reviewing and approving the charters before they go to the full boards for adoption.

And with that, Mr. Chair, I'll be open to answer any questions you may have.

Mr. Chair said just so I'm clear, that was your report for Item 6 and 7; is that correct?

Ms. Tameron-Kinsey said correct.

Mr. Chair said okay. So we'll -- I'll entertain a motion to, well, let's just start with questions. Let me do that. Any questions on Item 6? We'll stick with the Internal Audit Charter. We'll take these one at a time for questions.

Mayor Gallego said can we talk about what it means that the Audit Committee will do certain things in coordination with the CEO? For example, the Chief Auditor's annual salary or benefits. I thought that was a function as was performance review of just the Audit Committee.

Ms. Tameron-Kinsey said I'm bringing it up, the charter right now. Functionally, the internal auditor reports to the AFS. The AFS is to have all decisions approved with
regard to the performance evaluation, the appointment or removal of the Chief Auditor in addition to any salary or benefit adjustments or changes to them.

Part of the standards is having a dual reporting functionally and administratively. Administratively per the standards, the human resources preparation falls under an administrative function, however, that's reported up through AFS. AFS then would have the input, review, and ultimate approval of any such performance evaluation. So, it does work in coordination, probably more coordination than consultation in that sense because you have to coordinate not only the administrative function and providing the feedback on that, but also functionally the evaluation by the AFS on how the auditor performs relative to the audit plan. But, ultimately, the decision on the performance evaluation as a whole whether it's in regards to approving it, any sort of adjustment in compensation, merit, etc. is with the AFS to approve.

Mr. Chair said does that answer your question, Mayor Gallego?

Mayor Gallego said I just want to make sure we're clear that the auditor function is an independent function because I think that's what at least people who came before many of us said to the public. And so, I would want to -- I think there's value in being very clear that this committee approves the audit plan and performance review, and compensation.

Ms. Tameron-Kinsey said Mayor, Mr. Chairman, yes, and that is this -- the standards dictate that it's truly independent when you have the balance between what functionally the AFS is approving which is all of what you described. Administratively, reporting is more of facilitating of information across the agency. It is helping to administer the human resources function and, essentially, making sure that the audit function within the organization is deemed at that executive-level reporting administratively to the CEO so that there is no impeding upon any sort of independence.

And that's why also in the standards, the auditor has direct access to the AFS should something come up, they go directly to the AFS, functionally. And if there is to any -- any issue to arise, again, they still that have that direct functionally reporting to the AFS to bring to your attention and/or ultimately approval or disapproval. But that's what the standards dictate.

Mr. Chair said so Ms. Tameron-Kinsey not seeing any other questions or hearing anything. The -- this conversation about Internal Audit Charter versus the AFS charter there's some overlap in this discussion, specifically, about for the lack of a better phrase, I'm going to call it control of the auditor, performance review, this functional versus administrative oversight. One of the -- on this note for oversight in the AFS charter on page 5 it talks about which is the 7th bullet, the AFS charter says, "oversee and provide input on the annual performance evaluation of the Chief Auditor" which is what you just said. However, the advisory that you sent out actually states "approving all decisions regarding the performance evaluation, appointment or removal of the chief auditing executive." And those two things are not exactly the same.

And if -- reading further the advisory it talks -- there's another bullet in there that talks about proving the annual compensation and salary adjustment for the chief auditing
executive and that's missing entirely from either one of our documents. And so I think that breeds some confusion or it feels like there's a gap there because we haven't quite addressed the, you know, we want to talk about the advisory and, you know, you’re sending out the advisory to tell us and then the things that are contained in the advisory are not contain in our material. So, I think, there's some trepidation as far as whether that makes a lot of sense or not. So, I think, we need to bring some definition to that to satisfy this issue. It's the same issue that came up at the last meeting that it doesn't seem to be as clear to the Valley Metro staff as it feels to those of us on the AFS. And Mayor, I don't mean to speak for you so if I'm wrong just tell me to shut up, but I think we're really striving very hard for that independence and for there to be no gray area when it comes to who does the auditor really report to. Now, it feels a little gray. Go ahead, Lauren.

Councilmember Tolmachoff said thank you. One thing -- I know that there was some confusion or there was some discussion maybe not confusion and I would like before we actually move this along too is see what the audit (indiscernible) looks like on the report. How -- because there was -- I can't remember -- I don't have it in front of me. I can't remember how, but I know we had some discussion about what the audit, how, where the audit position was and how they were connected dotted line, solid line to the CEO and AFS, but I would like to see that as part of this. Where the auditor is in the org chart? And how it's, you know, that should be I think a direct line from the auditor to the AFS in the org chart. And CEO too, I guess. I'm not or I don't know -- I don't -- does anybody remember what the discussion was? I know we were not happy with how was it when we saw the org chart.

Ms. Tameron-Kinsey said Mr. Chair, Vice Mayor, Councilmember Tolmachoff, and Mayor Gallego. To answer the question, on the Internal Audit Charter draft and if you're looking at your red line, make sure you're looking at all markup not simple markup. Because in the audit charter under authority which begins on page 1. The last two, actually, the last three bullets. It says review the annual evaluation of the Chief Auditor in consultation with the CEO. That's the function and admin part talking to each other. Review the Chief Auditor and provide input and feedback, as appropriate. Approve decisions regarding the annual performance evaluation, appointment or removal of the Chief Auditor. Approve the Chief Auditor’s annual salary and benefits any adjustments to them. That's an assignment to the AFS.

That should and, I agree with Vice Mayor Stipp, when he indicated in the AFS charter in that bullet it does day oversee and provide input on the annual performance evaluation. It should say oversee, provide input, and approve the annual performance evaluation of the Chief Auditor.

But in the audit charter itself, the draft, it does include those bullets to approve decisions regarding the annual performance evaluation, employment and removal. And approve the annual salary and benefits or any adjustments to them. So, that does address those specific points and we can make sure that is tightened up so that they mirror each other, as indicated, because that's the intent.
And, I believe, the other question in terms of what the standard dictates in terms of reporting lines to Councilmember Tolmachoff’s question, is that the standards dictate that functionally and as the direct line, it is AFS, essentially, a subset of the board to the internal auditor. There would be a dotted-line administrative reporting to the CEO. We can make sure that that is presented in an organizational chart that you can see, but that is what the standards dictate. That they would be dotted to the CEO, and any functional straight line to the subset of the board, being the AFS.

Councilmember Tolmachoff said thank you, Ms. Tameron-Kinsey. I think that -- I mean, for me, I would like to have that -- if we're going to be bringing this back in September, I'd like to have the org chart be part of what we're approving so that we -- it's all in one package. Because I think it's important, you know, what the reporting structure says on the org chart.

Ms. Tameron-Kinsey said we can certainly do that.

Mayor Gallego said in September, I think it would also be valuable to look at the RPTA code because right now it's very focused on the CEO being responsible for all hiring and firing decisions and we need to be consistent across our many documents.

Mr. Chair said okay. Any other questions regarding either one of these documents before I ask mine. Because I have one. All right. Not seeing any. So, on page 4 of the Internal Audit Charter, very top of the page, it talks about an audit report shall be prepared and issued by the Chief Auditor from the conclusion of an internal audit. I think, I would like to make sure that we are talking about a full report and not an abbreviated report or not a synopsis that when we talk about an audit report, there's commonality in the definition of that. And the note that I wrote to myself on this was, the AFS should never and this is a double negative and I apologize for that. But we should never not get a full report, or we should always get a full report which is more grammatically correct. And it just says an audit report and I don't know if there's a definition for that. And that they be posted on the web. I think one of the things we're trying to shoot for is some transparency and we don't make any reference to these reports being posted on the web at least that I saw. So, any thought on that before I –

Mr. Smith said Vice Mayor, if I could, this is Scott.

Mr. Chair said yes, Mr. Smith.

Mr. Smith said part of that functional responsibility is the Audit and Finance Committee can define what level of report, how they want to define the audit report. That's your purview. That is part of managing the audit process is that you have the ability to tell the auditor exactly the level of report they want. And through your interaction with the Chief Auditor and depending upon the Chief Auditors adherence to professional standards, you can define whether you want that full detail, the summary, however you want it. And in relation, you can do that on a job by job basis. So, that is complete within the purview of the Audit and Finance Committee to define for the Chief Auditor what level of formal reporting and informal reporting that want. This just makes it clear that there will be the audit reporting.
One of the things we were trying to differentiate is the difference between formal audits that are undertaken and there are also projects that are done that don't rise to the level of a formal audit, but they're important. We've done a couple of those things with the auditor like helping to gather information or do studies. They're -- and we didn't -- we wanted to give the auditor the ability to provide a report that didn't get to the level because it's not an audit as per the terms of the audit plan, but it still is useful information. So, the audit committee has that authority and that purview to define however they want the audit report to look.

Mr. Chair said okay. Thank you, Scott. The second question I had is on the same page. And maybe this falls under that same purview, but it's the last paragraph before the next section called responsibility. So, it's the last paragraph there. It talks about opportunities for improving efficiencies of government, risk management, etc. These opportunities will be communicated to the appropriate level of management. If we're using this charter as the guiding document and the appropriate level of management should always include the AFS if it's happening. This seems to be an opportunity for someone to say, well, we thought it was appropriate that it only go to the division. Or it only go to -- and it never rises up to the board level. So, I'm a little skiddish on the word appropriate level of management. If we just -- other than to add to or to always include, you know, the appropriate level of management in addition to the AFS board or whatever. Just to make sure that there's not some separate wheel that's spinning completely out of AFS's vision. That's my only comment. I don't know if anyone shares it or not.

Ms. Tameron-Kinsey said Vice Mayor Stipp, members. I have made a note here on that specific paragraph that these opportunities will be communicated to the AFS, senior management, and other appropriate levels of management or as necessary. But I will include AFS and senior management. The appropriate level of management was in those other kind of special reports to whether it's managers or functions –

Mr. Chair said sure.

Ms. Tameron-Kinsey said -- lower than managers to have that in there, but I will incorporate your comments with regard to AFS.

Mr. Chair said thank you, I appreciate that. Since these are going to come back, I don't think we need to take formal action on them. So, Item 6 and 7, I'm going to say. Last call. Seeing none.

Councilmember Heredia said Vice Mayor.

Mr. Chair said yes.

Councilmember Heredia said I'll just comment on your first point and in the vagueness of the type of -- the style of the report that comes back. I think we talked about, PowerPoint presentations or the more detailed versions. I think spelling out some of the -- the charter is particularly like in the City of Mesa, I think, spelled out the type of report we have and so maybe looking at that piece, Ms. Tameron-Kinsey, as we develop that language to Vice Mayor's first point on the type of report we get.

Mr. Chair said okay. Thank you.
Mr. Chair said any other comments on 6 or 7?

Mayor Gallego said and, I guess, on the Vice Mayor's comments on that final paragraph before responsibility. If they were minor control processes that were not financially significant, I would be okay if we didn't get notified about all of them. So, we had a presentation about the equipment center and there were some different processes about improving how you track the amount of cabling and I don't know that I need to be notified about all of that. So, if it's like under $5,000, I would be okay if we just do it. I didn't have a lot of strong opinions about the cabling or a lot to add in terms of value. But for big picture, financially significant, really agree with the Vice Mayor.

Mr. Smith said and Mayor, this is Scott again. I would agree with you and the way that we envision and the reason this was written is to give, once again, you, the Audit and Finance Subcommittee -

Ms. Tameron-Kinsey said Scott's driving and I think we just lost him.

Mr. Smith said can you hear me? Or is it breaking up?

Ms. Tameron-Kinsey said it's breaking up.

Mr. Smith said oh, okay. I should be okay now. I just turned a –

Ms. Tameron-Kinsey said it's duly noted, but yes. And, I think, part of what, I think you will hear later on when we get to some of the audit reports being presented today and Jenn can elaborate on this. I think what brought that to light is seeing an audit report presented in PowerPoint and, again, it was trying to balance -- and to Mayor Gallego's point, I think it was trying to find that balance of what is it that you really want to see? How do you want to see it? And indicating that to internal audit so they can present it that way, in that format. So, duly noted.

Mr. Smith said yeah. And, once again, I would hope and assume that during the Chief Auditor's report to the Audit and Finance Subcommittee that all of the activities that they've been involved in would be presented whether it was the type of (indiscernible) you're talking Mayor or a full audit. And then the Audit and Finance Subcommittee, you as a committee can ask for clarification or for additional information (indiscernible) but like you said, Mayor, there wouldn't be a full report unless you wanted to hear it. But you would know that the auditor was engaged in that activity. That's the thought process. Is that you will know what he or she is doing and then you can determine how much information you want to receive about that engagement.

Mr. Chair said okay. Is everybody clear? So, we'll see this one more time. We'll have one more shot before we and that will be September. Is that correct, Ms. Tameron-Kinsey?

Ms. Tameron-Kinsey said yes, sir. I will incorporate the edits and make sure that they are mirrors on terms of authority and get that sent back out to the members in that redline format so that you can see that those changes were made. And then we'll bring it back up in September.

Mr. Chair said all right. Thank you.
Mayor Gallego said and so we will clarify that the audit committee has the authority for the annual financial review, the approval of the audit plan, and compensation?

Ms. Tameron-Kinsey said yes, ma'am.

Mayor Gallego said great.

Mr. Chair said okay.

**No action taken. Deferred to the September 10, 2020 Audit and Finance Subcommittee meeting.**

8. **Contract Management – Paratransit Services Audit**

Chair Stipp said next item on the agenda is item number eight, Contract Management – Paratransit Services Audit. Is Ms. Davis on to do that?

Ms. Davis said good afternoon, I am here.

Mr. Chair said great. Thanks, Ms. Davis.

Ms. Davis said so, from what I'm gathering so far from everybody's comments is that this is not a finalized product that you'd like to see and that you'd like me to go back to the drawing board and provide a report in the previous format. Would that be an accurate statement?

Mr. Chair said I think that may be close. I'm trying to pull up the -- I'm assuming you don't have slides for this.

Ms. Davis said oh, no. I should have. Hold on let me see if I can get the technology to work. I'm pointing and clicking. There we are. So, we performed the contract management review of the paratransit services and this is the documented report for that audit. Commented to Tempe earlier today. Redbook standards 2400 requires that I communicate the results of the audit. 2410 requires that that communication contains the objective, the scope, and the results. As Scott mentioned earlier, it is definitely within the AFS's prerogative and control to request that the information be presented in a certain format.

We were trying this format here to see if this worked for the needs that the committee wanted. If, from what I'm hearing, it sounds like we would prefer to do the other format or maybe a combination thereof. So, I have the printed report for the details, but that the presentation of that might be something similar to this going forward so that would work in conjunction and have those details, but then also have a high-level review. I will go ahead and proceed with this high-level review that I have for today and then we can discuss any questions you might have and what additional information you'd like me to provide. Communicate the results of our review. I just said all that. I probably should have skipped this slide earlier.
No material exceptions were noted so no recommendations but provides this summary of the items that were reviewed for informational purposes.

The objective of this was to determine if the Transdev regional paratransit services contract was awarded in accordance with the agency policies. And additionally, we were going to determine if the contract performance was monitored and managed from July through January of 2020.

We reviewed the contract award, the RFP process, and the contract language. And for contract monitoring, we looked at change orders, the monitoring process, the incentive and disincentive tracking, and the pay applications. I say we because Vickie Murphy started this review and then as she transitioned into the interim then I went ahead and picked up the review and then finalized it in her absence.

During the RFP process review, there was 33 steps in requirements that I looked at for policy compliance. They were either located in the Sharepoint files or in other reference documents and I had no exceptions to note.

For contract language, there was 51 applicable clauses that were required for the contract and all those were addressed in the contract. No exceptions were noted.

For the change orders, there were four change orders reviewed. Only three of them were executed. All executed change orders were properly signed and sufficiently supported documentation was maintained. Board approval was not required because they did not increase the overall contract authority. And I had no exceptions to note for that.

In contract monitoring, we interviewed applicable staff and documented their process. We determined that internal controls were established over the review of information including the tracking of the performance of the incentives and the disincentives and had no exceptions to note.

These are the 13 items that the contract monitors are reviewing for that incentive and disincentive tracking. And I did include -- so we looked at 25 months of the tracking logs to determine that the contract effort, monitoring efforts, so that -- noting that I did start from January of 2018 and the audit scope started from July of 2017 that we, basically, worked on the progression of the monitoring and the managing of the contract/ noting that management and Transdev realized that there were some things in the beginning that they needed to work on. So, we went ahead and moved forward with, well, how are they will be doing as they progressed? And are we getting better? And I, definitely, could see that there were contract monitoring efforts were tracked for the 13 metrics was evident for those 25 months reviewed with no exceptions noted.

Just to kind of give a snapshot of the tracking summary of the revenues for the different time periods. The incentives that were allowed. The disincentives that were charged
and then the net. Noting that since July of 2019 through January of 2020, that those disincentives had gone down and become a less than 88 percentage of the revenues. That there was a focus on managing the on-time performance for pick ups and drop offs helped reduce those disincentives.

Pay applications were reviewed. I reviewed through October of ’19 as that was what was processed at the time of the review. In general, the pay apps contained the approval signatures, they were accurate, and maintained sufficient supporting documentation. There were a couple clerical errors that we noted, but we didn't feel that that was symptomatic of any kind of underlining issue just human errors. So, as I said, did not present a measurable risk and no finding was drafted.

That concludes the report that I have for the paratransit review. I will entertain any questions you have at this point.

Mr. Chair said does anyone have any questions for Ms. Davis? Anyone?

Ms. Davis said so, if there aren't any questions, is there a need for me to create a report in the/similar format that we had previously done? Or is this presentation of the information sufficient for this review and then we're approved to post it as the audit report?

Mr. Chair said any -- I don't want to speak right away. Mayor Gallego, go ahead.

Mayor Gallego said I would be comfortable with this format for this report.

Mr. Chair said Councilmember Tolmachoff?

Councilmember Tolmachoff said yes. I mean, basically, you're going to consolidate this basically into, I mean, obviously, it's not going to be a PowerPoint. It's going to be just, basically, the paper that was attached to our agenda, right?

Ms. Davis said the PDF, yes.

Councilmember Tolmachoff said PDF. Okay, yes, that's fine.

Mr. Chair said does anyone have any concern given the pain and suffering that we've gone through with paratransit that we will be posting something less than what we have in the past on this particular subject? In the back of my mind, I'm hearing Skip Hall, you know.

Councilmember Tolmachoff said that's what popped into my mind too.

Mr. Chair said I mean, all due respect to the Mayor, but I, you know.
Mayor Gallego said I'm comfortable. I don't want Skip Hall to be disappointed in AFS.

Mr. Chair said but –

Councilmember Tolmachoff said how much work is it to be consistent and, you know, do it in the same format that we've done this and other audits? Is it a lot of work?

Ms. Davis said it will take some effort, yes.

Mr. Chair said could we get somewhere between this and that?

Ms. Davis said if you'd like me to, I can definitely make that happen.

Mr. Chair said so, what -- the reason that I'm bringing it up is just functionally as Valley Metro, we have suffered a little bit of pain with the paratransit and if we've conducted an audit on that, I think it may be beneficial from a public relations standpoint for us to at least have something greater than that posted. And then particularly get communicated to the members of the Board, the greater Board who had some concern about paratransit that we show them a little bit more than this. I just, I'm trying to be really sensitive to those concerns. And if we're going to change the format, this is probably not the great subject to do that on given what we've been through. But I will defer to the rest of the Board.

Councilmember Tolmachoff said Bill, I think you make a good point. And I'm wondering could you just attach, I mean, could you -- the format is fine. I agree that the format that it's actually and it's probably plenty for most people. But is there a way where you could attach maybe more of the raw data that people who want to do a deeper dive would have access to more details if they're interested in more details? And just make that like an attachment or a link or something to this when you post it?

Ms. Davis said yes.

Councilmember Tolmachoff said did she hear me?

Ms. Davis said yes, I did. I see her walking around. That's Stephanie. Yes, I definitely can take the information that I have in the PowerPoint -- can you guys hear me?

Ms. Tameron-Kinsey said essentially, you're saying just add this as an addendum to whatever narrative Jennifer puts together that –

Councilmember Tolmachoff said no. Let me explain. Go ahead and post it. I'm sure for, you know, probably for 90 plus percent of the members agencies and probably for that much or more of the public, this as a PDF is fine. But include attached somehow put a link to the raw data, more raw data of what she used to compile this report that we just
looked at just include more of the actual raw data that she used to put this report together. So, for somebody who wants to look at more of, you know, more detail. She's, obviously, this is -- she took some, a bunch of data and turned it into this.

Ms. Davis said yes. Can you guys hear me now? I got muted. Yes, I hear you. I can move this information into the report format and I can add the additional raw data that I have available for what it was that we reviewed.

Councilmember Tolmachoff said do you think that works, Bill?

Mr. Chair said I do. And I think if there's any Board members that have additional questions, we should encourage them to contact somebody on staff to get that information.

Ms. Davis said yes. If there was specific information that you were looking for that's not available on the PowerPoint, I would definitely welcome emails regarding that. And I can make sure that that's included going forward. But, right now, what I -- basically, what I'm anticipating doing is adding the information regarding pay apps and then maybe the numbers about the change orders as additional information of what's not included in what we already have. Is there anything additional that you guys can think of that you would request?

Mr. Chair said no. I think that covers it, Jennifer.

Ms. Davis said okay.

Mr. Chair said thanks for being flexible on this.

Ms. Davis said yes sir. And then going forward probably not lean towards the PowerPoint and go back to the presentation that we've done previously? Is that the concurrence?

Mr. Chair said, you know, a quick PowerPoint for the meeting is always good for brevity, but having the full report for us to read at our leisure and then I'm going to say, if we care to is -- that makes for a strong governance for us. Quick meeting, but the detailed information is always helpful.

Ms. Davis said understood. We'll carry forward that way. Thank you.

Mr. Chair said thank you. Okay. So, I need a motion to, I think, we just accept the contract management for paratransit services audit. Is there a motion to accept it?

**IT WAS MOVED BY COUNCILMEMBER TOLMACHOFF, SECONDED BY COUNCILMEMBER HEREDIA, AND UNANIMOUSLY CARRIED TO ACCEPT THE**
9. **Reduced Fare Update**

Chair Stipp said items 9, 10, 11, and 12 are for information only. I will defer to the rest of the Board if they would like to see presentations or have discussions on those items. It is 1:15.

Paul, if I understand correctly, we are going to have a work session on the reduced fare?

Mr. Hodges said yes. The study session will include this presentation on reduced fare, but since it had a financial impact, we thought at least this portion of the presentation would be good for AFS as well. We'll also be providing an update along with City of Phoenix Public Transit staff on the status of the fare collection system replacement. That contract has been awarded so we wanted to give you an update on where we stand with that. That will happen at the study session as well.

If there's specific questions, I'd be happy to answer them. Or we could go into more detail at the study session.

Mr. Chair said I'll leave that to the whim of the Board, of the Committee. Any?

Councilmember Tolmachoff said I'm fine waiting for the study session with the full Board, but I would like to go through the audit exceptions since we're -- at least to see what we have on the list for audit exceptions before we adjourn this meeting today, Bill.

Mr. Chair said absolutely.

This item presented for information only.
10. Internal Audit Update

Chair Stipp said so, Item 10 was for information only and if anyone has questions on Item 10. If not, we'll go to Item 11.

This item presented for information only.

11. Internal Audit Exceptions Update

Chair Stipp said and, Jennifer, you're back, I assume, for the Internal Audit Exception report.

Ms. Davis said yes, I'm back. Just real quick, I wanted to go back to the audit update for just a half a second to say that I am proud to self-announce, but that I have obtained the -- my CIA certification in the last month so that I am a proud member of the Members of Certified Internal Auditors which is a globally-recognized designation for about 165,000 auditors worldwide. And I went through my testing over the past two years and with the help of Mary and Vickie achieved that accomplishment this last month so yay me talking about myself in the third person.

Councilmember Tolmachoff said congratulations.

Mr. Chair said congratulations.

Mayor Gallego said congratulations.

Ms. Davis said so, that's my internal audit report.

Moving on to Item 11 the Audit Exceptions Update. That there are eight open recommendations, three with the upcoming due dates. All of management is telling me that we are on track for those due dates. The travel and credit card audit now that we have the approved audit plan, I will be kicking off that audit shortly. We will review those exceptions during that one. And the one due by the end of June 2021. The details there that the inventory management policy should be finalized by the end of this month.

Performance management procedures are still on track for the end of September and the IT policy addendum at the end of October.

Again, that's the future due date basically exploring electronic workflow options for not only the professional development form, but that was the one that was relevant to this audit that we reviewed.

And remediated since the last review was the hardware and software management of -- they put in an SOP regarding software so that they're keeping up with what versions of software are on the systems.

And then you do have the itemized spreadsheet. Any questions on the audit exceptions?

Mr. Chair said anyone have questions? Councilmember Tolmachoff, did you have a question or just?
Councilmember Tolmachoff said I'm on mute. I keep forgetting to unmute. No. Just for the sake of transparency, I wanted to go through the list.

Mr. Chair said yeah. I agree. Any -- does anyone have any questions on the exceptions? Seeing none, next item is number 12 Intergovernmental Agreements and change orders.

This item presented for information only.

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

Mr. Hodgins provided a brief overview of Intergovernmental Agreements, Contract Change Orders, Amendments and Awards that included the following:

A. DMS Facility Services Contract Change Order
B. Bus Inspection Services Contract Award
C. Bus Operator Protective Barriers for Fixed Route Bus Fleet Contract Award
D. Light Rail Vehicle (LRV) Steel Tires Contract Change Order
E. Light Rail Vehicle (LRV) Door Control Unit Upgrade Contract Award
F. Asset Management & Vehicle Maintenance Ticketing System Upgrade
G. South Central Extension/Downtown Hub Project: Amended Funding Agreement
H. Siemens Mobility, Inc. Light Rail Vehicles Contract Amendment

Mr. Chair said any questions for Paul on that? Hearing and seeing none, next item on the agenda is Future Agenda items.

This information presented for information only.

13. Future Agenda Items

Mr. Chair said does anybody have anything that they would like to add to the next agenda? Seeing none.

I have one follow up for Stephanie or Paul. I'm not quite sure who, but in the minutes for today's meeting, we had talked at the previous meeting about the comparables and the other cities or the other transit systems that we compare ourselves to and it talked about that Paul said you were going to get the peer cities and the peer agency list out to us. I don't have it and I don't know if it went out, but just as a reminder, if we can please get that out at some point that would be awesome.

Mr. Hodgins said yes. We'll do that. I apologize.

Mr. Chair said no worries. It's been a long summer. It started in March.

This item presented for information only.
The next meeting of the Audit and Finance Subcommittee is September 10, 2020 at 12:00 p.m.

Our Board meeting is scheduled for August 27, 2020, at 11:15 a.m. Is that correct? With the study session before that.

Mr. Smith said Vice Mayor, if I could.

Mr. Chair said yes, sir.

Mr. Smith said I'd like to especially point out two people and, first of all, congratulations to Jennifer. The first one I'd like to point out is Jennifer who has done an absolute, incredible job going from 3 to 1 as quickly as she did. She's really, in these difficult times, has held down the fort in the audit function and has also stepped up and helped out Adrian Ruiz in our safety and security so I'd just like to point out to you what a great job Jennifer's done over the last little while. In addition to obtaining that very difficult accreditation. So, thank you and I hope, thank you, Jennifer and you deserve a lot of accolades.

The second person is Alexis. You know, we turned over this process of the audit charter and defining that a few months ago. She worked with Vickie. But Alexis has really gone over, beyond the call of duty to educate herself to audit standards. I'm very impressed as someone who lived in that area that she knows stuff better than many, most auditors do now. And she's really put a lot of work into try and satisfy your concerns and observations, but also understanding the audit standards and how things are done from the professional standards. So, I'd like to just point out the great work that Alexis has done. As we all know, it's been a very, very long and arduous process as we try to get it right and she's really done a great job. So, I just want to point that out to you and thank her for the work that she's done.

Mr. Chair said great. Thank you, Scott. Anybody have anything else before we adjourn? Seeing none.

With no further discussion, the meeting adjourned at 1:22 p.m.
Information Summary

DATE
September 3, 2020

SUBJECT
Internal Audit Charter

PURPOSE
Present the Internal Audit Charter to the Audit and Finance Subcommittee (AFS) for discussion and approval.

COST AND BUDGET
None

RECOMMENDATION
Staff recommends that the AFS approves the Internal Audit Charter.

BACKGROUND/DISCUSSION/CONSIDERATION
The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 1000 (Purpose, Authority, and Responsibility) states:

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

With the Chief of Staff/Senior Advisor’s assistance, Internal Audit drafted the charter to align with the requirements of the Standards.

COMMITTEE ACTION
AFS: September 10, 2020 for discussion and action

CONTACT
Alexis Tameron Kinsey
Chief of Staff/Senior Advisor
ATameronKinsey@valleymetro.org
602-322-4450

ATTACHMENT
Internal Audit Charter
Internal Audit Charter

Purpose and Mission
The purpose of Valley Metro’s Internal Audit activity is to serve Valley Metro and its Boards of Directors by providing independent, objective assurance and consulting services designed to add value and improve Valley Metro’s operational processes. The mission of internal audit is to assist Valley Metro in providing a safe, efficient and reliable transit network by providing risk-based and objective assurance, advice, and insight. The internal audit activity helps Valley Metro accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance¹, risk management, and internal control processes.

Standards for the Professional Practice of Internal Auditing
The internal audit activity will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors’ International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. This guidance includes the principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity’s performance. In addition, the internal audit activity should adhere to Valley Metro’s relevant policies and procedures and the Internal Audit’s Procedures Manual. The Director, Internal Audit (“Chief Auditor”) will report periodically to the Audit and Finance Subcommittee (“AFS”), Chief Executive Officer (“CEO”) and senior management regarding the internal audit activity’s conformance to the Code of Ethics and the Standards.

Authority
The Chief Auditor will report functionally to the AFS and administratively (i.e., day-to-day operations) to the CEO. To establish, maintain, and assure that Valley Metro’s internal audit activity has sufficient independence and authority to fulfill its duties, the AFS, in coordination with the CEO, shall:

- Approve the internal audit activity’s charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit activity’s budget and resource plan.
- Approve any proposed material deviation from the approved internal audit plan.
- Approve specific internal audits or engagements to be performed in addition to those outlined in the risk-based plan at the request of the AFS, CEO or senior management.
- Receive communications from the Chief Auditor on the internal audit activity’s performance relative to its plan and other matters.

1 Throughout this charter, “governance” is defined as “the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.” [The Institute of International Auditors 2017 IPPF (Redbook)]
• Make appropriate inquiries of management and the Chief Auditor to determine whether there is inappropriate scope or resource limitations.
• Review the annual performance evaluation of the Chief Auditor, in consultation with CEO, and review with the Chief Auditor and provide input and feedback as appropriate.
• Approve decisions regarding the annual performance evaluation, appointment or removal of the Chief Auditor.
• Approve the Chief Auditor’s annual salary and benefits or any adjustments to them.

Administratively, the day-to-day operations of the internal audit activity includes budget and management accounting oversight, human resource administration, adherence to Valley Metro’s and internal audit activity’s policies and procedures and the facilitation of internal communications and information flow across the organization.

The Chief Auditor shall have unrestricted access to communicate and interact directly with the AFS and CEO, which may include a request for private meetings without senior management present.

By approving this Charter, the AFS, in coordination with the CEO, authorizes the internal audit activity to:

• Have full, free, and unrestricted access to all Valley Metro functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information, except when prohibited by law.
• Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
• Obtain assistance from the necessary personnel of Valley Metro, as well as other specialized services from within or outside Valley Metro, in order to complete the engagement.

Independence and Objectivity
The Chief Auditor will ensure that the internal audit activity remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the AFS and the CEO.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

• Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for Valley Metro or its affiliates.
- Initiating or approving transactions external to the internal audit activity.
- Directing the activities of any Valley Metro employee not employed by the internal audit activity, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Chief Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to the AFS and the CEO.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Auditor will confirm to the AFS and the CEO, at least annually, the organizational independence of the internal audit activity and will disclose any difficulties or issues related to completing engagements, performing work, or communicating results.

**Scope of Internal Audit Activities**

The scope of internal audit activities encompasses, but is not limited to, objective examination and evaluation on the adequacy and effectiveness of Valley Metro’s governance, risk management, and internal control processes as well as the quality of performance in carrying out assigned responsibilities to achieve Valley Metro’s goals and objectives. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of Valley Metro’s strategic objectives are appropriately identified and managed.
- The actions of Valley Metro’s officers, directors, employees, and contractors are in compliance with Valley Metro’s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, plans, procedures, laws, and regulations that could significantly impact Valley Metro.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.
An audit report shall be prepared and issued by the Chief Auditor or designee following the conclusion of an approved internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the AFS in a format in accordance with IIA standards.

An internal audit report may include management’s response and corrective action taken or to be taken in regard to the specific findings or recommendations. Management’s response, whether included within the original audit report or provided thereafter by management of the audited area, should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Chief Auditor shall report periodically, but no less than each calendar quarter, to the AFS, the CEO and senior management regarding:

- The internal audit activity’s plan and performance relative to its plan.
- The internal audit activity’s conformance with The IIA’s Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by the AFS or the CEO.
- Results of audit engagements or other activities.
- Resource requirements.
- Any decisions by management to accept an identified risk that internal audit deems may be unacceptable to Valley Metro.

The Chief Auditor may participate in non-internal audit services work, consultations and evaluations, authorized by the CEO and senior management, or special projects and investigations, approved by the AFS, to improve procedures, controls, systems and/or efficiency of operations, and issue reports or memos, including documenting the project objectives, work performed and results of those procedures in project workpapers that are not intended for distribution in the same manner as an audit report.

The Chief Auditor may also coordinate activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the AFS, CEO and the appropriate level of management, when appropriate.

**Responsibility**

The Chief Auditor has the responsibility to:

- Submit, at least annually, to the AFS, the CEO and senior management an internal audit plan for review and approval.
- Ensure the development of an internal audit plan based on a prioritization of the audit universe using a risk-based methodology, including input from the AFS, CEO and senior management, and will consist of a work schedule as well as budget and resource requirements for the fiscal year.
- Communicate to the AFS, the CEO and senior management the impact of resource limitations on the internal audit plan or any significant interim changes to the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in Valley Metro’s business, risks, operations, programs, systems, and controls.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Ensure that any proposed material deviation from the approved internal audit plan is communicated to the AFS, CEO and senior management through periodic activity reports.
- Follow up on engagement findings and corrective actions, and report periodically to the AFS, the CEO and senior management any corrective actions not timely implemented. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter and continually improves proficiency and the effectiveness and quality of services.
- Ensure trends and emerging issues that could impact Valley Metro are considered and communicated to the AFS, CEO and senior management as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Ensure adherence to policies and procedures designed as a course or method of action to train and guide the internal auditors and internal audit activity.
- Ensure adherence to Valley Metro’s relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to the AFS, the CEO and senior management, as appropriate.
- Ensure conformance of the internal audit activity with the Standards, with the following qualifications:
  - If the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, the Chief Auditor will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - If the Standards are used in conjunction with requirements issued by Government Accountability Office, the Chief Auditor will ensure that the internal audit activity conforms with the Standards, even if the internal audit activity also conforms with the more restrictive requirements of Government Accountability Office.

**Quality Assurance and Improvement Program and Peer Review**
The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity’s conformance with the Standards and an evaluation of whether internal auditors apply
The IIA’s Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for organizational improvement.

The Chief Auditor will communicate to the AFS and the CEO on the internal audit activity’s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments (peer review) conducted every five years (or more often if deemed necessary) by a qualified, independent assessor or assessment team from outside Valley Metro.

Internal Audit Activity Charter

Approved this _________ day of ________, ________.

Approval/Signatures

_________________________________  _________________
Audit and Finance Subcommittee Chair  Date

_________________________________  _________________
General Counsel  Date

_________________________________  _________________
Chief Executive Officer  Date
AGENDA ITEM 4

DATE
September 3, 2020

SUBJECT
Audit and Finance Subcommittee Charter

PURPOSE
Present the Audit and Finance Subcommittee (AFS) Charter to the AFS for discussion, approval, and recommendation to forward to the Board of Directors for final approval.

COST AND BUDGET
None

RECOMMENDATION
Staff recommends that the AFS approve the Audit and Finance Subcommittee Charter and forward it to the Board of Directors for final approval.

BACKGROUND/DISCUSSION/CONSIDERATION
The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 1000 (Purpose, Authority, and Responsibility), requires an audit function charter. In addition to an audit function charter, the IIA Audit Standards recommend the governing body also have a charter.

Therefore, based on the Board of Directors documents that established the AFS and with the Chief of Staff/Senior Advisor’s assistance, Internal Audit drafted a charter for Valley Metro’s Audit and Finance Subcommittee to align with the requirements of the Standards.

COMMITTEE ACTION
AFS: September 10, 2020 for discussion and action

CONTACT
Alexis Tameron Kinsey
Chief of Staff/Senior Advisor
ATameronKinsey@valleymetro.org
602-322-4450

ATTACHMENT
Audit and Finance Subcommittee Charter
Audit and Finance Subcommittee Charter

Background
The Audit and Finance Subcommittee ("AFS") was originally formed by Valley Metro Regional Public Transportation Authority (RPTA) Board of Directors (Board) as the Budget and Finance Subcommittee (BFS) in 2006 after the passage of Proposition 400 to provide policy oversight of the expanded financial activities of the RPTA. The RPTA and Valley Metro Rail (VMR) Boards renamed the Subcommittee to the AFS in 2016 and expanded the scope of the AFS to add oversight of internal audit functions and to oversee financial and audit functions of VMR.

This charter, which governs the work of the subcommittee, was established on [date].

Purpose
The purpose of the AFS is to provide policy oversight of the financial activities and internal audit functions of the RPTA and VMR. The subcommittee assists the Boards and senior management by providing advice and guidance on:

1. Annual operating and capital budget process of the agency
2. Preparation of budget inputs and assumptions
3. Oversight of the compilation of financial reports for the Boards and member agency review
4. Preparation of the annual Transit Life Cycle Program and its financial model
5. Development of the five-year operating and capital plan
6. Oversight and review of internal and external audit activity

In broad terms, the AFS reviews each of the items noted above and provides the Boards with independent advice on the adequacy and effectiveness of management’s practices. Advice and guidance also may include suggestions and recommendations to strengthen these processes.

Mandate
The mandate for the establishment of the AFS was derived from a vote from the RPTA and VMR Boards of Directors on March 17, 2016.

Authority
The authority of the AFS to perform its work is established within the scope of its charter. In discharging its responsibilities, the AFS shall have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties.

The subcommittee is entitled to receive explanations from management and staff of the organization that it deems necessary to discharge its responsibilities. The AFS may engage independent counsel and/or other advisers as it deems necessary to carry out its duties.

Composition of the Audit and Finance Subcommittee
The AFS will consist of up to five (5) members. A member’s financial background will be considered, along with geographic representation. One of the five members will always be the elected official
representing the City of Phoenix. Two (2) of the members will represent both RPTA and VMR (with the aforementioned Phoenix member retaining one of the two VMR positions). No more than two members of the AFS will be from the VMR Board due to quorum requirements.

**The Chair of the Audit and Finance Subcommittee**
The Chair of the AFS will be appointed by the Chairs of the RPTA and VMR Boards.

**Terms of Office**
Terms of membership are for two years, with the ability to be re-elected by each Board. No member shall serve more than four years, except the elected official representing the City of Phoenix. Membership is structured so that two members are elected in even numbered years and two members elected in odd numbered years. Elections will occur at the last meeting of the fiscal year with membership to begin at the beginning of the following fiscal year.

In the event a vacancy occurs on the AFS, the Board(s) will conduct an election to fill the vacant seat as soon as practicable.

**Quorum**
The quorum for the AFS is defined as a majority of the total authorized membership of the AFS.

**Operational Principles**

**Values and Ethics**
The AFS will conduct itself in accordance with the Valley Metro’s core values and ethics policy [Policy I.D.: LGL – 01.02]. The AFS expects that management and staff of the organization will adhere to these requirements.

**Communications**
The AFS expects that communications with senior management and staff of the organization as well as with any external assurance providers will be direct, open, and complete.

**Work plan**
The AFS chair, in collaboration with the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and Chief Auditor, will establish a work plan, in addition to a risk-based audit plan, to ensure that the responsibilities of the AFS are scheduled and will be carried out.

**Meeting Agenda**
The chair shall establish meeting agendas in consultation with AFS members, CFO, and the Chief Auditor.

**Information Requirements**
The AFS shall establish and communicate its information requirements. This shall include the nature, extent, and timing of such information requirements. Information shall be provided to the AFS at least one week prior to the meeting.

**Executive Sessions**
Executive sessions of the AFS may be held for purposes of discussing/considering personnel issues; non-public records; legal advice; the Board’s position on contract negotiations, litigation or claim
settlement; and any other purpose authorized by A.R.S. Title 38, Chapter 3, Article 3.1. The AFS may schedule, and hold if necessary, a private session with the CEO, the CFO, the Chief Auditor, external assurance providers, and with any other officials that the AFS may deem appropriate at each of its meetings.

Preparation and Attendance
AFS members have an obligation to prepare for and participate in committee meetings.

Conflict(s) of Interest
Members of the AFS and all employees and agents of the Regional Public Transportation Authority shall comply with the State Conflict of Interest Law, A. R. S. Sections 38-501, et seq.

Orientation and Training
AFS members should receive formal orientation training on the purpose and mandate of the committee and on the organization’s objectives. A process of continuing education may be established at the discretion and under the direction of the AFS.

Operational Procedures

Meetings
The AFS shall meet no less than once each calendar quarter or as frequently as the committee deems necessary.

Minutes
The AFS shall comply with the State Open Meeting Law, shall keep regular meeting minutes of the proceedings, and shall report their proceedings to the Boards.

Required Attendance
The CFO and the Chief Auditor are required to attend all committee meetings.

Chair Responsibilities
The responsibilities of the AFS Chair include the following:

- Chair the meetings of the AFS
- Review agency expenses related to credit cards, travel and entertainment, specifically:
  - Approve credit card expenditures for the CEO
  - Approve travel expense reports for CEO
  - Review monthly expenditure activity for Agency credit cards
  - Review a summary of Local Dining and Refreshments expenditures incurred by the Agency on a quarterly basis
  - Review, approve and sign any Relocation over $25,000 prior to offer letter being sent to Candidate
    - AFS Chair, at their discretion, may defer to the AFS members for decision
- Provide general guidance to CFO and Chief Auditor
Organizational Governance
To obtain reasonable assurance with respect to the RPTA and VMR governance, the AFS, in collaboration with the CEO, may review and provide advice on the processes and structures implemented by the Boards to inform, direct, manage, and monitor the financial activities and internal audit functions of the organization toward the achievement of their objectives.

Risk Management
To obtain reasonable assurance with respect to the organization’s risk management arrangements, the AFS, in consultation with the CEO and CFO, shall:

- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Boards.
- Review and provide advice on the risk management arrangements established and maintained by management and the procedures in place to ensure that they are operating as intended.
- Annually review the organization’s risk profile.
- Obtain from the Chief Auditor an annual report on management’s implementation and maintenance of an appropriate integrated risk management process.

Fraud
To obtain reasonable assurance with respect to the organization’s procedures for the prevention and detection of fraud, the AFS, in consultation with the CEO and CFO, shall:

- Take an active role in the prevention and deterrence of fraud.
- Challenge management and the auditors to ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.
- Ensure that appropriate action is taken against known perpetrators of fraud.

Oversight of Internal and External Audit and Other Assurance Providers

Internal Audit Activity
To obtain reasonable assurance with respect to work of the audit activity, the AFS, in coordination with the CEO, should:

- Review and approve the internal audit charter at least annually. The charter should be reviewed to ensure that it is consistent with changes in the financial, risk management, and governance arrangements of the organization and reflects developments in internal audit professional practices.
- Review and approve proposed risk-based internal annual audit plan and make recommendations concerning internal audit projects.
- Review and approve the internal audit plan and engagement work program, including reviewing internal audit resources necessary to achieve the plan.

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1 See The Institute of Internal Auditors’ October 2014 “Assessing Organizational Governance in the Public Sector” for insight and definition of key concepts; 2017 IPPF IG2110 Governance Implementation and 2110 Governance Standard.
2 See: Valley Metro Governance and Policy Structure (organization chart)
• Review and approve specific audits or engagements to be performed in addition to those outlined in the internal audit plan at the request of or proposed by a member of the AFS, CEO or Chief Auditor.
• Review and provide input on the budget, expertise, and staffing levels, including the use of consultants, of the internal audit program. Review internal audit reports and other communications to management.
• Review and advise management on the results of any special investigations.
• Inquire of the Chief Auditor whether any evidence of fraud has been identified during internal audits and further action to be taken.
• Review and track management’s action plans to address internal audit recommendations.
• Inquire of the Chief Auditor whether any internal audit engagements or tasks have been carried out that did not result in a report to the committee. If there have been, inquire as to the matters of significance, if any, arising from such work.
• Oversee, provide input and approve the annual performance evaluation of the Chief Auditor.
• Review and provide input on internal audit’s strategic plan, program goals, performance measures, and outcomes.
• Review the internal audit activity’s performance relative to its audit plan.
• Inquire of the Chief Auditor about steps taken to ensure that the audit activity is consistent with The IIA’s *International Standards for the Professional Practice of Internal Auditing (Standards).*
• Ensure that the internal audit function has an external quality assurance (peer) review every five years or more often if deemed necessary.
• Review the results of the independent external quality assurance (peer) review and monitor the implementation of the action plans to address recommendations raised.
• Advise the Board of any recommendations concerning the continuous improvement of the audit activity.

**External Audit**
To obtain reasonable assurance with respect to work of the external assurance providers, the AFS, in consultation with CEO, shall evaluate the performance of the external audit firm and recommend to the Boards the appointment of the audit firm. AFS members, the CEO and senior management, may also meet with the external assurance providers during the planning phase of the audit, the presentation of the audited financial statements, and the discussion of the results and recommendations to management.

**Follow Up on Management Action Plans**
To obtain reasonable assurance that management has acted on the observations and recommendations from internal and external audit, the AFS may review regular reports on the progress of implementing agreed upon management action plans and audit recommendations included in completed audits.

**Oversight of Chief Financial Officer**
To obtain reasonable assurance with respect to work of the CFO, the AFS, in coordination with the CEO, should:

- Provide oversight over annual operating and capital budget process of the agency.
- Review budget inputs and assumptions.
- Provide oversight of the compilation of financial reports for the Boards and member agency review.
• Review the annual Transit Life Cycle Program and its financial model.
• Review the five-year operating and capital plan.
• Oversee, provide input and approve on the annual performance evaluation of the CFO.
• Review and provide input on budget, contracts and procurement management goals, performance measures, and outcomes.

Financial Statements and Public Accountability Reporting
The AFS is responsible for oversight of the independent audit of the government entity’s financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

Other Responsibilities
In addition, the AFS, in coordination with the CEO, where appropriate, may:
• Perform other activities related to this charter as requested by the Boards.
• Institute and oversee special investigations as needed.
• Regularly evaluate its performance and that of its individual members.

Reporting on Audit and Finance Subcommittee Performance
The AFS should:
• Report periodically to the Boards summarizing the subcommittee’s activities and recommendations or less frequently as the committee deems necessary. The report should be delivered at the regularly scheduled joint meeting of the Boards.
• The report may include:
  o A summary of the work the subcommittee performed to fully discharge its responsibilities.
  o A summary of management units’ progress in addressing corrective actions on the findings and recommendations made in internal and external audit reports.
  o An overall assessment of the management units’ risk, control, and compliance processes, including details of any significant emerging risks or legislative changes impacting the Boards.
  o Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended. The subcommittee may, at any time, report to the Boards any other matter it deems of sufficient importance.

Approval/Signatures

_________________________________________________
RPTA Board Chair  Date

_________________________________________________
VMR Board Chair  Date

_________________________________________________
Audit and Finance Subcommittee Chair  Date

_________________________________________________
CEO  Date
DATE AGENDA ITEM 5
September 3, 2020

SUBJECT
Merit Pay for Front Line Staff

PURPOSE
To have a discussion about providing merit increases to front line staff in advance of the discussion for remaining staff.

COST AND BUDGET
The adopted FY21 Annual Operating Budget includes a placeholder to allow for a merit increase to staff up to 3%. Staff agreed to provide a review of budget and revenues to the AFS after the first quarter of FY21. The AFS could choose, based on the revenue situation at the time, to recommend to the Board of Directors that merit pay be distributed to staff.

RECOMMENDATION
This item is for possible action. Staff recommends that the AFS forward to the Board of Directors a recommendation that merit pay be distributed to front line staff ahead of the review for all staff.

BACKGROUND | DISCUSSION | CONSIDERATION
The COVID-19 pandemic caused many employers to begin widespread telework in March, with the Governor’s stay-at-home order at the end of March then requiring teleworking for all who could. Valley Metro was able to stand up and enhance its technology capabilities at that time to allow the majority of its administrative staff to work from home and remain productive.

However, a significant number of employees are unable to complete their job duties from home and were required to continue reporting to their regular work site. The majority of these are Valley Metro Rail maintenance employees responsible for vehicle, track, traction power and cleaning of the light rail system. While Valley Metro has taken additional precautions to ensure the safety of its employees, many of these employees have continued to risk exposure to COVID-19 while providing essential services to transit customers.

The Board of Director authorized a set-aside of funds in the FY21 Operating and Capital Budget to accommodate a three percent merit increase for employees. However, the distribution of the merit pay was dependent on budget and revenue status. The AFS is to review that status after the first quarter of the fiscal year and make a recommendation to the Board based on that review.
Public Transportation Fund revenues ended FY20 only slightly under budget. The pandemic did affect revenues, causing decreases in April through June, but those decreases were not nearly as severe as originally forecast. Revenues in July 2020 were significantly higher than budget. In fact, they were the highest July revenues recorded. Although early, staff is optimistic that the impact to revenues in FY21 and through the remainder of Prop 400 will not be significantly below the pre-COVID forecast.

Many transit agencies across the country have recognized their essential workers by providing additional pay, either through one-time bonuses or increases in hourly wages. Valley Metro’s leadership would like to recognize the contribution made by these essential workers by distributing the budgeted merit pay adjustments just to these front line employees.

STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan:
- Goal 1: Advance performance-based operations

COMMITTEE PROCESS
AFS: September 10, 2020 for possible action

CONTACT
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org

ATTACHMENT
None
DATE
September 3, 2020

SUBJECT
Internal Audit Update

PURPOSE
To update the Audit and Finance Subcommittee on current Internal Audit activities and provide a summary of FY19-20 Internal Audit Follow-up Activities.

COST AND BUDGET
None

RECOMMENDATION
Item presented for information only.

BACKGROUND/DISCUSSION/CONSIDERATION
None

COMMITTEE ACTION
None

CONTACT
Jennifer Davis
Senior Internal Auditor
j.davis@valleymetro.org
602-322-4452

ATTACHMENT
FY19-20 Annual Summary of Follow-up Activities
Valley Metro Audit and Finance Subcommittee Internal Audit Update September 2020

Update:

<table>
<thead>
<tr>
<th>Process</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card Transactions</td>
<td>Planning audit kick-off for Sept.</td>
</tr>
<tr>
<td>Travel Expenses</td>
<td>Planning audit kick-off for Sept.</td>
</tr>
<tr>
<td>Contract Mgmt.–Fare Inspection &amp; Security Services</td>
<td>Not Started</td>
</tr>
<tr>
<td>Contract Mgmt.–Rail Transportation Services</td>
<td>Not Started</td>
</tr>
<tr>
<td>Mobility Center Cash Collection</td>
<td>Not Started</td>
</tr>
<tr>
<td>Federal Grant Compliance</td>
<td>Not Started</td>
</tr>
<tr>
<td><strong>Special Projects</strong></td>
<td></td>
</tr>
<tr>
<td>Safety and Security Audit</td>
<td>ADOT CAPs &amp; ISSA Review-Security Element #1 Monitoring– Project kicked-off Sept 1st</td>
</tr>
<tr>
<td>Enterprise Resource Planning (ERP) System</td>
<td></td>
</tr>
<tr>
<td>External Audits:</td>
<td>VM meeting with CoP on Oct 1st PTASP to BoD on Oct 22nd, remaining CAPs due by May 2021</td>
</tr>
<tr>
<td>City of Phoenix – Contract Risk Assessment</td>
<td></td>
</tr>
<tr>
<td>ADOT – Rail Safety Audit</td>
<td></td>
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</tbody>
</table>
Internal Audit Update
FY19/20 Annual Summary of Follow-up Activities

Purpose:
To provide the Audit and Finance Subcommittee (AFS) the annual summary of follow-up activities for Fiscal Year 2019/2020.

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 Recommendations:
During Fiscal Year 2019/2020 (FY19/20), Internal Audit monitored and tracked the status of 41 audit recommendations. 20 carried over from the FY18/19 reviews and 21 resulted from the following FY19/20 Internal Audit reviews: (the number of recommendations is noted in parentheses)

- Bus Services Contract Audit, issued September 2019, (ten)
- Full-Time Employee Additions, issued October 2019, (three)
- OMC Non-Capitalized Rail Parts and Tool Inventory, issued January 2020, (one)
- Hardware and Software Management, issued February 2020, (five)
- Performance Management, issued March 2020, (one)
- Professional Development, issued April 2020, (one)

Additionally, the following external reviews were conducted during FY19/20:

- Maricopa County – Transportation Vendor Invoices Audit, issued December 2019
- City of Phoenix – Light Rail Fare Compliance, issued January 2020

Although Internal Audit did not track the recommendations brought forth from these reviews, the reports were presented to the AFS and posted to the Internal Audit website.

Summary/Conclusion:
34 of the 41 audit recommendations monitored (83%) were remediated as of September 1, 2020:

- 16 of the 20 FY18/19 recommendations
- 18 of the 21 FY19/20 recommendations

Four FY18/19 recommendations were from the Travel and Credit Card Audits. These audits were moved to the FY 20/21 Audit Plan. Internal Audit will review the remediation efforts during these audits which are scheduled to kick-off in September 2020.

Two FY19/20 recommendations are on track for their September and October due dates, and the final FY19/20 recommendation, issued in April 2020, has a due date of June 2021.

Internal and external audits/reviews are accessible via the Internal Audit website:
https://www.valleymetro.org/audit-reports
DATE
September 3, 2020

SUBJECT
Audit exceptions update

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

COST AND BUDGET
Funding for monitoring the progress of audit exceptions is included in the FY 2020/21 Valley Metro budget.

RECOMMENDATION
Items presented for information only.

BACKGROUND/DISCUSSION/CONSIDERATION
The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 2500 Monitoring Progress states:

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

COMMITTEE ACTION
None

CONTACT
Jennifer Davis
Senior Internal Auditor
jdavis@valleymetro.org
602-322-4452

ATTACHMENT
Audit exceptions log
Audit Exception Log Summary

• Seven Open Recommendations
  • Two with upcoming due dates – On track for completion
  • Four pending the next Travel & Credit Card audits
  • One due by the end of FY20/21
• One Remediated Recommendation
### Upcoming Due Dates:

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Management Action</th>
<th>Due Date</th>
<th>Responsible Parties</th>
<th>Current Actions</th>
<th>Estimated Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Performance Management Procedures</td>
<td>9/30</td>
<td>CAO and HR Director</td>
<td>On track</td>
<td>9/30/2020</td>
</tr>
<tr>
<td>6</td>
<td>Create an Addendum to the Acceptable Use Policy for Approved Software</td>
<td>10/31</td>
<td>IT Manager</td>
<td>On track</td>
<td>10/31/2020</td>
</tr>
</tbody>
</table>

Note: Exceptions for the Travel Audit and the Credit Card Audit (Ref #s 1 - 4) will be evaluated during the FY 2020/2021 reviews of those areas. Planning audit kick-off for September.

### Future Due Date:

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Management Action</th>
<th>Due Date</th>
<th>Responsible Parties</th>
<th>Current Actions</th>
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</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Explore electronic form options for the Division Sponsored Professional Development form; a solution that includes a digital workflow approval process and payment through the Financial System.</td>
<td>6/30/2021</td>
<td>Learning &amp; Development Manager and CFO</td>
<td>ERP Project kicked-off on Sept 1st. Electronic forms and digital workflow processes will be considered within the scope of the project.</td>
<td>6/30/2021</td>
</tr>
</tbody>
</table>
### Remediated since last Meeting:

<table>
<thead>
<tr>
<th>Audit</th>
<th>Audit’s Recommendation</th>
<th>Management Action</th>
</tr>
</thead>
</table>
| OMC Rail Parts and Tool Inventory (Remed 1) | Management should establish a written Inventory Management Policy and update/create applicable procedures. | OMC issued the Inventory Management Policy (OMC-01.01) effective 08/26/2020 and updated/created the associated SOPs:  
  - SOP 100.29 Maintenance System User Access & Termination  
  - SOP 1400.12 Securing and Disposing of Precious Items  
  - SOP 1900.01 Stock Coded Inventory Cycle Counting Process  
  - SOP 2100.01 Asset Collection Data/Inventory Management  
  - SOP 2200.01 Tool Inventory Management |
<table>
<thead>
<tr>
<th>Ref #</th>
<th>Finding Title</th>
<th>Department</th>
<th>Report Number</th>
<th>Finding Number</th>
<th>Finding Description</th>
<th>Recommendations</th>
<th>Management Response</th>
<th>Report Date</th>
<th>Due Date</th>
<th>Status</th>
<th>Responsible Party</th>
<th>AFS Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Travel Policy Clarification</td>
<td>Finance</td>
<td>04/2018</td>
<td>2</td>
<td>The Travel policy: • Encourages individuals to stay at the conference or training host hotel site. If the host hotel nightly rate exceeds the GSA Lodging Rate Schedule, the excess host hotel rate is authorized. GSA §301.11.303 states: &quot;The maximum amount that you may be reimbursed under actual expense is limited to 300 percent (rounded to the next higher dollar) of the applicable maximum per diem rate.&quot; 17 of 93 travel instances were identified where the daily rate for lodging was in excess of the GSA published rate but under the 300 percent cap. The rates ranged from Management should align the Travel policy intent with associated forms and practices. If circumstances warrant travel to be completed in less than 21 day of the submission of the Agency Travel, Conference and Out-of-County Training form, the policy should reflect such verbiage. The Travel Authorization form should be revised to include identification if the user is staying at the host hotel and the rate exceeds the GSA rate. Otherwise, revisions to verbiage related to &quot;hotel expense are reimbursed up to the to the maximum GSA hotel rate; and a traveler is responsible for the difference in the rate.&quot; Management concurs with the recommendation. Additional clarity is being added to the Travel Policy and procedures will be updated to ensure that documentation is proper and complete.</td>
<td>4/6/2018</td>
<td>05/31/2018</td>
<td>Open</td>
<td>Chief Financial Officer</td>
<td>Pending Next Audit: Planning the audit kick-off for September.</td>
<td></td>
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<tr>
<td>2</td>
<td>Travel Policy Exceptions</td>
<td>Finance</td>
<td>04/2018</td>
<td>2</td>
<td>After reviewing 93 travel requests, 8 instances were in compliance. In six instances, documentation was insufficient to determine whether costs were appropriate. The six instances were: • One traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost comparison nor explanation was not included. Therefore evidence to verify the saving was not present. Management should require travelers acknowledge review of the current Travel policy on an annual basis. Travel Administrators should document within the travel file any unusual requests for travel expenses and receive appropriate approval for such requests prior to booking. Travelers should be required to explain any unusual expenses incurred on the Expense form prior to being approved for reimbursement.</td>
<td>Management concurs with the recommendation. Annual refresher training will be provided to ensure compliance with the Travel Policy.</td>
<td>4/6/2018</td>
<td>05/31/2018</td>
<td>Open</td>
<td>Chief Financial Officer</td>
<td>Pending Next Audit: Planning the audit kick-off for September.</td>
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<tr>
<td>3</td>
<td>Policy Compliance – Documented Division Head Approvals Not Maintained</td>
<td>Finance &amp; Procurement</td>
<td>02/2019</td>
<td>1.1</td>
<td>Six cardholders did not have evidence of the Division Head’s review/approval by means of a dated Division Head signature for 18 monthly credit card reconciliation packets. Four cardholders had sixteen credit card reconciliation packets that were not signed by the Division Head, but rather a Manager with no delegation of authority paperwork applicable. One cardholder had one credit card reconciliation packet that did not have a Division Head signature. Although notations indicating the cardholder was no longer a Valley Metro employee, no Division Head Management should expand the policy’s training requirement beyond the cardholders to include applicable employees in the Agency’s credit card transaction process. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation. Management disagrees with the recommendation. The intent of the credit card policy is to ensure that credit card transactions comply with the procurement policies and procedures. It is management’s view that a cardholder’s manager is responsible for reviewing and approving the cardholder’s transactions. Management will revise the policy to clarify that a management staff (Manager or Director level) must review and approve transactions. Finance staff will confirm that a management staff has approved the credit card packet and</td>
<td>2/21/2019</td>
<td>03/31/2019</td>
<td>Open</td>
<td>Chief Financial Officer</td>
<td>Pending Next Audit: Planning the audit kick-off for September.</td>
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<td>AFS Notes</td>
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<tr>
<td>4</td>
<td>Policy Compliance – Insufficient/Incomplete Documents within Cardholder</td>
<td>Finance &amp; Procurement</td>
<td>02/2019</td>
<td>1.2</td>
<td>Credit card reconciliation packets were submitted and processed without all policy required signatures or documentation. One cardholder’s Pre-Approval Local Dining and Refreshments forms for a credit card transaction, totaling $113, was for a FTA meeting, did not have the CFO and CEO approval signatures, only the Division Head signature existed. Eight cardholders did not have the Pre-Approval Local Dining and Refreshments forms in their credit card reconciliation packets. Fifty-seven credit card transactions, totaling $16,237, were for reconciliation.</td>
<td>Management should expand the cardholder’s training requirements beyond the Credit Card, Acceptable Use policy to include other policies wherein credit card purchases may be applicable, specifically the Agency Local Dining and Refreshments policy. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation.</td>
<td>Management disagrees with the recommendation. Complete documentation for authorized travel or for local dining does not need to be included in the credit card packet, nor should the Credit Card Administrator review travel related charges to ensure that they are authorized. That is all the responsibility of the travel administrators as described in the travel policy, or the Controller as described in the Local Dining policy. Additionally, the Local Dining policy fails to acknowledge the accepted and longstanding practice of providing meals at Committee and management meetings.</td>
<td>2/21/2019</td>
<td>04/30/2019</td>
<td>Open</td>
<td>Chief Financial Officer</td>
<td>Pending Next Audit: Planning the audit kick-off for September.</td>
</tr>
<tr>
<td>5</td>
<td>Established Performance Management Policies and Procedures Do Not Exist</td>
<td>Human Resources</td>
<td>03/2020</td>
<td>1</td>
<td>Valley Metro does not have documented policies or procedures regarding performance management to address:</td>
<td>Develop, document and implement comprehensive performance management policies and procedures. Given that job descriptions and pay ranges are largely or entirely the responsibility of the HR Department, written HR procedures are more applicable for these topics than agency policies. In addition, steps will be taken to prevent the clerical error that resulted 17 merit increase forms being signed after the merit’s implementation.</td>
<td>3/4/2020</td>
<td>9/30/2020</td>
<td>Open</td>
<td>Human Resource Director &amp; CAO</td>
<td>9/01/2020 - Per the HR Director, the team is working on modifying the draft procedures; with a goal of meeting the September deadline.</td>
<td></td>
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<tr>
<td>6</td>
<td>Software License Tracking</td>
<td>IT</td>
<td>02/2020</td>
<td>2.1</td>
<td>The IT department tracks Software as a Service (SaaS) and subscription licenses by reviewing each SaaS administrative portal account. The ITAM inventory system is used for tracking on premise device software licenses and these licenses are reconciled during annual true-up periods for each software application. During our audit we discovered:</td>
<td>Management should: - Regularly review the ITAM report to identify and remediate any software device license discrepancies. - Ensure machines are being re-imaged before being re-issued to employees to eliminate any risks of unsupported software installed on the machine. - Consider defining the acceptable use of software in the draft Acceptable Use Policy and limit the ability for employees to download and install software onto Valley Metro computers. This policy should be communicated and acknowledged by employees.</td>
<td>The IT Department agrees with the recommended improvements: 1. An addendum to Acceptable Use Policy detailing approved software will be developed. The policy will be communicated and unapproved software will be deleted. Due Date: October 31, 2020 2. The IT will re-image reissued machines to eliminate old software versions. It is important to note, however, that regular vulnerability scans mitigate any risk posed by older software versions. Due Date: March 31, 2020 3. The IT Department will create a procedure to uninstall inactive software.</td>
<td>3/4/2020</td>
<td>10/31/2020</td>
<td>Open</td>
<td>Manager, Information Technology</td>
<td>8/27/2020 - Per the IT Manager, the CAP for recommendation 2.1 is on track for October. Additionally, IT staff are still working with each division to evaluate needs.</td>
</tr>
<tr>
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<tr>
<td>7</td>
<td>Process Efficiencies for Approving and Tracking Division Sponsored Development Opportunities</td>
<td>HR &amp; Finance</td>
<td>04/2020</td>
<td>3</td>
<td>Valley Metro’s current systems do not support electronic request/approval/processing of professional development forms. Additionally, there is no electronic method to track and report, only the manually maintained Excel file. The professional development processes could be strengthened and more efficient if a centralized electronic approval and tracking system was utilized. This would allow, Divisions to enter and route their department’s trainings for approvals and provide an electronic platform to track and report on the activities.</td>
<td>Valley Metro should include the electronic processing and tracking of Division Sponsored Development opportunities in the implementation of the new Enterprise Resource Planning (ERP) system or another electronic based workflow system. Both Finance and HR concur with the recommendation. An electronic form that includes workflows would be more efficient than the current paper process. Action Plan: The Learning and Development Manager will work with Finance and IT to explore electronic form options for the Division Sponsored Professional Development form; a solution that includes a digital workflow approval process and payment through the Financial System.</td>
<td>4/2/2020</td>
<td>6/30/2021</td>
<td>Open</td>
<td>Learning and Development Manager and CFO</td>
<td>8/31/2020 - Per the CFO, the ERP/EAM System project kicks-off 09/01. Electronic forms and digital work flow processes will be considered within the scope of the project.</td>
<td></td>
</tr>
</tbody>
</table>

| Remed | No Established Inventory Management Policy                                   | OMC & Finance | 01/2020     | 1              | A written Inventory Management Policy for the parts and tools used at the OMC does not exist. Procedures were not documented, and the processes followed were inefficient in addressing the handling of precious items (e.g., copper and steel), and the reconciliation, disposal, and obsolescence of parts and tools. Management could not provide a documented base knowledge of all items on-site to include in the OMC tools and parts inventories. The OMC has not conducted a full inventory of the parts and tools for the MOE and MOW. A reconciliation Management should establish a written: (A) Inventory Management Policy to address: (1) Accounting and securing precious items, metals, parts, and tools; (2) Disposal of obsolete or broken parts and tools; (3) Reconciliation of on-hand quantities of parts and tools, and (4) Employee counseling and/or reimbursement for lost or damaged agency assets. (B) Set of current procedures to address: (1) Performance of full inventory counts of all parts and tools; Taking into account the attached comments, management will establish a written Inventory Management Policy that addresses the four (4) components listed in the audit recommendation. Also, management will establish or modify current written procedures that addresses the other eight (8) components listed in the audit recommendation. These policies and procedures will be written in a manner that will provide the most operationally efficient and economical method. | 1/16/2020 | 08/31/2020 | Remediated 08/31/2020 | CFO & COO | 09/01/2020 - OMC issued the Inventory Management Policy (OMC-01.01) effective 08/26/2020 and updated/created the associated SOPs: SOP 100.29 Maintenance System User Access & Termination SOP 1400.12 Securing and Disposing of Precious Items SOP 1900.01 Stock Coded Inventory Cycle Counting Process SOP 2100.01 Asset Collection Data/Inventory Management SOP 2200.01 Tool Inventory Management |
DATE
September 3, 2020

SUBJECT
Payroll Tax Deferral

PURPOSE
To provide information regarding the payroll tax deferral available to employers.

BACKGROUND | DISCUSSION | CONSIDERATION
On August 8, 2020, President Trump signed a Memorandum on Deferring Payroll Tax Obligations (the “Memorandum”) in Light of the Ongoing COVID-19 Disaster that directs the Treasury Secretary to defer employee payroll taxes. Payroll taxes, commonly referred to as employment taxes, are assessed on employee wages, and are comprised of 6.2% Social Security tax and 1.45% Medicare tax, paid by both the employer and employee. These taxes apply to a large number of employees, based on annual compensation, and are incurred by the employee in addition to applicable state and federal income tax withholding.

The Memorandum for deferral of payroll taxes applies only to the employee’s share of the 6.2% Social Security tax for wages paid for the period beginning September 1, 2020 through December 31, 2020. The employer will not incur any penalty, interest, or addition to tax for no withholding, depositing, or making payment of these taxes for the deferral period. The deferral only applies to employees making pre-tax income of less than about $104,000/year. This translates to additional take home pay for eligible employees of up to a maximum of approximately $2,100 over the deferral period.

This is only a deferral. The employee share of the tax is due to be repaid during the first quarter of calendar 2021. This means that Valley Metro would need to more than double the amount withheld from employee wages, negating the benefit received during the deferral period. Alternatively, Valley Metro may elect to pay the taxes without eroding it from employee wages.

Valley Metro agrees with the general opinion that this deferral is optional. Given that deferral repayment options may be problematic, Valley Metro has decided not to defer witholding payroll taxes from employee wages during the deferral period.

COST AND BUDGET
Under the federal guidance concerning deferral of payroll taxes an employer is responsible for paying any deferred taxes during calendar 2021. In that scenario, Valley Metro would be bound to double the withholding to employees during the first three months of 2021.
RECOMMENDATION
This item is for information only.

STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan:
• Goal 1: Advance performance-based operations

COMMITTEE PROCESS
AFS: September 10, 2020 for information

CONTACT
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org

ATTACHMENT
None
DATE
September 3, 2020

AGENDA ITEM 9

SUBJECT
Prop 400 Revenue Forecasts and Transit Life Cycle Program Impacts

PURPOSE
To provide information about two alternative revenue forecasts for use during the budget process, and the impacts on the Transit Life Cycle Program (TLCP).

COST AND BUDGET
There is no direct impact to the adopted FY21 Annual Operating and Capital Budgets. The alternate forecasts developed will help guide the development of the FY22 Annual Operating and Capital Budgets and also will guide discussions around potential service reductions.

RECOMMENDATION
For information only.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro receives a portion of the Transportation Excise Tax approved in Prop 400. The current pandemic has created uncertainty about what those future revenues will be. The stimulus funds provided by Congress through the CARES Act to the economy has helped maintain tax revenues, with a modest drop in the fourth quarter of FY20. However, July revenues were the strongest in history for that month.

As discussed at previous AFS and Board meetings, staff will proceed through the budget process with an optimistic and pessimistic forecast. Staff will review the development of the alternative forecasts and the impact to future revenues.

The FY22 Annual Budget and the FY22-26 Five-Year Forecast will be developed using the optimistic forecast given the strength of the current revenues. But staff will identify strategies to reduce expenditures to meet the more pessimistic forecast should revenues decline.

The same forecasts will be used to guide discussion with the Service Planning Working Group, which is looking at potential service reductions to address revenue shortfalls. Potential shortfalls would affect both local and regional funding sources. The SPWG will develop options to address reductions to both regionally and locally funded services.

The alternate forecasts have been used to develop scenarios for the Transit Life Cycle Program financial model. The model was updated with the latest estimates for costs and
the model output the different scenarios on how the jurisdictional equity (JE) for each sub-region is affected. The JE tables will help guide discussion on how much service may need to be reduced, or future improvements deferred, to ensure the TLCP can be balanced through 2025.

**STRATEGIC PLAN ALIGNMENT**
This item relates to the following goals and strategies in the Five-Year Strategic Plan:
- Goal 1: Advance performance-based operations

**COMMITTEE PROCESS**
FWG: August 18, 2020 for information
AFS: September 10, 2020 for information

**CONTACT**
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org

**ATTACHMENT**
None
Valley Metro
Transit Life Cycle Program
Revenue Forecast

September 2020

Revenue Forecasts
Transportation Excise Tax

Proposition 400 approved in November 2004

- Half-cent sales tax for Maricopa County
  - Extension of tax approved in 1985 for freeway improvements

- Provides funding for freeway, arterial and transit improvements

- Funding allocations are in State statutes and revenues cannot be transferred between programs
  - 33.3% for transit program
  - 56.2% for freeway program
  - 10.5% for arterial program

Revenue Forecast

- ADOT manages forecast process

  - Risk Analysis Process (RAP)
    - Econometric model
    - Independent variables for each category of tax

  - RAP Panel discussion
    - Panelists are experts in various fields and provide forecasts for the independent variables

  - Forecast published in September or October each year
    - Most recent forecast published in September 2019
Official ADOT Forecast
September 2019
(millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Public Transportation</th>
<th>Bus Component</th>
<th>Rail Component</th>
<th>Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$165.73</td>
<td>$94.1</td>
<td>$71.7</td>
<td>6.21%</td>
</tr>
<tr>
<td>2021</td>
<td>$175.59</td>
<td>$99.7</td>
<td>$75.9</td>
<td>5.95%</td>
</tr>
<tr>
<td>2022</td>
<td>$184.78</td>
<td>$104.9</td>
<td>$79.9</td>
<td>5.23%</td>
</tr>
<tr>
<td>2023</td>
<td>$193.91</td>
<td>$110.1</td>
<td>$83.8</td>
<td>4.94%</td>
</tr>
<tr>
<td>2024</td>
<td>$203.80</td>
<td>$115.7</td>
<td>$88.1</td>
<td>5.10%</td>
</tr>
<tr>
<td>2025</td>
<td>$213.82</td>
<td>$121.4</td>
<td>$92.5</td>
<td>4.92%</td>
</tr>
<tr>
<td>2026</td>
<td>$130.94</td>
<td>$74.3</td>
<td>$56.6</td>
<td>4.98%</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$2,930.12</td>
<td>$1,663.1</td>
<td>$1,267.0</td>
<td></td>
</tr>
</tbody>
</table>

Actuals: $1,661.56  $943.1  $718.5
Forecast: $1,268.56  $720.0  $548.5
Proposed Changes

• **Adjust Real Collections per Capita**
  • Scenario 1 (optimistic): mild, less impact than post 9/11
  • Scenario 2 (pessimistic): similar to post 9/11
  • Scenario 3 (worst case): similar to great recession

• **No adjustment to population forecast**

• **No adjustment to CPI forecast**
Forecast Comparisons

Nominal dollars

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Official Forecast</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
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<tbody>
<tr>
<td>2020</td>
<td>$163.87</td>
<td>$163.53</td>
<td>$163.53</td>
<td>$163.53</td>
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<tr>
<td>2021</td>
<td>$175.59</td>
<td>$166.27</td>
<td>$159.48</td>
<td>$152.70</td>
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<tr>
<td>2022</td>
<td>$184.78</td>
<td>$174.99</td>
<td>$160.40</td>
<td>$145.66</td>
</tr>
<tr>
<td>2023</td>
<td>$193.91</td>
<td>$185.82</td>
<td>$164.52</td>
<td>$141.85</td>
</tr>
<tr>
<td>2024</td>
<td>$203.80</td>
<td>$197.23</td>
<td>$174.62</td>
<td>$143.95</td>
</tr>
<tr>
<td>2025</td>
<td>$213.82</td>
<td>$210.28</td>
<td>$186.18</td>
<td>$151.24</td>
</tr>
<tr>
<td>2026</td>
<td>$130.94</td>
<td>$131.33</td>
<td>$114.59</td>
<td>$93.32</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$2,928.26</strong></td>
<td><strong>$2,891.01</strong></td>
<td><strong>$2,784.88</strong></td>
<td><strong>$2,653.81</strong></td>
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<tr>
<td>Actuals</td>
<td>$1,661.56</td>
<td>$1,661.56</td>
<td>$1,661.56</td>
<td>$1,661.56</td>
</tr>
<tr>
<td>Forecast</td>
<td>$1,266.70</td>
<td>$1,229.45</td>
<td>$1,123.32</td>
<td>$992.25</td>
</tr>
<tr>
<td></td>
<td>-$37.25</td>
<td>-$143.37</td>
<td>-$274.45</td>
<td>-</td>
</tr>
</tbody>
</table>

Next Steps

• Develop strategies to address potential funding shortfalls  
  • Use Scenario 1 as the high-end forecast  
  • Use Scenario 2 as the low-end forecast  
  • Scenario 3 unlikely given federal stimulus and Congress desire to continue at some level

• Model different scenarios for TLCP  
  • Scenarios 1 and 2 were used to develop JE estimates for SPWG
TLCP Guiding Principles

1. A defined and consistent process will be established for allocating funding for projects in the Regional Transportation Plan.

2. A defined and consistent process for Plan amendments and changes will be established.

3. Funding allocations will be regularly monitored and managed.

4. A defined and consistent process will be established to ensure that legislated compliance audit, reporting and performance requirements are met.

5. Budgeting and accounting systems will be established to manage Public Transportation Funds and monitor and report results.

6. Jurisdictional equity will be maintained.
Jurisdictional Equity

TLCP Guiding Principle to maintain jurisdiction equity

• Applies to half-cent revenues for the bus program only

• Policy allocations were determined based on projects and planning cost estimates from 2002 Regional Transportation Plan

• Actual and forecast costs for services, fleet, capital facilities are allocated to cities

• Each sub-region to be within 2.5% of policy allocation

TLCP Assumptions

• PTF scenarios (Official Forecast, Scenario 1, Scenario 2)
• SRTP Service
• Fleet Acquisitions & Facilities Construction/ Improvements
• Reduced FRB fares relating due to COVID-19
  • 25% in FY21; 75% in FY22; 85% in FY23; 95% in FY24; 115% in FY25
• CARES Act Funding
  • PTF-routes approx. half of $49.8 M CARES Act distribution for RPTA
• ADA allocations
• Cost per revenue mile growth
TLCP Assumptions

• Cost per revenue mile growth
  • Contract variable rate growth
  • East Valley contract expires FY23 year-end
    • Includes 3%-5% contract rate growth in FY24-FY26 due to contract rate uncertainty
  • Fixed costs
  • Fuel and other expenses adjusted to inflation

• Fares and Other Credits
  • Preventative Maintenance
  • Fleet and Facilities Depreciation
  • Advertising
  • Alternative Fuel Credit (none assumed)

SRTP Service Changes in the TLCP

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Route</th>
<th>Service Type</th>
<th>Impacted City/Town</th>
<th>Operator</th>
<th>Service Type</th>
<th>Change Month</th>
<th>Change Year</th>
<th>Potential Service Change Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>136</td>
<td>Local</td>
<td>Chandler</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>October 2020</td>
<td>2020</td>
<td>Extend evening service weekdays and Saturdays to Chandler.</td>
</tr>
<tr>
<td>FY21</td>
<td>136</td>
<td>Local</td>
<td>Gilbert</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>October 2020</td>
<td>2020</td>
<td>Extend evening service weekdays and Saturdays to Chandler.</td>
</tr>
<tr>
<td>FY21</td>
<td>72</td>
<td>Key Local</td>
<td>Scottsdale</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>April 2021</td>
<td>2021</td>
<td>Increase peak headways 15 minutes.</td>
</tr>
<tr>
<td>FY21</td>
<td>72</td>
<td>Key Local</td>
<td>Tempe</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>April 2021</td>
<td>2021</td>
<td>Increase peak headways 15 minutes.</td>
</tr>
<tr>
<td>FY21</td>
<td>72</td>
<td>Key Local</td>
<td>Chandler</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>April 2021</td>
<td>2021</td>
<td>Increase peak headways 15 minutes.</td>
</tr>
<tr>
<td>FY21</td>
<td>136</td>
<td>Local</td>
<td>Mesa</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>April 2021</td>
<td>2021</td>
<td>Improve peak weekday frequency in Gilbert and Mesa (Main to Elliot).</td>
</tr>
<tr>
<td>FY21</td>
<td>136</td>
<td>Local</td>
<td>Gilbert</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>April 2021</td>
<td>2021</td>
<td>Improve peak weekday frequency in Gilbert and Mesa (Main to Elliot).</td>
</tr>
</tbody>
</table>
SRTP Service Changes in the TLCP

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Route</th>
<th>Service Type</th>
<th>Impacted City/Town</th>
<th>Operator</th>
<th>Change Type</th>
<th>Change Month</th>
<th>Change Year</th>
<th>Potential Service Change Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY22</td>
<td>45</td>
<td>Local</td>
<td>Mesa</td>
<td>Valley Metro</td>
<td>Cost Allocation</td>
<td>July</td>
<td>2021</td>
<td>Begin PTF funding of route in Mesa.</td>
</tr>
<tr>
<td>FY22</td>
<td>170</td>
<td>Local</td>
<td>Scottsdale</td>
<td>Phoenix</td>
<td>Cost Allocation</td>
<td>July</td>
<td>2021</td>
<td>Begin PTF funding of Route 170 in Scottsdale.</td>
</tr>
<tr>
<td>FY22</td>
<td>156</td>
<td>Local</td>
<td>Chandler</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>October</td>
<td>2021</td>
<td>In Chandler, fund 15-minute peak frequency from to Gilbert Road.</td>
</tr>
<tr>
<td>FY23</td>
<td>81</td>
<td>Local</td>
<td>Mesa</td>
<td>Valley Metro</td>
<td>Cost Allocation</td>
<td>July</td>
<td>2022</td>
<td>Begin PTF funding of Route 81 in Mesa.</td>
</tr>
<tr>
<td>FY23</td>
<td>170</td>
<td>Local</td>
<td>Glendale</td>
<td>Phoenix</td>
<td>Cost Allocation</td>
<td>October</td>
<td>2022</td>
<td>Begin PTF funding of Route 170 in Glendale.</td>
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<tr>
<td>FY24</td>
<td>104</td>
<td>Local</td>
<td>Chandler</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>October</td>
<td>2023</td>
<td>Add Saturday service until 9pm in Chandler.</td>
</tr>
<tr>
<td>FY24</td>
<td>104</td>
<td>Local</td>
<td>Mesa</td>
<td>Valley Metro</td>
<td>Service Increase</td>
<td>October</td>
<td>2023</td>
<td>Add Saturday service until 9pm in Chandler.</td>
</tr>
<tr>
<td>FY24</td>
<td>112</td>
<td>Local</td>
<td>Chandler</td>
<td>Valley Metro</td>
<td>Route Extension</td>
<td>October</td>
<td>2023</td>
<td>Extend Route 112 to Hamilton High School.</td>
</tr>
</tbody>
</table>

JE Official Forecast

<table>
<thead>
<tr>
<th>Subregion</th>
<th>Total Estimated PTF</th>
<th>Total Policy PTF</th>
<th>Difference</th>
<th>Percent of Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>$435,071,568</td>
<td>$448,598,412</td>
<td>$13,526,844</td>
<td>3.0%</td>
</tr>
<tr>
<td>East</td>
<td>$814,273,203</td>
<td>$801,215,000</td>
<td>($13,058,203)</td>
<td>-1.6%</td>
</tr>
<tr>
<td>West</td>
<td>$171,533,958</td>
<td>$163,762,805</td>
<td>($7,771,154)</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Total</td>
<td>$1,420,878,729</td>
<td>$1,413,576,217</td>
<td>($7,302,513)</td>
<td></td>
</tr>
</tbody>
</table>
### JE Scenario 1

<table>
<thead>
<tr>
<th>Subregion</th>
<th>Total Estimated PTF</th>
<th>Total Policy PTF</th>
<th>Difference</th>
<th>Percent of Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>$435,071,568</td>
<td>$441,951,643</td>
<td>$6,880,075</td>
<td>1.6%</td>
</tr>
<tr>
<td>East</td>
<td>$814,273,203</td>
<td>$789,343,599</td>
<td>($24,929,604)</td>
<td>-3.2%</td>
</tr>
<tr>
<td>West</td>
<td>$171,533,958</td>
<td>$161,336,372</td>
<td>($10,197,586)</td>
<td>-6.3%</td>
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<tr>
<td>Total</td>
<td>$1,420,878,729</td>
<td>$1,392,631,614</td>
<td>($28,247,115)</td>
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</table>

### JE Scenario 2

<table>
<thead>
<tr>
<th>Subregion</th>
<th>Total Estimated PTF</th>
<th>Total Policy PTF</th>
<th>Difference</th>
<th>Percent of Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>$435,071,568</td>
<td>$422,834,078</td>
<td>($12,237,490)</td>
<td>-2.9%</td>
</tr>
<tr>
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<tr>
<td>West</td>
<td>$171,533,958</td>
<td>$154,357,422</td>
<td>($17,176,536)</td>
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</tr>
<tr>
<td>Total</td>
<td>$1,420,878,729</td>
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<td>($88,488,378)</td>
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Information Summary

DATE
September 3, 2020

AGENDA ITEM 10

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. ERP Consultant – Plante Moran Contract Change Order
Execute a contract change order in the amount of $644,850.

B. Investment Management Services Contract Award
Execute with PFM Asset Management LLC for Investment Management Services (IMS) for a period of 21 months, October 2020 through June 2022, and a cost not to exceed $73,500.

C. Transit Scheduling Services Purchase Agreement
Execute a purchase agreement with Guidesoft dba Knowledge Services for transit scheduling services for an amount not to exceed $50,000.

D. Light Rail Vehicle (LRV) Brake/Door Components Five-Year Supply Contract
Execute a 5-year supply contract for LRV Brake/Door Components from Knorr Brake Company in an amount not to exceed $260,000.

E. Oracle Aconex Project Controls Software Contract Award
Execute contract with Oracle Aconex for continued project controls software capabilities in the amount not to exceed $1,136,423.

F. Northwest Phase II Light Rail Extension: Updated Funding, Design and Construction Agreement with City of Phoenix
Amend the existing funding, design, and construction agreement with the City of Phoenix for the Northwest Phase II Light Rail Extension, and for Phoenix to provide up to an additional $199 million to Valley Metro.
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 3, 2020

AGENDA ITEM 10A

SUBJECT
ERP Consultant - Plante Moran Contract Change Order

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract change order to increase the contract authority by $644,850 for an overall not to exceed of $1,497,570.

COST AND BUDGET
This increase of $644,850 is necessary for Plante Moran to assist Valley Metro in establishing and staffing a project management office (PMO) for the implementation of the ERP/EAM system. Approximately $205,000 is required in FY21 with the remainder for FY22.

Costs for FY21 are included in the RPTA Adopted FY21 Operating and Capital Budget. Contract obligations beyond FY21 are incorporated into the RPTA Adopted Five-Year Operating Forecast and Capital Program (FY2021 thru FY2025).

RECOMMENDATION
Staff recommends the Board of Directors authorize the CEO to execute a contract change order in the amount of $644,850.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro Rail Inc. (VMR) and the Regional Public Transportation Authority (RPTA) executed a contract with Plante Moran in December 2018 for four distinct phases:

1. ERP Software – Needs Assessment
2. ERP RFP Development
3. ERP Vendor Evaluation & Selection
4. ERP Installation & Implementation

At time of award Phase 4 was identified as a potential for renegotiation based on the outcome of the vendor selection. Plante Moran’s level of effort has greatly supported Valley Metro in selecting a well rounded ERP/EAM solution, in order to meet implementation timelines Valley Metro will need additional support from Plante Moran.
Valley Metro initially envisioned contracting for a full-time project manager for the implementation phase. Staff decided instead to create a Project Management Office (PMO), led by Plante Moran. The PMO will have a project manager full time on this implementation, a project director to provide additional support to the project manager, and subject matter experts to assist Valley Metro with designing business processes that can maximize efficiency within the Oracle/Trapeze systems.

Plante Moran has been involved with this project and staff assigned to the PMO are intimately familiar with the scope of the implementation and the vendors involved. The original contract award envisioned that the budget and scope for the implementation phase could be renegotiated based on the results of the vendor award. While there are other organizations that could potentially offer similar services, staff determined that moving forward with Plante Moran was the best option as the implementation timeline is very tight.

COMMITTEE ACTION
RTAG: August 18, 2020 for information
TMC/RMC: September 2, 2020 for action
Board of Directors: September 17, 2020 for action

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

ATTACHMENT
Project Management Office structure
Outsourced PMO model

Paul Hodgins
Executive Sponsor

Robin Milne,
PMP, CSM
Project Advisor

Lori Blackmon, PMP
Project Director

Erika Morla
Payroll Lead

Michael Mathews
and Patty Clark
Finance/Procurement Lead

Wendy Platanitis
and Erika Powell
EAM Lead

Alexandra Colletti
Project Manager

Nina Racjovic
Payroll Lead

Diane Langham
Finance Lead

Dom Cali
EAM Lead

Plante Moran PMO

Steering Committee

Resource planning
Schedule management
Scope monitoring
Quality assurance
Risk management

SME support as needed
Support access to resources
Requirements tracking
Tracking issues/actions
UAT Oversight
Update training materials
DATE
September 3, 2020

AGENDA ITEM 10B

SUBJECT
Investment Management Services Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract with PFM Asset Management LLC for Investment Management Services (IMS) for a period of 21 months, October 2020 through June 2022, and a cost not to exceed $73,500.

COST AND BUDGET
Funding for the Investment Management Services contract will be a portion of the investment earnings generated by the RPTA investment pool. IMS contract fees are four basis points (0.04%) based on investment assets and a share of earnings above identified benchmarks. Based on recent performance, the maximum average monthly cost for the contract is estimated at $3,500.

RECOMMENDATION
Staff recommends the Board of Directors authorize the CEO to execute a contract with PFM Asset Management LLC for Investment Management Services (IMS) for a period of 21 months, October 2020 through June 2022, and a cost not to exceed $73,500.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro RPTA is seeking to maximize return on cash and investments in accordance with the RPTA Investment Policy and ARS Title 35 policies. In August 2015, the Board of Directors authorized a five-year contract with PFM Asset Management. The contract expires in September 2020.

The primary task of the IMS contractor is to optimize investment returns by extending maturity dates for investments which are permitted by RPTA investment policy. Through the existing contract to date, PFM has managed a maximum of $50.5 million in assets. The current assets invested are $37.8 million, which is expected to decline over time as Prop 400 approaches its sunset in December 2025.

Funds kept in the agency’s Wells Fargo savings accounts currently are earning no more than 16 bps. Other funds, such as Regional Area Road Funds and Lottery Funds are invested in the LGIP Pool 5. The table below shows average balances (in millions), interest earnings (in thousands) and calculated yields for each of these three investment types over the past five fiscal years. The yield calculated for PFM is based solely on
interest earned relative to the average market value and does not take into account changes in market value or any premiums or discounts when the securities were purchased.

<table>
<thead>
<tr>
<th>Year</th>
<th>Account</th>
<th>Average Balance ($ millions)</th>
<th>Interest Earned</th>
<th>Yield (basis points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY16</td>
<td>WF savings</td>
<td>$79.4</td>
<td>$127,745</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>LGIP</td>
<td>$9.9</td>
<td>$26,653</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>PFM</td>
<td>$40.5</td>
<td>$431,627</td>
<td>107</td>
</tr>
<tr>
<td>FY17</td>
<td>WF savings</td>
<td>$34.2</td>
<td>$47,786</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>LGIP</td>
<td>$60.3</td>
<td>$367,570</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>PFM</td>
<td>$45.1</td>
<td>$679,393</td>
<td>151</td>
</tr>
<tr>
<td>FY18</td>
<td>WF savings</td>
<td>$26.0</td>
<td>$31,281</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>LGIP</td>
<td>$26.4</td>
<td>$343,809</td>
<td>130</td>
</tr>
<tr>
<td></td>
<td>PFM</td>
<td>$41.4</td>
<td>$436,331</td>
<td>105</td>
</tr>
<tr>
<td>FY19</td>
<td>WF savings</td>
<td>$11.8</td>
<td>$22,576</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>LGIP</td>
<td>$31.5</td>
<td>$755,397</td>
<td>239</td>
</tr>
<tr>
<td></td>
<td>PFM</td>
<td>$35.7</td>
<td>$652,679</td>
<td>183</td>
</tr>
<tr>
<td>FY20</td>
<td>WF savings</td>
<td>$15.1</td>
<td>$24,928</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>LGIP</td>
<td>$12.6</td>
<td>$221,262</td>
<td>176</td>
</tr>
<tr>
<td></td>
<td>PFM</td>
<td>$35.8</td>
<td>$844,456</td>
<td>236</td>
</tr>
</tbody>
</table>

In FY18 and FY19, LGIP yields were slightly higher than PFM investments, however, changes in market value for PFM investments are not included in that comparison. Including those changes in market values results in better performance overall by PFM’s investments.

Procurement staff have identified a cooperative agreement that Valley Metro can use to continue the relationship with PFM. That cooperative agreement expires June 30, 2022. The 21 months of this cooperative contract will give staff time to evaluate the ongoing need for investment management services through the remainder of Prop 400.

**STRATEGIC PLAN ALIGNMENT**
This item relates to the following goals and strategies in the Five-Year Strategic Plan FY 2016 – 2020:
- Goal 1: Advance performance-based operations

**COMMITTEE PROCESS**
RTAG: August 18, 2020 for information
TMC: September 2, 2020 for action
Board of Directors: September 17, 2020 for action

CONTACT
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org

ATTACHMENT
None
DATE
September 3, 2020

AGENDA ITEM 10C

SUBJECT
Transit Scheduling Services Purchase Agreement

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a purchase agreement under Guidesoft dba Knowledge Services for transit scheduling services for an amount not to exceed $50,000.

COST AND BUDGET
Valley Metro currently has a transit scheduling services agreement with Guidesoft dba Knowledge Services for $49,960, initiated in FY20 primarily in response to emergency scheduling needed for COVID-19 service reductions.

The request is to approve an agreement to extend the Guidesoft dba Knowledge Services support for transit scheduling services through the end of FY21. Additional funding for transit scheduling services will not exceed $50,000 and will be used on an as-needed basis.

The costs for this purchase agreement will be charged to the appropriate operating project, depending on the work being performed. The source of funding is a combination of CARES Act funding, Public Transportation Funds and member city contributions. For FY22, the need for these services will be evaluated, and if needed, Board authority to extend this purchase agreement will be sought.

See below for expenditure details.

<table>
<thead>
<tr>
<th>Purchase</th>
<th>Vendor</th>
<th>Contract</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transit Scheduling Services</td>
<td>Knowledge Services</td>
<td>State Contract: ADSPO17-174599</td>
<td></td>
</tr>
<tr>
<td>CEO authority issued during FY20</td>
<td></td>
<td></td>
<td>$42,322</td>
</tr>
<tr>
<td>CEO authority issued to date for FY 2021</td>
<td></td>
<td></td>
<td>$7,638</td>
</tr>
<tr>
<td>Total CEO authority issued to Date</td>
<td></td>
<td></td>
<td>$49,960</td>
</tr>
<tr>
<td><strong>Additional purchase agreement authority requested for FY 2021</strong></td>
<td></td>
<td></td>
<td>$50,000</td>
</tr>
</tbody>
</table>
RECOMMENDATION
Staff recommends the Board of Directors authorize the CEO to execute a purchase agreement with Guidesoft dba Knowledge Services for transit scheduling services for an amount not to exceed $50,000.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro scheduling, blocking and runcutting (collectively referred to as transit scheduling services) is performed using HASTUS software developed by Giro, Inc. Knowledge of this software and of transit services scheduling in general is a very specialized set of skills that is difficult to find in the marketplace. Valley Metro undertakes transit system scheduling year-round for bi-annual service changes using primarily in-house staff. When additional scheduling services are needed, staff must seek supplementary assistance. Recent events, including COVID-19, have resulted in several occasions to need additional help, often in a very fast timeframe.

The ability to perform complex scheduling services quickly and nimbly allows Valley Metro to be responsive to the needs of riders and member cities. Valley Metro began using the services of Knowledge Services in FY20 to meet these needs. Staff anticipates a need to continue using outside help to accomplish complex scheduling changes in a timely manner.

Transit scheduling services are procured from Knowledge Services 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 the use of terms and conditions that have previously been negotiated.

The cost of the service is $155.88 per hour, billed only as used. The authorization requested is based on an anticipated need of up to an additional 320 hours of assistance.

STRATEGIC PLAN ALIGNMENT
This item addresses two goals in the Board-adopted FY16-20 Strategic Plan:
- Goal 1: Increase customer focus
- Goal 2: Advance performance based operations
- Goal 3: Grow transit ridership

COMMITTEE PROCESS
RTAG: August 18, 2020 for information
TMC: September 2, 2020 for action
Board: September 17, 2020 for action
CONTACT
Wulf Grote, P.E.
Director, Capital Services and Development
602-322-4420
wgrote@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
September 3, 2020

AGENDA ITEM 10D

SUBJECT
Light Rail Vehicle (LRV) Brake/Door Components Five-Year Supply Contract

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a 5-year supply contract for LRV Brake/Door Components from Knorr Brake Company in an amount not to exceed $260,000.

COST AND BUDGET
The cost for the brake and door components being purchased from Knorr Brake Company is an amount not to exceed $260,000 over the 5-year term of the contract. This cost is based on past usage. The cost for the purchase of the brake and door components is included in the Valley Metro Rail Adopted FY2021 Operating and Capital Budget. Contract obligations beyond FY2021 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2021 thru FY2025). The contract will be completely conditioned on an available source of funds. Valley Metro reserves the right to cancel the contract at any time and for any reason as solely determined by Valley Metro.

RECOMMENDATION
Staff recommends the Board of Directors authorize the CEO to execute a 5-year supply contract for LRV Brake/Door Components from Knorr Brake Company in an amount not to exceed $260,000.

BACKGROUND | DISCUSSION | CONSIDERATION
There are currently 50 Kinkisharyo light rail vehicles (LRVs) in the total fleet. Valley Metro maintains an inventory of brake and door components for the LRVs. The contractor will provide the supply of brake and door components over the 5-year contract period. This is a inventory replenishment contract. All labor will be done in house by Valley Metro Rail staff.

The recommended award of the contract to Knorr Brake Company is a non-competitive procurement due to the company being the original equipment manufacturer (OEM). Knorr Brake Company is the only source known to supply the specialty parts. There is no known market information that suggests there are alternative sources available to meet OEM and Valley Metro’s safety standards.
An independent cost estimate and a non-competitive procurement justification including a cost comparison and price analysis have been completed. The proposed price has been deemed fair and reasonable based on the price analysis.

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

- Goal 2: Advance performance-based operation

COMMITTEE PROCESS
RTAG: August 18, 2020 for information
RMC: September 2, 2020 for action
Board of Directors: September 17, 2020 for action

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

ATTACHMENTS
None
DATE
September 3, 2020

SUBJECT
Oracle Aconex Project Controls Software Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract with Oracle Aconex to continue to provide project controls software capabilities for the capital program for an amount not to exceed $1,136,423.

COST AND BUDGET
To date the Board has authorized $1,789,042 for the Aconex project controls software capabilities. The original contract and subsequent change orders are identified in the table below.

<table>
<thead>
<tr>
<th>Description</th>
<th>Board Authorization</th>
<th>Contract Expiration</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Contract – 50 licenses for Gilbert Road</td>
<td>September 2015</td>
<td>September 2020</td>
<td>$350,000</td>
</tr>
<tr>
<td>Added unlimited users and 50th St Station, Tempe Streetcar &amp; Planning Projects</td>
<td>February 2016</td>
<td>September 2020</td>
<td>$110,000</td>
</tr>
<tr>
<td>Added O&amp;M Center Expansion, Rail vehicle procurements &amp; financial reporting</td>
<td>July 2017</td>
<td>September 2020</td>
<td></td>
</tr>
<tr>
<td>And added South Central/Downtown Hub, Northwest Phase II and Capitol/I-10</td>
<td>July 2017</td>
<td>December 2023</td>
<td>$1,329,042</td>
</tr>
<tr>
<td>Sub-total</td>
<td></td>
<td></td>
<td>$1,668,220</td>
</tr>
<tr>
<td>Contingency (10%)</td>
<td></td>
<td></td>
<td>$120,822</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$1,789,042</td>
</tr>
</tbody>
</table>
Authorization for a new contract amount of $1,136,423 is requested herein. This price includes taxes in the amount of $81,812 and a contingency of $103,311 (10%) for a three-year initial contract duration. The contract will include an option to extend the period of services for two additional years, but added funding and future Board authorization will be needed to exercise this option.

<table>
<thead>
<tr>
<th>Description</th>
<th>Payment Due Date</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Service Fee</td>
<td>January 2021</td>
<td>$317,100</td>
</tr>
<tr>
<td>Annual Service Fee</td>
<td>January 2022</td>
<td>$317,100</td>
</tr>
<tr>
<td>Annual Service Fee</td>
<td>January 2023</td>
<td>$317,100</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td><strong>$951,300</strong></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td>$81,812</td>
</tr>
<tr>
<td>Contingency (10%)</td>
<td></td>
<td>$103,311</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$1,136,423</strong></td>
</tr>
</tbody>
</table>

All costs identified herein are within forecast and expenses expected within FY21 are included in the Valley Metro Rail Adopted FY21 Operating and Capital Budget. Contract obligations beyond FY21 are incorporated into the Five-Year Operating Forecast and Capital Program (FY21 thru FY25).

**RECOMMENDATION**
Staff recommends the Board of Directors authorize the CEO to execute a contract with Oracle Aconex for continued project controls software capabilities in the amount not to exceed $1,136,423.

**BACKGROUND/DISCUSSION/CONSIDERATION**
In September 2015, the Valley Metro Rail Board of Directors authorized a five-year contract with Aconex for project controls software. The software offers full version control process management reporting, search capabilities with documentation configuration, real-time processing, and backup for Valley Metro’s major capital projects. Aconex has primarily been used for rail projects during the design and construction phases. This software is also in use for planning and smaller capital projects.

The original authorization of the five-year Aconex contract included 50 user licenses for the Gilbert Road Light Rail Extension. In March 2016, the contract was amended to add the 50th Street Light Rail Station, the Tempe Streetcar and planning for future rail corridors. In June 2017, the contract was amended again to add four additional rail projects that were advancing into design. This included the South Central Extension/Downtown Hub, Northwest Extension (Phase II), Capital/I-10 West Extension, the Operations and Maintenance Center expansion and rail vehicle procurements. In September of 2020 the five-year contract expires.
The need for Valley Metro to ensure quality and continuity will evolve as solutions and technology advances to ensure federal, state, and local regulatory requirements associated with capital projects; however, current projects need to remain documented through Aconex to not risk any major system transition delays. For this reason, Valley Metro proposes to utilize a sole source procurement for extending our project control software needs. A transition to a new system could potentially delay major capital projects in process. A replacement solicitation at this time would not be in the best interest of the public investment in the major capital projects that are managed in the Aconex system. Valley Metro will work with local member agencies, and internal capital project subject matter experts to create a new scope of work for a future competitive process.

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

- Goal 2: Advance performance-based operation

COMMITTEE PROCESS
RTAG: August 18, 2020 for information
RMC: September 2, 2020 for action
Board of Directors: September 17, 2020 for action

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

ATTACHMENT
None
Information Summary

DATE
September 3, 2020

AGENDA ITEM 10F

SUBJECT
Northwest Phase II Light Rail Extension: Updated Funding, Design and Construction Agreement with City of Phoenix

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to amend the City of Phoenix funding, design and construction agreement for the Northwest Phase II Light Rail Extension, and for Phoenix to provide up to an additional $199 million to Valley Metro.

COST AND BUDGET
The estimated Phoenix funds needed for remaining project activities is $199 million. $41 million of this represents the remaining Phoenix T2050 local funding commitment for construction. The remaining $158 million of these funds are an advance to be reimbursed by federal funds in increments subsequent to award of a Full Funding Grant Agreement (FFGA) from the FTA.

At present, the project is in the FTA Engineering phase with $158 million in anticipated FTA grant funds, but federal funding is not available to the project until an FFGA has been executed. The FFGA is anticipated in Spring 2021. Even after the grant is awarded, federal funds are provided to Valley Metro on a reimbursement basis. Therefore, it is typical that local/regional funds are utilized until federal funds are reimbursed. FTA grant funds may lag one to three years behind the time costs are incurred for the project.

The project is funded via a combination of Phoenix T2050 funds, regional Public Transportation Funds (PTF) and FTA grant funds. All costs identified herein are within the Northwest Extension Phase II project cost forecast and expenses expected within FY21 are included in the Valley Metro Rail Preliminary FY21 Operating and Capital Budget. Contract obligations beyond FY21 are incorporated into the Preliminary Five-Year Operating Forecast and Capital Program (FY21 thru FY25).

RECOMMENDATION
Staff recommends the Board of Directors authorize the CEO to amend the existing funding, design, and construction agreement with the City of Phoenix for the Northwest Phase II Light Rail Extension, and for Phoenix to provide up to an additional $199 million to Valley Metro.

This action is pending City of Phoenix Council action.
BACKGROUND/DISCUSSION/CONSIDERATION

The Northwest Phase II Light Rail Extension project will add 1.5 miles extending west from 19th Avenue on Dunlap Avenue to 25th Avenue, then northward to Mountain View Road, then to a terminus west of Interstate 17 (I-17) adjacent to the Metrocenter Mall. Funding for this project will be through the Federal Transit Administration’s Capital Investment Grant (CIG) program and will include local match participation by Phoenix and Valley Metro.

In April 2018, Valley Metro was authorized to enter into an agreement with Phoenix for them to provide funding and to define responsibilities for design and construction of the project. Since then, there have been two amendments to complete planning and design, pre-construction, and construction services. The following table summarizes Phoenix funding to date:

<table>
<thead>
<tr>
<th>Date</th>
<th>Purpose</th>
<th>Phoenix Funding Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2018</td>
<td>Design/Pre-Construction</td>
<td>$25 million</td>
</tr>
<tr>
<td>October 2019</td>
<td>Design/Pre-Construction/Construction</td>
<td>$80 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$105 million</strong></td>
</tr>
</tbody>
</table>

The Northwest Phase II Light Rail Extension design was finalized in early 2020 and a Guaranteed Maximum Price was negotiated with the contractor in July. Construction of utility relocations is starting this summer and full construction will continue in 2020. To keep the project moving, additional funds are needed from Phoenix in advance of receiving FTA funds.

To keep the project on schedule, the FTA has provided pre-award authority for design, land acquisition, utility relocations, long lead procurements (such as special track work) and limited construction activities. This pre-award authority allows Valley Metro to utilize Phoenix and Valley Metro funds to advance the project. FTA will then reimburse its funding share after the federal grant is approved. This means that Phoenix and Valley Metro are currently fronting all project costs, and will continue to do so until FTA is able to provide reimbursement.

The agreement with Phoenix includes additional funding as described above, but there are also modifications needed to define Phoenix and Valley Metro responsibilities during construction. Revisions to the agreement reflect decisions made during recent contractor negotiations. The primary modification is to procure traffic signal materials through the City, rather than by Valley Metro’s contractor. This should result in more competitive offers for the material, which will achieve cost savings.

Given the additional Phoenix funding needs and modifications to construction responsibilities, it is necessary to update the agreement and seek Board approval.
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 18, 2020 for information
RMC: September 2, 2020 for action
Board of Directors: September 17, 2020 for action

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

ATTACHMENT
None

Draft amended agreement available upon request.
DATE
September 3, 2020

AGENDA ITEM 11

SUBJECT
Future Agenda Items Request and Report on Current Events

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

Future Items

<table>
<thead>
<tr>
<th>Item</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Credit Card Audit Kick-off</td>
<td>September 2020</td>
</tr>
<tr>
<td>Professional Development Audit – Follow-up discussion</td>
<td>September 2020</td>
</tr>
<tr>
<td>Travel Audit Kick-off</td>
<td>September 2020</td>
</tr>
<tr>
<td>Budget Key Assumptions</td>
<td>October 2020</td>
</tr>
<tr>
<td>Budget – Position Justifications</td>
<td>TBD</td>
</tr>
<tr>
<td>TLCP Update – Bus</td>
<td>TBD</td>
</tr>
<tr>
<td>TLCP Update – Rail</td>
<td>TBD</td>
</tr>
<tr>
<td>Travel Data</td>
<td>TBD</td>
</tr>
</tbody>
</table>

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