MEETING OF THE
Audit and Finance Subcommittee

Date:
February 15, 2018

Starting Time
12:00 p.m.

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

If you require assistance accessing the meetings on the 10th floor, please go to the 13th floor or call 602.262.7433.
Agenda

February 13, 2018

Audit and Finance Subcommittee

Thursday, February 15, 2018
10th Floor, Lake Mead Conference Room (10B)
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Action Recommended

1. Public Comment
   A 15-minute opportunity will be provided to members of the public at the beginning of the meeting to address the AFS on all agenda items. The Chair may recognize members of the public during the meeting at his/her discretion. Up to three minutes will be provided per speaker or a total of 15 minutes total for all speakers.

2. Minutes
   Minutes from the January 11, 2018 Audit and Finance Subcommittee meeting presented for approval.

3. Hardware and Software Management Audit Report
   Mary Modelski, Manager, Internal Audit, will provide an overview of the Hardware and Software Management Audit and request acceptance of the Audit and Finance Subcommittee.

4. Non-Revenue Fleet Management Audit Report
   Mary Modelski, Manager, Internal Audit, will provide an overview of the Non-Revenue Management Audit and request acceptance of the Audit and Finance Subcommittee.

1. For information
2. For action
3. For action
4. For action
5. **Internal Audit Update**
Mary Modelski, Manager, Internal Audit will provide an update on actions taken to continue to build Internal Audit.

6. **Fiscal Year 2018 (FY18) 2nd Quarter Finance Reports**
Paul Hodgins, Chief Financial Officer, will provide an update on the FY18 2nd Quarter Finance Reports.

7. **Fiscal Year 19 (FY19) Budget and Staffing Plan**
Paul Hodgins, Chief Financial Officer, will provide an update on staffing for FY19.

8. **Intergovernmental Agreements, Contract Change Orders, Amendments, and Awards**
Paul Hodgins, Chief Financial Officer, will provide an update on upcoming intergovernmental agreements, contract awards, amendments and change orders.

9. **Future Agenda Items**
Chair Orsborn will request future AFS agenda items from members and members may provide a report on current events.

10. **Next Meeting**
The next meeting of the Audit and Finance Subcommittee is **March 15, 2018 at 12:00 p.m.**

Qualified sign language interpreters are available with 72 hours notice. Materials in alternative formats (large print, audiocassette, or computer diskette) are available upon request. For further information, please call Valley Metro at 602-262-7433 or TTY at 602-251-2039. To attend this meeting via teleconference, contact the receptionist at 602-262-7433 for the dial-in-information. The supporting information for this agenda can be found on our web site at [www.valleymetro.org](http://www.valleymetro.org).
DATE
February 13, 2018

SUBJECT
Items for Citizens Present

PURPOSE
Members of the public will have an opportunity at the beginning of the meeting to address the Audit and Finance Subcommittee on non-agenda items. Up to three minutes provided per speaker or a total of 15 minutes for all speakers.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
This item presented for information only.

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

ATTACHMENT
None
Minutes

February 13, 2018

Summary Minutes of the
Valley Metro RPTA Audit and Finance Subcommittee
Thursday, January 11, 2018
Lake Mead Conference Room
101 N. 1st Avenue, 10th Floor
12:00 p.m.

MEETING PARTICIPANTS

Councilmember Eric Orsborn, City of Buckeye, Chair
Councilmember Thelda Williams, City of Phoenix, Vice Chair
Vice Mayor Robin Arredondo-Savage, City of Tempe
Councilmember Skip Hall, City of Surprise – by phone
Vice Mayor Brigette Peterson, Town of Gilbert – by phone

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

1. PUBLIC COMMENT

None.

2. MINUTES

Minutes from the November 9, 2017, Audit and Finance Subcommittee meeting presented for approval.

IT WAS MOVED BY COUNCILMEMBER WILLIAMS, SECONDED BY COUNCILMEMBER HALL AND UNANIMOUSLY CARRIED TO APPROVE THE NOVEMBER 9, 2017 MEETING MINUTES OF THE AUDIT AND FINANCE SUBCOMMITTEE.

3. RPTA FISCAL YEAR 2018 (FY18) MID-YEAR BUDGET ADJUSTMENT

Paul Hodgins, Chief Financial Officer, provided a brief summary of the RPTA Fiscal Year 2018 (FY18) Mid-year Budget Adjustment. He briefly discussed the following items:

- Changes – Operations Activities
- Sources of Funds – Operating ($000,000)
Operating Funding Changes
Uses of Funds – Operating ($000,000)
Changes – Capital Activities
Sources of Funds – Capital ($000,000)
Uses of Funds – Capital (000,000)

IT WAS MOVED BY COUNCILMEMBER WILLIAMS, SECONDED BY VICE MAYOR ARREDONDO-SAVAGE AND UNANIMOUSLY CARRIED TO APPROVE THE RPTA FISCAL YEAR 2018 (FY18) MID-YEAR BUDGET ADJUSTMENT.

4. VMR FISCAL YEAR 2018 (FY18) MID-YEAR BUDGET ADJUSTMENT
Paul Hodgins, Chief Financial Officer, provided a brief summary of the VMR Fiscal Year 2018 (FY18) Mid-year Budget Adjustment. He briefly discussed the following items:

- Changes – Operations Activities
- Sources of Funds – Operating ($000,000)
- Operating Funding Changes
- Changes – Capital Activities
- Sources of Funds – Capital ($000,000)
- Uses of Funds – Capital (000,000)

IT WAS MOVED BY COUNCILMEMBER WILLIAMS, SECONDED BY VICE MAYOR ARREDONDO-SAVAGE AND UNANIMOUSLY CARRIED TO APPROVE THE RPTA FISCAL YEAR 2018 (FY18) MID-YEAR BUDGET ADJUSTMENT.

5. FISCAL YEAR 2017 (FY17) COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) AND SINGLE AUDIT REPORTING PACKAGE
Paul Hodgins, Chief Financial Officer, provided a brief summary of the Fiscal Year 2017 (FY17) Comprehensive Annual Financial Report (CAFR) and Single Audit Reporting Package (SARP). He discussed the following items:

- Independent Auditor’s Report
- Independent Auditors’ Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Basic Financial Statements Performed In Accordance With Government Auditing Standards
- Valley Metro Regional Public Transportation Authority Schedule Of Findings And Questioned Costs (Continued) Year Ended June 30, 2017
- Corrective Action Plan

This item presented for information.
6. Update on Staffing for FY 2018
Paul Hodgins, Chief Financial Officer, provided an update of the Fiscal Year (FY18) Staffing. He discussed the following:

- FY18 Budgeted Positions
- Cost Savings

This item presented for information.

7. Internal Audit Update
Mary Modelski, Manager, Internal Audit, provided an update of the following items:

- Policies
- REDW Audits of Hardware and software management and Non-revenue fleet management
- Information Technology Review – Software Compliance Review with KPMG
- Capital Services – facilitating conversations with various divisions for using Aconex as workflow for invoice receipt, review, approval and documentation repository.
- Human Resources – recruiting staff for Internal Audit

This item presented for information.

8. Intergovernmental Agreements, Contract Change Orders, Amendments and Awards
Paul Hodgins, Chief Financial Officer, provided a brief summary of the Intergovernmental Agreements (IGAs), Contract Change Orders, Amendments and Contract Awards that included the following items:

- Intergovernmental Agreement (IGA) with the Arizona Department of Transportation (ADOT)
- Intergovernmental Agreements (IGAs) with the City of Phoenix for Federal Transit Administration Pass-Through Grants For RPTA
- Recommended April 2018 Valley Metro Transit Service Changes
- Workers’ Compensation and Employer’s Liability Insurance Coverage Renewal
- Portable Vehicle Maintenance Lifts contract Award
- Manufacture and Delivery of Medium Duty Transit Buses
- Mesa Bus Operations and Maintenance Facility Improvements Contracts Award
- Intergovernmental Agreements (IGAs) with the City of Phoenix for Federal Transit Administration Pass-Through Grants For Valley Metro Rail

This item presented for information.
9. Future Agenda Items
None.

10. Next Meeting
The next meeting of the Audit and Finance Subcommittee is Thursday, February 15, 2018 at 12:00 pm.

With no further discussion, the meeting adjourned at 1:01 p.m.
Information Summary

DATE
February 13, 2018

AGENDA ITEM 3

SUBJECT
Hardware and Software Management Audit Report

PURPOSE
Present the results of the Hardware and Software Management Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

BACKGROUND/DISCUSSION/CONSIDERATION
The Fiscal Year 2017/2018 Internal Audit Plan was approved by the AFS on June 15, 2017. The Hardware and Software Management audit was placed on the audit plan after completion of a limited scope risk assessment. The objective of the audit was to determine if an inventory of organizational owned information technology hardware and software exists and a replacement strategy is within organizational standards and best practices.

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee accept the Hardware and Software Management Audit.

CONTACT
Mary Models
Internal Audit Manager
mmodels@valleymetro.org
602-262-7433

ATTACHMENT
Hardware and Software Management Audit Report
Hardware and Software Management Audit

December 2017

Audit Report

Internal Audit

Valley Metro

Distribution

Audit and Finance Subcommittee
Scott Smith, Chief Executive Officer
Rob Antoniak, Chief Operational Officer
Phil Ozlin, Information Technology Manager
To Scott Smith, Chief Executive Officer:

The purpose of this report is to communicate the results of the Hardware and Software Management Internal Audit. The audit was part of the annual audit plan of Internal Audit for fiscal year 2017.

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

Our audit focused on Valley Metro Information Technology (IT) staff primarily supporting general business systems and applications with the assistance of an outside consultant, Enterprise Technology Service (ETS). Systems and applications that support bus, train, and security were found to not be directly supported by the same IT team and were out of scope for this review.

We found significant changes had taken place in regards to staff during the timeframe of our audit. Key individual were found to have left and others added. Staff turnover appears to have stabilized towards the end of our audit period, which included the hiring of an experienced IT Manager.

The addition of an experienced IT Manager establishing direction and oversight appears to have set the course to strengthen controls of hardware and software management.

During the course of this audit, individuals who assisted, by providing information on the how processes worked or evidence for testing, were very helpful in defining how controls could be strengthened.

This report is intended for use by only those listed explicitly on the cover page distribution list and internally within Valley Metro Regional Public Transportation Authority.

If you have any questions or would like further clarification, please contact me at 602-322-4453.

Mary Modelsiki
Internal Auditor
February 7, 2018
OBJECTIVE

The objective of this audit is to determine whether internal controls over hardware and software are adequate and effective including:

- Valley Metro Regional Public Transportation Authority (Valley Metro) is in compliance with applicable policies and procedures
- Hardware and software are monitored and tracked accurately
- An appropriate hardware replacement strategy and patch management policy are in place.

SCOPE AND METHODOLOGY

Testing focused upon business related technology and encompassed samples selected from the Lansweeper hardware and software inventory and a copier listing. Technology utilized for operations of bus, train, or third-party providers were out of scope.

The timeframe for the testing was from November 1, 2016 through October 31, 2017. Items incurred prior to or carried over from this timeframe were included in the population.

We focused on the following areas:

- Policies and procedures over hardware and software
- Hardware and software tracking
- Software licensing compliance
- Warranty expiration and equipment rotation and replacement
- Microsoft Office patch and update installations.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed key individuals in the Information Technology (IT) department in order to gain an understanding of the processes and existing internal controls.
- Obtained the Workstation: All Workstations custom report as of November 28, 2017 from Lansweeper. We selected a random sample of 25 hardware items to test by:
  - Verified these hardware items existed and accuracy of the location indicated on the Lansweeper report.
  - Filtering the hardware listing, we looked for any unusual items, missing information, items that had not been recognized on the network, users assigned to multiple machines, and machines with outdated or unsupported operating systems.
    - Unusual items were segregated and discussed with staff in IT to determine if items identified required additional follow-up.
  - Compared the date of the most recent Microsoft Office patch on the machine update history to the Continuum report to ensure that patches indicating as installed per Continuum were actually installed on the machine.
• Obtained an Excel inventory (dated November 28, 2017) of copiers.
  o From the listing of copiers, we identified the copiers that were owned by Valley Metro and excluded any that had been previously disposed of.
    ▪ A sample of two copiers (20% of the population of 11) was judgmentally selected to test for existence and accuracy of the location indicated on the tracking sheet.
• Obtained a listing of all software assets from Lansweeper as of November 28, 2017.
  o There were 3,202 different types of software and/or versions of software on the listing received.
    ▪ We judgmentally selected a sample of eight software items that typically require licensing. We reviewed the sample for the following:
      • Licenses purchased were tracked for compliance
      • If the most recent version of the software was in use
      • Documentation to support the purchase of the software reconciled to the count of licenses identified as actually installed.
• Obtained a listing of patches and updates for four months from Continuum to determine if patches were actually installed.

BACKGROUND

Valley Metro’s Information Technology (IT) department consists of five employees dedicated to business related technology. In addition to the full-time employees, Valley Metro utilizes Enterprise Technology Services (ETS) to provide three on-site individuals to assist with services including, but not limited to, helpdesk assistance, software asset reporting, virus detection software and updates, patch monitoring, and patch management.

Hardware and software tracking and monitoring

IT tracks hardware and software utilizing an application known as Lansweeper. Lansweeper is an on-site application that identifies all hardware and software on the network. Lansweeper will auto-populate, to a degree, each machine’s asset name, last user, Internet Protocol (IP) address, IP location, manufacturer, model, operating system, date when the item was first and last seen on the network, warranty and purchase dates. Lansweeper automatically pulls information about the software utilized including the version and the number of installations found within the domain. Lansweeper has the ability to also track purchases, install information and total license counts.
The following exhibits illustrate what was captured by Lansweeper upon doing an inventory of the domain for our audit: locations (exhibit 1), manufacturers (exhibit 2), and operating systems (exhibit 3).

**Exhibit 1: Hardware on the Network by Location**

- **101 building**: 243
- **Unknown location**: 109
- **MOB**: 82
- **GRE Office**: 37
- **OMC**: 23
- **MTF**: 14
- **EVBOM**: 5

**Exhibit 2: Hardware on the Network by Manufacturer**

- **Dell**: 444
- **Hewlett-Packard**: 1
- **Microsoft Corporation**: 41
- **Lenovo**: 26
- **Panasonic Corporation**: 1

**Legend**:
- Dell
- Hewlett-Packard
- Microsoft Corporation
- Lenovo
- Panasonic Corporation
It is important to periodically review when hardware is last seen on the network as this can ensure items do not become lost or missing. In addition to ensuring any patches or updates are applied in a timely fashion. Exhibit 4 is an illustration of historically when hardware was last seen on the network by Lansweeper.

Exhibit 4: Hardware by Date Last Seen on the Network (2017)
Lansweeper has the capability to track warranty expiration dates for hardware found on the network. Exhibit 5, provides IT an illustration of when hardware warranties expire and are set to expire. This allows for IT to plan for future costs and system replacements.

**Exhibit 5: Warranty Expiration Dates of Hardware on the Network**

**Warranty Expiration, equipment rotation and replacement**

Machines on the network are typically assigned a three to four year life span. Prior to 2017, TRACKIT was used to identify hardware that needed to be rotated out of service. Unfortunately, Information Technology did not have a policy, process, or staff assigned to follow-up on machines which exceeded the three to four year life span, unless an issue occurred. In 2017, the tracking method was switched from TRACKIT to Lansweeper. Reports can be run from Lansweeper to identify hardware items coming due to be rotated out, if the machine is on the network and can be scanned by Lansweeper to determine how and when the machines was built and what it is running. It is important to monitor equipment that falls outside a predetermined life span to ensure security settings and patches are still being applied and utilized, software and data can be migrated to a newer version of a machine and still operate as the user expects, and finally if the system fails, operations are not impacted or halted to unreasonable timeframes for backup and recovery. Overall, the organization should not be made vulnerable due to machine aging or lack of knowledge as to what machines are running on the network.
Patch Management

ETS utilizes Continuum to track, test, and install patches on the network. A Continuum agent is placed on all the machines and is responsible for patching the machines, cleaning up files, sending alerts regarding drivers about to fail, gathering information, and running reports. ETS uses a patch policy, which includes critical and security operating system patches, but excludes Office patches. One of the benefits of the Windows 10 operating system is the ability to push out operating system and Microsoft Office patches, since it is not regulated by Continuum.
AUDIT RESULTS

Finding 1: Outdated policies and procedures over Information Technology (IT).

Valley Metro did not have current policies and procedures in place to address necessary areas of risk related to hardware and/or software. The current version of policies and procedures provided by IT management was dated 2013. This version of the policies and procedures lacked sufficient direction and instruction on the following areas including, but not limited to;

- Remote access to the system
- Approved and appropriate use of personal devices on the network
- Naming convention
- Patch implementation, testing and oversight
- Process for ensuring new software and hardware populates correctly and completely in Lansweeper, etc. and
- Acquisition of hardware and software.

IT management and staff have changed significantly since 2013. These changes have resulted in undocumented directives and philosophies as to how to manage and lead IT. Insufficient direction and instruction allowed for inconsistent processes and practices within the environment.

Best practices would be to have a documented consistent process in place in order to mitigate risk and ensure strategies are carried out.

Recommendations:

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

The user community should also be educated on updates made to applicable policies and procedures to allow for consistent enforcement.

Views of Responsible Officials: We intend to revise all policies and procedures to ensure that our policies and procedures comply with the strictest requirements/best practices.

Responsible Party: Manager, Information Technology & Executive Leadership Team

Due Date: 3/31/2018
Finding 2: De-centralized IT environment.

IT within Valley Metro is decentralized. Staffing, systems and processes were functioning independently based upon the previous direction and needs defined by non-technical individuals within the five locations.

A centralized IT department allows for the organization to establish, implement and monitor consistent technology, provides a richer level of support based upon knowledge of the infrastructure and redundancy of staffing to support operations in all five locations.

Due to changes in leadership, vision and staffing, IT has migrated into different platforms, visions and technical advancement.

Technology residing in all five locations was not being fully utilized by the organization nor was there a clear understanding of the direction and user needs integrated within an IT plan for support and future advancement.

Recommendations:

A complete assessment should be taken of technology residing within the five locations. The enterprise assessment should true-up to rotate non-standard applications, hardware and processes out of the environment or replaced with organizational supported items. In addition, staff should be evaluated to determine necessary training and such training should be provided to ensure a primary and backup individual exists to support the current platform.

Management should work with each location to determine user needs and such needs should be incorporated within the IT plan and vision. The IT plan and vision should align with the organizational goals and direction.

Views of Responsible Officials: We intend to complete a full assessment of technology in use across the organization and use that in combination with a review of user needs in order to begin purchasing software packages chosen to meet broad needs throughout the organization. We will also be developing an I.T. department Vision and Mission, clarified by a plan covering the immediate and near future for our functional area.

Responsible Party: Manager, Information Technology & Information

Due Date: 6/30/2018
Finding 3: Hardware tracking.

Lansweeper was not up to date nor verified for completeness. Lansweeper appeared to have a system limitation by which Microsoft machines were not auto-populated when a machine was deployed on the network. Thereby, requiring manual inputting into Lansweeper inventory information to track Microsoft machines within the network. Microsoft machines were recognized to be on the network by Lansweeper but inventory information was not captured. Dell machines appeared to communicate with Lansweeper without manual intervention and Lansweeper was updated with inventory information.

The following was identified based on analysis performed over the entire population of 513 machines on Lansweeper:

- 92 machines had not been seen on the network in over a month (See also Exhibit 4).
- 16 machines had no user assigned.
- 109 machines did not have an IP location documented in Lansweeper (See also Exhibit 1).
- 44 machines were past their warranty date (See Exhibit 5).
- 43 machines had no warranty date nor purchase date populated in Lansweeper (See Exhibit 5).

A sub-sample of 25 machines was selected from the Lansweeper hardware listing for further testing. The following issues were identified:

- One machine was last seen on the network in November 2017; however, was unable to be physically located by IT personnel for further testing.
- Seven machines were last seen on the network over a month ago and were subsequently determined to have been rotated out of services, replaced, or decommissioned.

There was no process in place to periodically review and update Lansweeper to confirm information existed and was correct. Additionally, there were no procedures documented for when machines should have been rotated or decommissioned from the network.

The Lansweeper listing was the primary method of tracking hardware within the environment. Due to the lack of review and verification of the Lansweeper accuracy and completeness, IT’s view of where hardware was deployed is limited.

Recommendations:

Management should document a process to verify assets are recognized by Lansweeper upon deployment to the network, are periodically reviewed to ensure errors such as IP locations and missing information is populated and remove assets from Lansweeper upon disposal.

Additionally, management should perform periodic verification of assets to ensure assets are being maintained within Lansweeper accurately. Items found to be missing in Lansweeper, should be populated to bring the inventory information current.

Finally, management should define a process by which decommissioned assets are appropriately removed and tracked from the environment.
Views of Responsible Officials: We will be implementing policies and procedures in concert with the asset management system to ensure that all asset dispensations are recorded, assets that have not been detected on the network after a defined period are investigated, and that we can conduct periodic inventories to ensure that all listed assets are validated or updated accordingly.

Responsible Party: Manager, Information Technology

Due Date: 6/30/2018
Finding 4: Tracking of software.

A process to track, reconcile and remove unauthorized software was not consistently utilized. Lansweeper was relied upon by IT to track software deployed within the enterprise. A Lansweeper listing was pulled and a high-level review was performed. From the Lansweeper listing, a sample of software, such as Microsoft Office, SQL, Adobe and Able to Extract, were selected for further testing. The following were identified:

- Comparison of the Lansweeper listing to Finance purchasing reports for the five software items selected appeared to exceed the number of licenses purchased.
- There was no process in place to track the number of software licenses purchased versus the number of licenses installed outside of Lansweeper.
- There was no consistent process to track when software was coming due for renewal and who was responsible for tracking it.
- Five software installations were identified from the Lansweeper listing that were not work related.

According to Information Technology and Security Policies (approved 12/19/2013), Policy IS003 – Information Security Review and Audit, the IT Department Responsibilities include, but are not limited to; “Perform an annual audit of all systems, software and peripheral devices to ensure an accurate software and hardware inventory.” And “Enforce our policy to immediately remove any unlicensed software, hardware or unauthorized modems from the network or any system.”

Additionally, Policy IS010 – Information Security Roles and Responsibilities, the IT Department’s processes should include, but are not limited to: “Install new software and upgrading existing software.” And “Software licensing information: Care must be taken to prevent unintentional violation of any licensing agreements for software used by the financial institution.”

Lastly, Policy IS013 – Acceptable Use indicates that the “Use of personal computer equipment or software is prohibited on Valley Metro systems or networks.”

The installation of software exceeding the licenses purchased may have been caused by; lack of support for the number of software licenses purchased; the Lansweeper installation count may have been skewed due to decommissioned machines that were still included in the report; or, license counts could have exceeded the number purchased.

Additionally, a policy prohibiting users from installing or downloading software on their assigned company machines does not appear to be enforced. If software installations are not monitored and removed as needed, this could put the network at risk.

Recommendations:

Management should perform a reconciliation of software identified by Lansweeper to actual licenses purchased, in addition consulting with users who may be running unique applications to determine business need and location of the software license. Additionally, management should define a process by which software renewal is tracked within the enterprise either through a tool such as Excel, Lansweeper, Asana, or another automated process. Periodic review should take place of inventory information to ensure reconciliation of license to use of software. Finally, management should consider limiting user
ability to download and load software on to enterprise assets. Software found to be personal, a license is not available, or a valid business need cannot be justified, should be removed from the company asset.

**Views of Responsible Officials:** We will be implementing an asset management system that in concert with our network monitoring system will allow us to track the usage of software and validate the availability of appropriate licensing, as well as identifying and removing any non-approved software from our machines and network.

**Responsible Party:** Manager, Information Technology & Database Administrator

**Due Date:** 6/30/2018
Finding 5: Inconsistencies in tracking and monitoring of hardware purchases.

A process defining how hardware and software acquisitions will be determined, evaluated, rolled out and tracked has not been fully implemented. Purchases have been executed to acquire hardware and/or software version which may not be in the best interest of the organization. Evidence to support an assessment is conducted prior to acquiring hardware and/or software does not appear to exist. A consistent hardware build has not been utilized nor has current versions of all software been acquired. Hardware is not tracked by IT until it is placed into service on the network and recognized by Lansweeper.

Performing an assessment of user needs prior to acquisition ensures the hardware and/or software will fulfill the user needs, is in alignment with IT support and fits within the IT strategy for achieving the organizational goals. Additionally upon receipt hardware and/or software, the item(s) can be configured to function within the environment securely whilst being monitored by existing technology to ensure the overall safety of user and organizational resources and assets.

Due to decentralization of IT and lack of direction, strategy and leadership, acquisitions have taken place which may not align with current support and are not appropriately being monitored or tracked. The inconsistent in acquisitions has led to a variety of platforms requiring IT support, user challenges with incompatibility with other systems and general lack of knowledge of all hardware and software assets possible assessing the environment.

Recommendations:

Management should conduct an inventory of all hardware and software within the environment. A reconciliation of all hardware and software assets should take place to ensure the asset is owned by Valley Metro, can be traced to a valid license or purchase, is current with applicable security patches and is being tracked appropriately.

Additionally, management should define an acquisition process by which IT personal evaluate users’ needs prior to a purchase taking place, items are tracked and monitored once placed in service.

Views of Responsible Officials: We will be purchasing an automated asset management system and to track all assets from purchase through disposal. We will be doing a review of all existing equipment to build as complete a record on each item as possible, and all items purchased going forward will be well documented.

Responsible Party: Manager, Information Technology

Due Date: 6/30/2018
Finding 6: Oversight of patch management and testing.

The process by which patches were tested, approved, rolled out and monitored was not operating effectively. Evidence to support patches were tested and approved for installation prior to being deployed by Windows or Continuum did not exist. Additionally, documentation to support decisions to discontinue patches sent through Continuum was not maintained. Testing of a sample of 25 machines identified:

- Nine machines were not current on Microsoft Office patches.
- Six machines were Windows 10 machines and were current on Microsoft Office updates; however, the patches were not being controlled through Continuum.
- The patch management was de-centralized between Windows and Continuum for Microsoft Office updates.
- IT management was not reviewing machines to ensure patches were implemented appropriately.

According to the Information Technology and Security Policies (approved 12/19/2013), Policy IS012 – Change Control, Minor changes are defined as, “Update or upgrade existing systems to include major system patches or significant changes to system configuration to meet a new policy, security guidelines or business requirement. Changes include both hardware and software components”.

Additionally, “Approval by the IT Committee is required in advance unless it is an Urgent change.” The Information Technology and Security Policies (approved 12/19/2013), Policy IS010 – Information Security Roles and Responsibilities, indicates that “A regular review of the Security Administrator’s report concerning the changes to external network connections, installation of software updates, and significant changes to systems and application architecture.”

Due to lack of oversight of the change management process, consistent implementation of the patch management process was not taking place. Un-patched Microsoft machines are a security risk since the vulnerabilities are well known to the hacker community and usually come to Microsoft’s attention because the vulnerability was exploited to compromise a system. If Valley Metro IT does not implement the patches and upgrades timely, there may be a risk that the information systems and sensitive data are compromised.

Recommendations:

Management should evaluate the environment for machines that are not currently patched to the appropriate level of security and focus on bringing those machines into compliance to ensure the protection of organizational assets and resources. Additionally, management should evaluate patch management tools to ensure there are operating effectively and implement a process by which patches are tested, approved and deployed by an established reliable process.

Views of Responsible Officials: We will be purchasing an automated asset management system that will aid in detecting machines that have not successfully been patched and combine this with SLA reporting and adjustments from ETS to ensure that our machines are patched in a timely fashion and that the patching is validated.

Responsible Party: Manager, Information Technology & Helpdesk Coordinator

Due Date: 3/31/2018
Finding 7: Operating systems nearing or past the end of support.

There were outdated or systems nearing end of support residing within the network (See Exhibit 3). Testing showed:

- One machine running Windows XP
- 355 machines running Windows 7
- Two machines running Windows 8.1

The current version of operating system available is Windows 10. Additional costs could be incurred to support previous versions of operating systems such as Windows 7 and 8.1; however, Microsoft will cease to support these outdated operating systems in 2020 and 2023, respectively.

Due to lack of IT direction and consistent leadership, multiple platforms were acquired and deployed. In addition, IT has not established an IT strategy nor educated the user community on the need or benefits of a consistent software and/or hardware platform.

The variety of operating systems deployed within the environment has caused additional support issues due to need for patching, incompatibility with other applications and potential security vulnerabilities to the environment.

Best Practice would be to periodically discuss and test new operating systems to determine if the newer system should be deployed.

Recommendations:

Management should establish a plan with a timeline to move all operating systems to a consistent supported platform. Those most vulnerable, such as the Windows XP machine, should be a higher priority and migrated as soon as feasible. Users should be consulted as to the need for unique applications that may be running on their current platform. Unique applications should be evaluated for current version and such migration should be planned accordingly through a documented change management process.

Views of Responsible Officials: We are already scoping work with our contract helpdesk service to begin migrating legacy applications to Windows 10 and decommission all Windows XP or Vista machines located on or off the network in our organization. Windows XP and Vista to be eliminated from use in organization by 2/28/2018, plan for migration from Windows 7 and Windows 8 to Windows 10 to be in place by 6/30/2018, migration complete by 6/30/2019.

Responsible Party: Manager, Information Technology & Helpdesk Coordinator

Due Date: 6/30/2019
DATE
February 13, 2018

SUBJECT
Non-Revenue Fleet Management Audit Report

PURPOSE
Present the results of the Non-Revenue Fleet Management Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

BACKGROUND/DISCUSSION/CONSIDERATION
The Fiscal Year 2017/2018 Internal Audit Plan was approved by the AFS on June 15, 2017. The Non-Revenue Fleet Management was placed on the audit plan after completion of a limited scope risk assessment. The objective of the audit was to determine if vehicles were adequately tracked for physical location of storage and assignment.

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee accept the Non-Revenue Fleet Management Audit.

CONTACT
Mary Modelski
Internal Audit Manager
mmodelski@valleymetro.org
602-262-7433

ATTACHMENTS
Non-Revenue Fleet Management Audit Report
Management Expense Reimbursement Compensation
Non-Revenue Fleet Management Audit
December 2017

Audit Report
Internal Audit

Distribution
Audit and Finance Subcommittee
Scott Smith, Chief Executive Officer
Ray Abraham, Chief Operations Officer
Paul Hodgins, Chief Financial Officer
Derek Brodeur, Facilities Maintenance Manager
To Scott Smith, Chief Executive Officer:

The purpose of this report is to communicate the results of the Non-Revenue Fleet Management Internal Audit. The audit was part of the Internal Audit annual audit plan for fiscal year 2017.

The report includes the following sections: Objective, Scope and Methodology, Background, and Audit Findings.

Valley Metro has set aside a select number of vehicles for use by individuals during the course of business. These non-revenue vehicles provide a means to transport individuals to meetings, construction sites, training, and between Valley Metro locations. The non-revenue vehicles allow individuals to conduct Valley Metro business without the need to incur personal expense by use of their own vehicles. In some situations, the use of public transit is not timely or feasible based upon the destination, therefore the non-revenue vehicles provide a means of transport.

The results of this review showed control strengthening should be considered in the areas of: oversight, policies, labeling, tracking, security of vehicle keys and documentation for use. Additional context as to why and how these areas should be considered can be found within the six audit findings.

During the course of this audit, individuals who assisted, by providing information on the how the process works or evidence for testing, were very helpful in defining how controls could be strengthen.

This report is intended for use by only those listed explicitly on the cover page distribution list and internally within Valley Metro Regional Public Transportation Authority.

If you have any questions or would like further clarification, please contact me at 602-322-4453.

Mary Modelski
Internal Auditor
February 7, 2018
OBJECTIVE

The objective of our audit is to determine whether internal controls over non-revenue fleet management are adequate and effective including: whether vehicles are maintained and used appropriately and whether the Valley Metro Regional Public Transportation Authority departments are in compliance with applicable policies and procedures.

SCOPE AND METHODOLOGY

Our testing encompassed samples selected from the listing of non-revenue vehicles, KeyWatcher system reports and assigned vehicle listings. The timeframe for the items included in this internal audit were from November 1, 2016 through October 31, 2017. Items that were incurred prior to or carried over from this timeframe and that fall into the scope timeframe, are specified, if included in the population.

We focused on the following areas:

- Proper identification, labeling, monitoring and storage of non-revenue vehicles.
- Timeliness of preventive maintenance.
- Verification that employees were properly authorized to use Valley Metro vehicles.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed key staff in charge of fleet operations for each department in order to gain an understanding of existing internal controls.
- Obtained a listing of the current inventory of non-revenue vehicles maintained by Fleet ("fleet listing") as of October 31, 2017. We also obtained the 2017 commercial auto insurance policy, which discloses the non-revenue fleet vehicles. We compared the listing of vehicles per the insurance policy to the fleet listing to determine if all vehicles listed as insured were tracked internally.
- Selected a sample of 17 (20% of the 84 population) non-revenue fleet vehicles from various locations.
  - We visited the respective locations and tested that the vehicles were in the appropriate location based on the fleet listing or checked-out according to the respective check-out log or the KeyWatcher system.
  - Physically inspected the vehicles for proper labeling.
  - Verified that vehicle titles were properly maintained in Finance.
  - Inspected maintenance logs to ensure vehicles were properly maintained and in working order.
• Obtained the KeyWatcher audit key report for the month of November 2017 to ensure that all keys for pooled vehicles were checked in at the end of the day.
• Obtained a list of employees with access to the KeyWatcher system as of December 5, 2017. We also obtained reports of terminated employees for November 2017 and December 2017. We compared both listings to ensure that terminated employees had been removed from the KeyWatcher system.
• Selected a sample of 12 employees (10% of the 114 population) from the list of employees with access to KeyWatcher system and tested whether proper authorization forms and a copy of their driver’s license were on file.
BACKGROUND

Valley Metro Non-Revenue Vehicles

Valley Metro maintains a fleet of non-revenue vehicles that include maintenance, take-home and pool vehicles. A population of 84 non-revenue vehicles were considered for this review. The non-revenue inventory includes:

<table>
<thead>
<tr>
<th>Non-Revenue Inventory</th>
<th>2002 Chevrolet Impala</th>
<th>2003 Dodge Grand Caravan</th>
<th>2005 Chevrolet Trailblazer (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 Chevrolet Impala</td>
<td>2007 Chevrolet Express Van</td>
<td>2007 Dodge Caravan (2)</td>
<td></td>
</tr>
<tr>
<td>2006 Ford E-350 (2)</td>
<td>2007 Peterbilt Brandt</td>
<td>2007 Toyota Prius</td>
<td></td>
</tr>
<tr>
<td>2007 Ford Explorer (2)</td>
<td>2008 Ford F-150 (4)</td>
<td>2008 Ford F-250 (2)</td>
<td></td>
</tr>
<tr>
<td>2008 Ford Explorer (2)</td>
<td>2009 International 4300 (2)</td>
<td>2009 International 7400</td>
<td></td>
</tr>
<tr>
<td>2009 Ford E-350 Van (2)</td>
<td>2011 Ford E-350 Van</td>
<td>2011 Ford Explorer (2)</td>
<td></td>
</tr>
<tr>
<td>2010 Ford F-250 (2)</td>
<td>2012 Ford Transit Connect</td>
<td>2013 Chevrolet Equinox (2)</td>
<td></td>
</tr>
<tr>
<td>2011 Ford F-450</td>
<td>2013 Ford F-150 Super Crew (2)</td>
<td>2013 Ford Explorer (7)</td>
<td></td>
</tr>
<tr>
<td>2013 Dodge Caravan</td>
<td>2014 Dodge Caravan</td>
<td>2014 Ford Escape (8)</td>
<td></td>
</tr>
<tr>
<td>2013 Ford Escape (2)</td>
<td>2015 Ford Escape (3)</td>
<td>2015 Ford Taurus</td>
<td></td>
</tr>
<tr>
<td>2013 Ford F-250</td>
<td>2016 Ford Explorer</td>
<td>2016 Ford F-250 (2)</td>
<td></td>
</tr>
<tr>
<td>2014 Ford Explorer (2)</td>
<td>2016 International 4300</td>
<td>2017 Ford Escape (3)</td>
<td></td>
</tr>
<tr>
<td>2016 Ford Escape (4)</td>
<td>2017 Ford F-250 Crew Cab (2)</td>
<td>2017 Ford Van</td>
<td></td>
</tr>
<tr>
<td>2016 Ford Transit Connect Van</td>
<td>2017 Ford Explorer (4)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Number in parenthesis represents multiple models for this year and make.

Maintenance vehicles may be temporarily or permanently assigned to an employee. Vehicles such as pictured below were reviewed to determine compliance with preventive maintenance schedules and labeling:
According to the Facilities Maintenance Manager, to qualify for a take-home vehicle, the user must be the first responder directly to any maintenance emergency or an authority’s official. Take-home vehicle assignments must be approved by the department head/agency director. During the time of review, there were 16 vehicles assigned. Below are examples of a take-home vehicle:

Take-home vehicles were found to have an asset number and government issued plates, according to Arizona Revised Statues §28-2511, as shown below:
According to the inventory maintained by the Facility Maintenance Manager, the following positions are assigned a take-home vehicle:

<table>
<thead>
<tr>
<th>Titles of Individuals with assigned take-home vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light Rail Maintenance Superintendent</td>
</tr>
<tr>
<td>Construction Manager</td>
</tr>
<tr>
<td>Rail Activation Manager</td>
</tr>
<tr>
<td>Program Coordinator (2)</td>
</tr>
<tr>
<td>Safety Specialist</td>
</tr>
<tr>
<td>Chief Operations Officer</td>
</tr>
<tr>
<td>Utility Relocations Specialist</td>
</tr>
</tbody>
</table>

Pool vehicles are used by authorized personnel for business purposes as needed. These vehicles are distinct from maintenance vehicles, which are operated by maintenance personnel, and take-home vehicles, which are assigned to specific individuals. Pool vehicles must be returned to their respective locations at the end of the day, unless authorized for overnight use.

Below are examples of pool vehicles:

The sample of pool vehicles selected were labeled with an asset number and side doors logo. In some cases, a logo was placed on the rear and “official use only” label was found on the side of the vehicle. Consistency in labeling was not found to exist within the pool sample.

**Valley Metro Pool Location, Reservation and Maintenance**

Valley Metro manages a pool of vehicles that are available to authorized employees from several departments for business purposes. Pool vehicles are located at City of Tempe East.
Valley Bus Operations Maintenance Facility (Tempe), Valley Metro 101 Building (101 building), East Valley Greenfield (Greenfield), 1240 E Mesa (Gilbert Road), Mobility Center (Mobility) and the Valley Metro Operations and Maintenance Center (OMC).

Three divisions at the 101 building, Marketing/Communication, Security and Capital Planning/Design-Construction have vehicle(s) allocate to their specific divisions. If an individual’s division is not assigned a department specific vehicle, an individual can check out a vehicle by using the KeyWatcher system at the 101 building.

The Mobility Center uses Outlook to schedule the check-out of a vehicle. Other locations did not have a formalized process for checking in/out a pool vehicle. All locations require vehicles to be returned at the end of the day and keys are supposed to be placed in a designated and secure location.

Valley Metro requires all fleet vehicles to be maintained every six months or within 5,000 miles of the last maintenance. The Facilities Maintenance Manager is responsible for keeping up-to-date records, scheduling routine maintenance and informing proper personnel to bring vehicles in for maintenance when due. Ellipse is used to track vehicle’s preventive maintenance or required repairs. Preventive maintenance was the focus of our review. Seventeen vehicles were selected from the population of assigned and pool vehicles to determine if maintenance was performed in accordance to requirements. The sampled of 17, made up of pool and assigned, vehicles selected for maintenance testing, tracking and notification were found to be in compliance.

Requirements for Pool Vehicle Use

A Vehicle Coordinator at the Tempe, Greenfield, Gilbert Road, Mobility and OMC locations provides the keys for the vehicle housed at their site. Locations are assigned pool vehicles based on operational and staffing needs for their specific location.

In order to qualify to drive a pool vehicle, an employee must be required to travel to various Valley Metro locations, cities, or construction sites for inspections, meetings, training or special events based on their job function.

Prior to granting an employee access to a non-revenue vehicles, Valley Metro requires employees to sign an authorization form to release their driving records. Human Resources periodically verifies driving records and holds a copy of the employee’s driver’s license. Employees who are assigned a vehicle are to report the number of round trips taken in a month to Finance. The Internal Revenue Service Publication 15-B (2017) establishes the Commuting Rule which states: “the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute (that is, from home to work or work to home) by $1.50”. Therefore, Finance then multiplies the number of round trips times $3.00 to compute the employee’s taxable fringe benefit, (e.g., three round trips equals $9.00).
AUDIT RESULTS

Finding 1: Oversight of non-revenue fleet management

Responsibility of the non-revenue fleet has not been clearly defined. Facilities Maintenance has taken responsibility for the preventive and responsive maintenance of the non-revenue fleet. Finance has taken the responsibility to hold title of vehicles allocated to the pool vehicles at the OMC and 101 building. Human Resources has been responsibility to assign access to the KeyWatcher system located in the 101 building. Each location (e.g., Greenfield terminal, Operations Maintenance Center, Mobility, and Tempe terminal) that houses a non-revenue vehicle allocates keys differently.

A clearly defined process identifying roles and responsible for oversight of non-revenue fleet provides a consistent process by which vehicles are authorized for use, allocated to individuals/locations based upon needed and tracked for appropriate use.

As Valley Metro revenue fleet has grown, the non-revenue fleet has not been given the necessary oversight needed for the number of vehicles that has been allocated to the fleet. This lack of oversight has resulted in locations and individuals being granted vehicles which may not best utilization of the assets.

Recommendations:

Management should assigned responsibility for oversight of the non-revenue fleet to an individual who can establish, communicate and implement a process by which non-revenue vehicles are assigned, allocated and used throughout the organization.

Views of Responsible Officials:

The Operations and Maintenance Division agrees with the finding and recommendation. The Agency will assign individuals to oversee the non-revenue fleet. A procedure will be written and implemented.

Responsible Party: Chief Operations Officer and Chief Operating Officer

Due Date: April 30, 2018
Finding 2: Lack of formal policy for labeling of vehicles

As non-revenue fleet vehicles are placed into service, a consistent process of labeling the vehicle with a Valley Metro logo, asset number or declaration “For official use only” did not exist. Of the 17 vehicles tested:

- Six vehicles had Valley Metro logos on both of the sides and back of the vehicle.
- Nine pool vehicles did not have a logo and only had the asset number displayed.
- Two vehicles were marked with the Valley Metro logo and “For official use only”.

Additionally three vehicles were found to be issued government license plates but lacked registration stickers.

Due to a lack of procedure defining Valley Metro requirements for non-revenue fleet labeling a determination as to the appropriateness of labeling could not be established.

Vehicles have been added to the non-revenue fleet pool over multiple years. Responsibility for the oversight of the motor pool has not been clearly defined nor has a consistent process nor procedure been documented, implemented or communicated.

Recommendations:

Management should define how non-revenue fleet will be labeled. A procedure should be documented and communicated to appropriate divisions such as Finance, Procurement and Facilities Management. New acquisitions should be labeled prior to being placed into service. Current inventory should be assessed to ensure it is in compliance with documented procedures and registration. Facilities Maintenance should update maintenance procedures to include evaluating vehicle labeling to determine if labeling needs to be replaced or repaired.

Views of Responsible Officials:

The Operations and Maintenance Division agrees that a formal labeling policy is necessary to provide consistency on how the non-revenue fleet is labeled. The Operations and Maintenance Division will provide a procedure for all new acquisition in the future. However, we suggest to not incur an additional expense by changing the labeling on the current inventory.

Responsible Party: Chief Operations Officer and Chief Operating Officer

Due Date: April 30, 2018
Finding 3: Inconsistent tracking and monitoring of non-revenue vehicles usage

A process by which vehicles are accounted for at the end of each day, does not exist. Non-revenue vehicles keys should be returned by the end of each day to the 101 building KeyWatcher system or designated area for safe keeping. During our testing we found:

- The 101 building KeyWatcher system has the ability to produce reports for monitoring check in and out of vehicles. However, these reports do not appear to be utilized.
- The 101 building KeyWatcher Driver Usage Report run for the month of November 2017, there were six of 93 instances where keys were not returned at the end of the day. In the situations identified, the keys were returned the following day. It is unknown if the vehicles were returned to their assigned location or taken home by the individual.
- Vehicle N-153 (2007 Toyota Prius, License Plate G-623FB) was checked out to a user listed as “Unknown” in the 101 building KeyWatcher system on November 22, 2017. Human Resources was contacted on November 27, 2017 to request inspection of the vehicle. The vehicle was made available for inspection on December 1, 2017. We were unable to determine or verify if the vehicle was being returned to the 101 building location at the end of each day.
- Based on discussions with Marketing and Communications, we found employees were allowed to keep the keys to the department issued vehicle at their desk and not return the keys to a secure area after use.
- Based on discussions with personnel at the Greenfield location, the KeyWatcher system was installed in June 2011. Due to technical issues, the department did not have the issues fixed and stopped using the KeyWatcher system. At the time of the audit, the system was not being utilized and keys were kept in a manager’s desk.
- The Tempe location did not maintain a check-in/out log and had no system of tracking vehicle usage. Upon request to inspect location issued vehicles, we were unable to location:
  - Vehicle N-163 (2014 Ford Escape, License plate G-819GV) only later to discover the vehicle was being repaired at a dealership at the time of our testing.
  - Vehicle N-150 (2005 Chevrolet Trailblazer, License Plate G-789HDIC) was not at the Tempe location at the time of our observation. After conducting a search, the vehicle was located at the Tempe Bus Station.

Monitoring of vehicle check-in-and-out process allows for tracking of vehicle use to ensure assets are accounted for and being used by authorized individuals. Lack of ownership of the non-revenue fleet oversight has caused vehicle usage and tracking to not take place. Without oversight, individuals are not returning vehicles and/or key in a timely fashion and the whereabouts of vehicles are unknown. Individuals are then inconvenienced when attempting to utilize a vehicle as the vehicle cannot be located.

Recommendations:

Management should evaluate the best use of the Greenfield KeyWatcher system and determine if the system should be fixed, removed or redeployed to another location with more than two vehicles. A process by which vehicles are checked in and out at the Tempe location should be defined, communicated and implemented for authorized individuals.
Management should define a process by which other locations and 101 building division assigned vehicle keys are secured and vehicles are accounted for at all times.

A reconciliation of those individuals authorized to remove keys from the 101 building KeyWatcher system should take place to ensure those individuals are still authorized and have had a driver’s license inquiry within a policy defined timeframe.

Policies and procedures outlining vehicle appropriate use and the requirements for returning pool keys at the end of the day should be created, communicated and implemented. Periodic verification should take place to ensure the vehicles are checked out and in by authorized individuals and according to the policy.

**Views of Responsible Officials:**

The Operations and Maintenance Division agrees with the finding and recommendation. We will either dispose or transfer to a different location the KeyWatcher system at the Greenfield facility as it is not needed because of the low number of vehicles located at that location. We will also write a procedure documenting the process of checking in and out vehicles.

**Responsible Party:** Chief Operations Officer and Chief Operating Officer

**Due Date:** April 30, 2018
Finding 4: Vehicle usage at locations other than employee’s primary duty location

Instances were identified during testing where a vehicle was checked out from the Mobility Center by an individual whose primary duty location was the OMC and 101 building.

Vehicles have been placed in locations based upon the number of individuals who have historically needed to use a vehicle to visit other location for Valley Metro business. The Mobility Center was assigned three vehicles with one being identified for rotation out of the fleet.

A policy specifying where staff should be pulling vehicles from (e.g., primary duty location or elsewhere) has not been drafted due to lack of oversight and knowledge of this situation taking place by management. This appears to creating a burden for the Mobility Center as two vehicles have been assigned there for use by individuals working in those location without consideration for other individuals to be pulling vehicles from that location for use.

Recommendations:

Management should determine if individuals can pull vehicles from other locations than their primary duty location. If allowable, a process by which communicating such check in/ out should be defined and priority of use should be determined. Additionally, management should consider if vehicles can be checked in and out from different location is permissible. Upon determination, management should communicate the decision if and how individuals can use vehicles at other locations.

Views of Responsible Officials:

The Operations and Maintenance Division agrees with this finding and recommendation. We will develop a procedure outlying what location staff should be using vehicles and approvals needed for any exceptions.

Responsible Party: Chief Operations Officer and Chief Operating Officer

Due Date: April 30, 2018
Finding 5: Improper security over the pool keys

A policy nor consistent process for accessing and securing pool vehicle key does not exist at remote locations. During testing, we found at:

- Greenfield, the keys were kept in a drawer that was not locked during the day or night. The office door was being locked at night.
- Tempe, vehicle keys were kept in a locked cabinet. Three of the personnel were assigned keys to access the cabinet. Per inquiries with staff, the locks, to their knowledge, have not been changed even after an employee has been terminated.
- Mobility Center, vehicle keys were kept in an unlocked drawer in the reception area to which the personnel had access to at all times.

Keys should be secured when not in use to ensure the vehicles are protected and available to authorized individuals when needed.

Vehicles have been added to remote locations without much management oversight, resulting in controls over protecting keys diminishing. Keys are now potentially easily accessible by individuals who may not be authorized to use pool vehicles.

Recommendations:

Management should access each locations pool vehicle inventory and determine the most efficient method of dispensing keys when authorized individuals need a vehicle. Upon determination, management should communicate and implement the process by which keys are dispensed at remote locations. Periodically, management should evaluate if the key issuing process is effectively protecting pool vehicle keys and are appropriately dispensing such keys.

Views of Responsible Officials:

The Operations and Maintenance Division agrees with this finding and recommendation. We will draft a procedure for security over pool keys.

Responsible Party: Chief Operations Officer and Chief Operating Officer

Due Date: April 30, 2018
Finding 6: Improper retention of documentation

Documentation defining under what circumstances and what was required to be completed prior to granting access to non-revenue fleet was incomplete. During testing, we identified:

- Authorization forms to release driving records and copies of driver’s licenses were not found on file within Human Resources for six out of 12 employees.
- Driving records are checked only upon hire of employees. A process to conduct periodic driving records checks of individuals using Valley Metro vehicles did not exist.
- Individuals were not required to sign a disclosure with a clear description of how to:
  - Use and return vehicles and/or keys,
  - Notify Valley Metro of infractions related to driving privileges.
- Lack of documentation justifying why an individual is assigned a non-revenue vehicle.

A defined process by which individuals are assigned a vehicle based upon their duties and responsibilities along with communicating any infractions that may hinder their ability to perform such responsibilities should exist. Those charged with reducing the risk to the organization should have a process by which individuals are periodically verified to be in compliance with pre-defined driving privilege requirements.

Due to the lack of a policy and management oversight, individuals may not be held accountable for misuse and/or not returning of vehicles and keys to their respective locations. In the event of an accident, Valley Metro is open to potential liability due to lack of due diligence regarding issuance of non-revenue vehicles and/or proactively checking driving records for its individuals.

Recommendations:

Management should define parameters by which individuals are assigned a vehicle based upon job duties, responsibilities and type of vehicle most appropriate for the role. Such parameters should be communicated to those charged with issuance of assigned vehicles to ensure the appropriate vehicle is issued to the individual. Periodically, management should assess those job responsibilities to ensure issuance of a vehicle is still appropriate.

Additionally, a driving contract, including the organization’s level of risk tolerance, should be documented outlining use of a Valley Metro vehicle is a privilege and how a driving infraction taking place within or outside a Valley Metro vehicle will be reported, reviewed and handled. Additionally, a process by which individuals driver’s license are periodically verified to ensure compliance with parameters defined within the driving contract should be documented, communicated and implemented.

Views of Responsible Officials:

The Operations and Maintenance Division agrees with this finding and recommendation. We believe a draft policy has been written addressing this finding but will be finalized.

Responsible Party: Chief Operations Officer and Chief Operating Officer

Due Date: April 30, 2018
Memo

To: Penny Lynch, Human Resource Director
From: Mary Modelska, Internal Auditor
Date: February 10, 2018
Re: Management Expense Reimbursement Compensation

Penny,

During the course of the Non-Revenue Fleet Management Audit, we discovered 33 individuals received Management Expense Reimbursement Compensation (stipend). The policy (revised May 1, 2012) states the:

Purpose: "to define methods of expense reimbursement compensation for management, CEO, Directors and Managers".

Policy: "In lieu of having to submit for local monthly expenses and parking expenses, the following allowances are in effect:

CEO: Set By Board of By Contract
Directors: $250/Monthly (Paid Out Bi-Weekly $115.38)
Managers: $100/Monthly (Paid Out Bi-Weekly $46.15)"

On August 26, 2016 a meeting took place between Human Resources and the Chief Executive Officer (CEO) and the decision was made "From this point forward, be sure that no employment offers/promotional letters include any management stipend or cellular phone allowance wording." (Source: Human Resource Generalist)

After discussion with the CEO on January 8, 2018, he clarified any stipends in effect prior to August 26, 2016 would continue. As individuals get promoted or leave the organization, such stipends will cease.

Our review of the policy did not provide clear direction as to how program would be phased out for those grandfathered. In addition, clarity as to what the stipend specifically covered would provide direction for those within the program as to what can and cannot be requested for reimbursement.

Consistency in application of a policy is key to ensuring fair and equitable distribution of benefits to employees without bias or creating an unfair environment for employees.
We recommend additional context be added to the policy to define how individuals grandfathered into the program would continue or cease to receive stipends as they move within or outside the organization. In addition, further definition of what the stipend is to be used for should be outlined and communicated to those grandfathered into the program.
To: Mary Modelski, Internal Auditor

From: Penny Lynch, Human Resource Director

Date: February 11, 2018

Re: Response to Management Expense Reimbursement Compensation

Mary,

In response to your memo dated February 10, 2018 regarding the Management Expense Reimbursement Compensation (stipend):

Human Resources will update its procedure to grandfather 33 agency employees receiving the stipend, prior to the implementation of the new rules, effective August 26, 2016. The procedure will include clarification of use and intent of the management expense reimbursement stipend and will denote how the program will be phased out.

A draft revision of the procedure will be prepared by March 9, 2018 for review.

Please let me know if you need anything additional from me to ensure compliance with the August 26, 2016 change.

Thank you.
DATE
February 13, 2018

SUBJECT
Internal Audit Update

PURPOSE
Update the Audit and Finance Subcommittee on actions taken to continue to build Internal Audit.

BACKGROUND/DISCUSSION/CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Item presented for information only.

CONTACT
Mary Modelski
Internal Audit Manager
mmodelski@valleymetro.org
602-262-7433

ATTACHMENT
None
## Hardware and Software Management Audit

<table>
<thead>
<tr>
<th>No.</th>
<th>Finding</th>
<th>Response</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Outdated policies and procedures over IT</td>
<td>Revise all IT policies and procedures to ensure that IT policies and procedures comply with the strictest requirements/best practices.</td>
<td>3/31/18</td>
</tr>
<tr>
<td>2.</td>
<td>De-centralized IT environment</td>
<td>Complete a full assessment of technology in use across the organization and use that in combination with a review of user needs in order to begin purchasing software packages to meet broad needs throughout the organization. Also, develop an IT vision and mission statement, clarified by a plan covering immediate and near future needs for functional areas.</td>
<td>6/30/18</td>
</tr>
<tr>
<td>3.</td>
<td>Hardware tracking</td>
<td>Implement policies and procedures and purchase an asset tracking system to track hardware and software from purchase to disposal. In addition, conduct an inventory of those items currently installed and record within the asset tracking system.</td>
<td>6/30/18</td>
</tr>
<tr>
<td>4.</td>
<td>Tracking of software</td>
<td></td>
<td>6/30/18</td>
</tr>
<tr>
<td>5.</td>
<td>Inconsistencies in tracking and monitoring of hardware purchases</td>
<td></td>
<td>6/30/18</td>
</tr>
<tr>
<td>6.</td>
<td>Oversight of patch management and testing</td>
<td></td>
<td>3/31/18</td>
</tr>
<tr>
<td>7.</td>
<td>Operating systems nearing or past the end of support</td>
<td>Work with ETS to migrate legacy applications to Windows 10 and decommission/dispose of XP and Vista machines. Migrate Windows 7 and 8 machines to Window 10.</td>
<td>6/30/19</td>
</tr>
</tbody>
</table>

Management agreed with each finding.
Non-Revenue Fleet Management Audit

<table>
<thead>
<tr>
<th>No.</th>
<th>Finding</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Oversight of non-revenue fleet management</td>
<td>We will assign individuals to oversee the non-revenue fleet. A procedure will be written and implemented.</td>
</tr>
<tr>
<td>2.</td>
<td>Lack of formal policy for labeling of vehicles</td>
<td>We will provide a procedure for all new acquisition in the future. However, we suggest to not incur an additional expense by changing the labeling on the current inventory.</td>
</tr>
<tr>
<td>3.</td>
<td>Inconsistent tracking and monitoring of non-revenue vehicles usage</td>
<td>We will either dispose or transfer to a different location the KeyWatcher system at the Greenfield facility as it is not needed because of the low number of vehicles at that location. We will also write a procedure documenting the process of checking in and out vehicles.</td>
</tr>
<tr>
<td>4.</td>
<td>Vehicle usage at locations other than employee’s primary duty location</td>
<td>We will develop a procedure that will outline what location staff should be using vehicles and approvals needed for any exceptions.</td>
</tr>
<tr>
<td>5.</td>
<td>Improper security over the pool keys</td>
<td>We will draft a procedure for security over pool keys.</td>
</tr>
<tr>
<td>6.</td>
<td>Improper retention of documentation</td>
<td>We believe a draft policy has been written addressing this finding but will be finalized.</td>
</tr>
</tbody>
</table>

Management agreed with each finding and provided a completion due date of April 30, 2018.

Update:

Policies:

- Ethics – Under review/approval with the CEO.
- Procurement Policy – General Counsel advised joint manual is under outside review to confirm compliance with triennial and procurement systems review. Expected return a few weeks.

In conjunction with:

- COP – preparing for the entrance meeting (2/28) with City of Phoenix Transit on an audit of credit cards.
- VincentBenjamin – continuing the testing of travel and entertainment expense audit. Looking to provide management a draft report by mid-March and close audit in April.
- Information Technology – assisting with the KPMG audit being conducted on behalf of Microsoft – Software Compliance Review. KPMG hoping to transition results of audit to Microsoft mid-March
- Capital Services – assisted with feedback on a procedure for review and approval of invoices using Aconex.
- Human Resources – recruiting staff for Internal Audit.
DATE
February 13, 2018

SUBJECT
Fiscal Year 2018 2nd Quarter Finance Reports

PURPOSE
To provide an update on the FY18 2nd Quarter Finance Reports.

BACKGROUND | DISCUSSION | CONSIDERATION
Finance Quarterly Reports are provided as an informational update of Valley Metro activities.

COST AND BUDGET
None

COMMITTEE PROCESS
TMC/RMC: February 7, 2018 for information
AFS: February 15, 2018 for information
Boards of Directors: February 22, 2018 for information

RECOMMENDATION
This item presented for information only.

CONTACT
Paul Hodgins
Chief Financial Officer
602-262-7433
phodgins@valleymetro.org
Valley Metro RPTA Operating Results – Q2

RPTA Budget vs. Actual Report
For the quarter ending December 31, 2017

<table>
<thead>
<tr>
<th>Operations Expenditures</th>
<th>2nd Quarter</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
</tr>
<tr>
<td>Fixed Route Bus</td>
<td>23.7</td>
<td>22.4</td>
</tr>
<tr>
<td>Paratransit</td>
<td>9.4</td>
<td>8.8</td>
</tr>
<tr>
<td>Vanpool</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Regional Services</td>
<td>3.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Planning</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Administration</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>METRO Rail (Salary, Fringe, OH)</td>
<td>5.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Total Operations Expenditures</td>
<td>43.4</td>
<td>40.3</td>
</tr>
</tbody>
</table>

$ Millions
### Valley Metro RPTA Capital Results – Q2

**RPTA Budget vs. Actual Report**

For the quarter ending December 31, 2017

<table>
<thead>
<tr>
<th>Capital Expenditures</th>
<th>2nd Quarter Budget</th>
<th>2nd Quarter Actual</th>
<th>Variance (Unf.)</th>
<th>Year to Date Budget</th>
<th>Year to Date Actual</th>
<th>Variance (Unf.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bus Purchases</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valley Metro</td>
<td>8.4</td>
<td>12.0</td>
<td>(3.6)</td>
<td>16.9</td>
<td>12.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Lead Agency</td>
<td>1.3</td>
<td>0.0</td>
<td>1.3</td>
<td>2.7</td>
<td>0.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Paratransit Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lead Agency</td>
<td>0.1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Vanpool Vehicles</td>
<td>1.1</td>
<td>1.7</td>
<td>(0.6)</td>
<td>2.3</td>
<td>2.7</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Other Capital</td>
<td>3.7</td>
<td>1.2</td>
<td>2.5</td>
<td>7.4</td>
<td>1.7</td>
<td>5.7</td>
</tr>
<tr>
<td>METRO Rail</td>
<td>10.9</td>
<td>8.9</td>
<td>2.0</td>
<td>21.7</td>
<td>16.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Total Capital Expenditures</td>
<td>25.5</td>
<td>23.8</td>
<td>1.7</td>
<td>51.2</td>
<td>33.2</td>
<td>18.0</td>
</tr>
</tbody>
</table>

### Valley Metro Rail Operating Results – Q2

**VMR Budget vs. Actual Report**

For the quarter ending December 31, 2017

<table>
<thead>
<tr>
<th>Operations Expenditures</th>
<th>2nd Quarter Budget</th>
<th>2nd Quarter Actual</th>
<th>Variance (Unf.)</th>
<th>Year to Date Budget</th>
<th>Year to Date Actual</th>
<th>Variance (Unf.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail Operations</td>
<td>12.0</td>
<td>10.4</td>
<td>1.6</td>
<td>24.0</td>
<td>20.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Future Project Development</td>
<td>4.4</td>
<td>0.7</td>
<td>3.7</td>
<td>8.8</td>
<td>3.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Agency Operating</td>
<td>0.4</td>
<td>0.3</td>
<td>0.1</td>
<td>0.8</td>
<td>0.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Total Operating Activities</td>
<td>16.8</td>
<td>11.4</td>
<td>5.4</td>
<td>33.6</td>
<td>24.7</td>
<td>8.9</td>
</tr>
</tbody>
</table>
### Average Rail Fare

**FY 2017 History / FY 2018 2nd Quarter**

Average Fare – 12 Months Rolling by Quarter

![Average Rail Fare Chart]

- **FY17-Q2**: $0.81
- **FY17-Q3**: $0.81
- **FY17-Q4**: $0.82
- **FY18-Q1**: $0.79
- **FY18-Q2**: $0.77

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Fare Revenue Budget</th>
<th>Fare Recovery Budget</th>
<th>Fare Revenue Collected</th>
<th>Fare Recovery Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2</td>
<td>$3,572,000</td>
<td>29.8%</td>
<td>$2,977,000</td>
<td>29.0%</td>
<td>($595,000)</td>
</tr>
</tbody>
</table>

### Valley Metro Rail

**Capital Results – Q2**

VMR Budget vs. Actual Report

For the quarter ending December 31, 2017

<table>
<thead>
<tr>
<th>Capital Expenditures</th>
<th>2nd Quarter</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
</tr>
<tr>
<td>Rail Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Mesa</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Tempe Streetcar</td>
<td>6.7</td>
<td>5.1</td>
</tr>
<tr>
<td>Gilbert Rd</td>
<td>14.3</td>
<td>18.1</td>
</tr>
<tr>
<td>50th St LRT Station</td>
<td>2.6</td>
<td>0.8</td>
</tr>
<tr>
<td>South Central</td>
<td>6.7</td>
<td>4.7</td>
</tr>
<tr>
<td>OMC Expansion</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>System-wide Improvements</td>
<td>5.7</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td><strong>36.5</strong></td>
<td><strong>29.0</strong></td>
</tr>
</tbody>
</table>
DATE               AGENDA ITEM 7
February 13, 2018

SUBJECT
FY19 Budget and Staffing Plan

PURPOSE
To provide an update to the Audit and Finance Subcommittee on the FY19 budget process and preliminary staffing plan.

BACKGROUND/DISCUSSION/CONSIDERATION
The Valley Metro Regional Public Transportation Authority (RPTA) and Valley Metro Rail, Inc. (VMR) FY19 operating and capital budgets are under development. Each division has provided requests and Executive Leadership Team is currently reviewing the requests relative to available resources. To better inform and solicit input from the Audit and Finance Subcommittee earlier in the budget process, several key assumptions are discussed which have significant impacts on the development of the budgets.

The preliminary FY19 operating and capital budgets will be prepared with the goal of delivering fiscally prudent, balanced budgets that provides the resources necessary to meet the needs of the agencies and member cities. Valley Metro is expanding transit services and concurrently delivering on multiple capital construction projects that will continue to put pressure on resources. Staff will continue to evaluate the change in philosophy from a primarily consultant project delivery to more internal staff driven project delivery. As reported to the AFS, significant progress has been made in hiring the staff approved in the FY18 budget, along with significant savings to the agency by hiring rather than using consultants.

The budget is being developed in compliance with Board of Directors’ adopted budget, financial and Transit Life Cycle Program (TLCP) policies.

The Valley Metro Strategic Plan includes numerous initiatives that impact the budget process. The Strategic Plan is current being evaluated and updated and is expected to be presented to the Board in the coming months. As a result, no new strategic initiatives are being incorporated into the budget process for this year. Existing initiatives that began implementation in FY17 or FY18 will carry forward through FY19. Key initiatives carrying forward include:

- Implementation of Respect the Ride, with increased presence of safety and security to address passenger and employee safety
• Development of standards for system state of good repair in conjunction with the transit asset management plan
• On-going review of staffing needs to ensure resources are allocated optimally
• Create, review, update all policies relating to fiscal controls

The RPTA and VMR budgets are developed with a unified staff plan, with department managers planning the level of effort required to meet the bus and rail activities. Salary and overhead charges to bus and rail projects are based on actual time worked on each project.

During FY18, Finance staff worked with Division Directors to review the staffing resources needed agency wide. As a result, several positions that had been vacant for a long time (more than 6 months) have been repurposed to minimize new staffing requests. Requests for new staff positions that were anticipated last year have been minimized or eliminated in several divisions.

For FY19 there are requests for 16 new positions in the integrated agency. Some of these requested positions are currently being provided by consultant staff through the various support services contracts. These requests were made after a review of the resources needed to meet the implementation schedules for the major capital projects currently being undertaken.

Four of the 16 positions have been hired in FY18. One is a Construction Inspector, which was deemed necessary to hire early to assist with the VMR capital construction projects. The other three were hired early for Rail Operations to assist with general administrative, asset management and inventory control.

The remaining 12 new positions include two in Marketing, three in Design and Construction and seven in Rail Operations. The Marketing positions are on-going administrative positions, including one administrative assistant to support the department and one digital communications and marketing program lead. The three positions in Design and Construction are all construction project related and would be hired as term positions. They comprise a Labor Compliance Officer, an Office Engineer and a Project Coordinator. The seven positions in Rail Operations are directly related to the opening of the Gilbert Road Extension in 2019 and the acceptance of two new vehicle types (Siemens light rail vehicles and Brookville streetcars).

The compensation budget currently has a 3.0% merit increase programmed. For staff salary changes, merit increases are evaluated based on employee performance; division level control to manage total costs within budget. Human Resource staff is currently completing surveys and peer reviews to develop a final recommendation for merit increases and potential cost-of-living changes to the salary ranges.
STRAIGHTIC 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
  - Tactic C: Deliver projects and services on-time/on-budget
  - Tactic D: Maintain a culture to recruit and retain a qualified and diverse workforce
  - Tactic E: Maintain strong fiscal controls to support Valley Metro’s long-term sustainability.

RECOMMENDATION
This item presented for information only.

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

ATTACHMENT
None
Information Summary

DATE
February 13, 2018

AGENDA ITEM 8

SUBJECT
Intergovernmental Agreements, Contract Change Orders, Amendments and Awards

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

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

A. Marketing Materials Storage and Delivery Service Contract Award
Execute a 5-year contract with two 1-year options with Hot Shot Logistics, Inc. for marketing material storage and distribution services in an amount not to exceed $185,250.

B. RideChoice Services contract Change Order
Extend the term of the Contract between Valley Metro and Creative Software Solutions, LLC, to November 30, 2018 in order to permit ample time to conduct a federally compliant Request for Proposals solicitation process for operation and management of RideChoice services.

C. Motor and Center Truck Overhaul Program Contract Award
Execute a sole source contract with Hutchinson Aerospace & Industry, Inc. in an amount not to exceed $239,000 to provide parts necessary for a Motor and Center Truck overhaul program for the light rail vehicles.

D. Tempe Streetcar Project Third Party Utility Agreements
Execute work orders with third party utility companies for their construction activities on the Tempe Streetcar project for an amount not to exceed $6,525,000 plus an additional $652,500 (10%) for contingency.

E. Tempe Streetcar Design Contract Authority Modification
Increase the Tempe Streetcar design contract authority up to $1,350,000. Funds will be held by Valley Metro staff and made available to the Designer, Stantec, as needed to complete the project.
RECOMMENDATION
This item presented 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
February 13, 2018

AGENDA ITEM 8A

SUBJECT
Marketing Materials Storage and Delivery Service Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a 5-year contract with two 1-year options with Hot Shot Logistics, Inc. for marketing material storage and distribution services in an amount not to exceed $185,250.

BACKGROUND | DISCUSSION | CONSIDERATION

Valley Metro currently needs storage and distribution services to meet the marketing demands of the Agency’s various lines of business and initiatives. The storage space at the corporate offices is limited, making receiving or store of large deliveries a challenge.

The selected vendor is required to have the warehouse capacity and facility to store and contain the Transit Book order and other Valley Metro marketing materials. The scope of work for this service includes:

1.) Receiving, storage and distribution of Valley Metro Transit Books
2.) Receiving, storage, distribution and posting of other Valley Metro Marketing Materials
3.) Marketing material receiving notifications, monthly inventory, online fulfillment, regular office hours and climate controlled storage

Proposals were due to Valley Metro on November 8, 2017. One proposal was received from Hot Shot Logisticis, Inc.

A three-member evaluation committee was comprised of Valley Metro staff. The committee evaluate the single proposal received using the evaluation criteria listed below:

<table>
<thead>
<tr>
<th>Evaluation Criteria</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualifications &amp; Experience of the Firm</td>
<td>200</td>
</tr>
<tr>
<td>Qualifications &amp; Experience of Assigned Personnel</td>
<td>100</td>
</tr>
<tr>
<td>Understanding/Approach to the Scope of Work</td>
<td>300</td>
</tr>
<tr>
<td>Price</td>
<td>400</td>
</tr>
<tr>
<td><strong>Total Points Available</strong></td>
<td><strong>1,000</strong></td>
</tr>
</tbody>
</table>

Valley Metro I 101 N. 1st Ave. Phoenix, AZ 85003 602.262.7433
After review and scoring of the proposal, the evaluation committee identified Hot Shot Delivery, Inc. as meeting Valley Metro’s requirements. An independent cost estimate and price analysis was completed. The proposed price was deemed fair and reasonable based on comparison to the independent cost estimate, current contract and industry market pricing. The following table shows the firm’s ranking on the basis of total points:

<table>
<thead>
<tr>
<th>Proposer Scores by Points and Rank Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Points</td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>Hot Shot Logistics, Inc.</td>
</tr>
</tbody>
</table>

**COST AND BUDGET**
The RPTA contract amount for the five-year marketing material storage and delivery services contract is an amount not to exceed $185,250 plus an additional $18,525 (10%) contingency. The amount for future contract extensions will be determined at the time they are executed.

All costs identified herein are within the Marketing Materials Storage and Delivery Service cost forecast and are included in the FY 2018 RPTA Adopted Operating Budget. Contract Obligations beyond FY 2018 are incorporated into the RPTA Five-Year Operating Forecast and Capital Program (FY 2018 – FY 2022).

**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
  - Tactic A: Operate an effective, reliable, high performing transit system

**COMMITTEE PROCESS**
RTAG: January 16, 2018 for information
TMC: February 7, 2018 for action
AFS: February 15, 2018 for information
Board: February 22, 2018 for action

**RECOMMENDATION**
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute a 5-year contract and two 1-year options with Hot Shot Logistics, Inc. for marketing material storage and distribution services in an amount not to exceed $185,250 plus and additional amount $18,525 (10%) contingency.

**CONTACT**
Rob Antoniak
Chief Operating Officer
602-495-8209
rantoniak@valleymetro.org

**ATTACHMENT**
None
DATE
February 13, 2018

SUBJECT
RideChoice Services Contract Change Order

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to extend the term of the Contract between Valley Metro and Creative Software Solutions, LLC, to November 30, 2018 in order to permit ample time to conduct a federally compliant Request for Proposals solicitation process for operation and management of RideChoice services.

BACKGROUND/DISCUSSION/CONSIDERATION
In 2013, Valley Metro executed a contract with Creative Software Solutions LLC (doing business as MJM Innovations) for the management and operation of the Valley Metro RideChoice program. The current contract is set to expire on March 23, 2018 and there are no available contract extensions. Staff is developing a federally compliant “Request for Proposals” (RFP) to re-procure these services. This contract extension is being sought in order to allow sufficient time to complete the procurement.

Additionally, this extension ensures Valley Metro is not making service changes during the hottest summer months, reducing the effects of potential service impacts resulting from new technology and/or service providers.

COST AND BUDGET
Staff is currently projecting an unspent contract balance to be approximately $2.4 million on March 23, 2018 and approximately $1.7 million on November 30, 2018. As a result, we are not requesting any additional contract funding.

All RideChoice expenses are within the FY 2018 Valley Metro Operating and Capital Budget and Five Year Operating and Capital Forecast. This change order is for the period of March 23, 2018 through November 30, 2018 and the cost of service to be provided under this change order is estimated to be $776,000.

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

- Goal 1: Increase customer focus
  - Tactic C: Enhance customer service to member cities.
• Tactic E: Enhance service and facilities for seniors and people with disabilities.
  • Goal 2: Advance performance-based operations
    • Tactic A: Operate an effective, reliable, high performing transit system.

COMMITTEE PROCESS
RTAG: January 16, 2018 for information
TMC: February 7, 2018 for action
Board: February 15, 2018 for action

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute a contract change order with Creative Software Solutions, LLC through November 30, 2018.

CONTACT
Ron Brooks
Manager of Accessible Transit Services
602.716.2107
rbrooks@valleymetro.org

ATTACHMENT
None
DATE       AGENDA ITEM 8C
February 13, 2018

SUBJECT
Motor and Center Truck Overhaul Program Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a sole source contract with Hutchinson Aerospace & Industry, Inc. in an amount not to exceed $239,000 to provide parts necessary for a Motor and Center Truck overhaul program for the light rail vehicles.

BACKGROUND | DISCUSSION | CONSIDERATION
The current age of the light rail vehicles is 10 years in revenue service with an average mileage of each vehicle being approximately 470,000 miles. There are currently 50 light rail vehicles (LRVs) in the total fleet and have been in revenue service for ten years. The purpose of the overhaul is to keep the equipment in a state of good repair and to maintain safe and reliable operation.

The contractor(s) will provide parts to overhaul components of the motor and center trucks that include the primary and secondary suspension components including bolster anchors and lateral stops. The contractor will provide all the necessary parts and materials to complete this portion of the overhaul program.

This is a materials/parts only requirements contract. All labor will be done in house by Valley Metro Rail staff.

The recommended vendor is Hutchinson Aerospace & Industry, Inc and is a sole source procurement because they are the only provider of these parts that have currently been tested and approved by the original equipment manufacturer (OEM) of the light rail vehicles.

An independent cost estimate and a sole source justification including a cost comparison and price analysis have been completed. The cost comparison and price analysis were completed by comparing pricing from other transit agencies that have procured similar parts. The proposed price has been deemed fair and reasonable based on the price analysis.

COST AND BUDGET
The cost for the parts being purchased from Hutchinson Aerospace & Industry, Inc is for a total amount of $239,000. The cost for the purchase of the parts is included in the
Valley Metro Rail Adopted FY 2018 Operating and Capital Budget. Contract obligations beyond FY 2018 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2018 thru FY2022). This project is being funded with Prop 400 funds.

COMMITTEE PROCESS
RTAG: January 16, 2018 for information
RMC: February 7, 2018 for action
Board of Directors: February 22, 2018 for action

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

- Goal 2: Advance performance based operation
  - Tactic A: Operate an effective, reliable, high performing transit system

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a sole source contract with Hutchinson Aerospace & Industry, Inc. in an amount not to exceed $239,000 to provide parts necessary for a Motor and Center Truck overhaul program for the light rail vehicles.

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

ATTACHMENT
None
Information Summary

DATE
February 13, 2018

AGENDA ITEM 8D

SUBJECT
Tempe Streetcar Project Third Party Utility Agreements

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute work orders with third party utility companies for their construction activities on the Tempe Streetcar project for an amount not to exceed $6,525,000 plus an additional $652,500 (10%) for contingency.

BACKGROUND | DISCUSSION | CONSIDERATION
The Tempe Streetcar project will add three miles of Tempe Streetcar route along Rio Salado Parkway from Marina Heights development west to Mill Avenue, downtown loop on Mill Avenue and Ash Avenue and south to Apache Boulevard, then east to Dorsey Lane. In spring 2015, the Tempe City Council approved the recommended stop locations and the route was also approved by the Valley Metro Rail Board and the Maricopa Association of Governments.

To date, contracts for this project have been awarded for streetcar vehicles, the design consultant, Construction Manager at Risk and public art services. Project design is beyond 60% completion and early utility relocation work is underway. Also, in November 2016 the Board authorized expenditure of $1,689,105 for third party utility companies to complete their design activities on the Tempe Streetcar project.

Valleymetro has initiated master agreements with all affected utility companies for relocation of their lines to make way for future transit projects. These agreements not only encompass the Tempe Streetcar project, but also apply to other Valley Metro capital projects throughout the metropolitan area. Within these master utility agreements, it was agreed that work orders would be initiated for design and construction of individual transit projects.

An important next step in the Tempe Streetcar project’s development is to authorize construction activities for required utility relocations. In order to commence this work, work orders are needed with the following third party utility companies: Air Products, APS, AT&T, AT&T/TCA, CenturyLink, Cox Communications, LEVEL3, Private Irrigation, SRP Electric, SRP Water Irrigation, Southwest Gas, Telecom Group (TCG), Union Pacific Railroad and ZAYO. Issuance of these work orders requires Board approval.
COST AND BUDGET
The Tempe Streetcar project is funded using regional Public Transportation Funds, local funds, and federal grant dollars. The cost for third party utility work is included in the overall budget established for the project.

Current estimated utility relocation expenditures for construction by company are outlined in the following table. The table also identifies an additional 10% contingency to be held by Valley Metro staff for unforeseen circumstances.

<table>
<thead>
<tr>
<th>Utility Company</th>
<th>Estimated Relocation Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIR Products (Nitrogen Gas)</td>
<td>$ 75,000</td>
</tr>
<tr>
<td>APS</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>$ 275,000</td>
</tr>
<tr>
<td>AT&amp;T/TCA</td>
<td>$ 375,000</td>
</tr>
<tr>
<td>CenturyLink</td>
<td>$ 750,000</td>
</tr>
<tr>
<td>Cox Communications</td>
<td>$ 300,000</td>
</tr>
<tr>
<td>LEVEL3 (Telecom Providers)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Private Irrigation (Private/Tempe Users)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Salt River Project Electric</td>
<td>$500,000</td>
</tr>
<tr>
<td>Salt River Project Water (Irrigation)</td>
<td>$500,000</td>
</tr>
<tr>
<td>Southwest Gas</td>
<td>$985,000</td>
</tr>
<tr>
<td>Telecom Group (TCG)</td>
<td>$265,000</td>
</tr>
<tr>
<td>Union Pacific Railroad</td>
<td>$150,000</td>
</tr>
<tr>
<td>ZAYO (Telecom Provider)</td>
<td>$150,000</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$ 6,525,000</strong></td>
</tr>
<tr>
<td><strong>10% Contingency</strong></td>
<td><strong>$ 652,500</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 7,177,500</strong></td>
</tr>
</tbody>
</table>

All costs identified herein are within the Tempe Streetcar project cost forecast and are included in the Valley Metro Rail adopted FY18 Operating and Capital Budget.
obligations beyond FY18 are incorporated into the Five-Year Operating Forecast and Capital Program (FY18 thru FY22).

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
  - Tactic C: Deliver projects and services on-time/on-budget.
- Goal 3: Grow transit ridership
  - Tactic A: Expand and improve transit services to reach new markets.
  - Tactic B: Improve connectivity of transit services for greater effectiveness.

COMMITTEE PROCESS
RTAG: January 16, 2018 for information
RMC: February 7, 2018 for action
Board of Directors: February 22, 2018 for action

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute work orders with third party utility companies for their construction activities on the Tempe Streetcar project for an amount not to exceed $6,525,000 plus an additional $652,500 (10%) for contingency.

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

ATTACHMENT
None
DATE
February 13, 2018

AGENDA ITEM 8E

SUBJECT
Tempe Streetcar Design Contract Authority Modification

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to increase the Tempe Streetcar design contract authority up to $1,350,000. Funds will be held by Valley Metro staff and made available to the Designer, Stantec, as needed to complete the project.

BACKGROUND/DISCUSSION/CONSIDERATION
To date the Board has authorized $10,246,537 in design contract authority as summarized below. This includes $400,000 authorized during the November 2017 Board meeting which was obligated primarily for Concurrent Non-Project Activities (CNPA) changes requested by the City of Tempe.

Design Contract Authority

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
<th>Contingency</th>
<th>Total Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2016</td>
<td>Design Services</td>
<td>$8,951,397</td>
<td>$895,140</td>
<td>$9,846,537</td>
</tr>
<tr>
<td>Nov 2017</td>
<td>Design Services</td>
<td>$400,000</td>
<td></td>
<td>$400,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$8,951,397</td>
<td>$1,295,140</td>
<td>$10,246,537</td>
</tr>
</tbody>
</table>

The majority of the original contingency is obligated by changes to reduce project construction costs as follows:

- **Cost Reduction Redesign.** Re-design efforts will be necessary to provide for a design that is within the construction budget.

- **Rio Salado Redesign.** Re-design efforts are necessary to address constraints along the Rio Salado Parkway alignment east of Mill Ave. Constraints include APS utility, the butte cultural sensitivity, and significant increase in traffic congestion in this area.
• **Independent Cost Estimating.** Provide an independent cost estimate that will be used during negotiation of the final GMP.

Additional funds for the Design contract are needed for two reasons:

1) The original authorization for this contract was for final design only and did not include design services needed during the construction period. These services have now been negotiated for a cost of approximately $1,200,000.

2) Additional contingency up to $150,000 for potential future unknown design changes.

To allow the designer to continue their efforts, staff recommends that up to an additional $1,350,000 be allocated to the Design contract authority. Board action is needed to authorize the CEO to allocate this proposed increase.

A summary showing change orders and funding needs for the contract is illustrated in Attachment 1.

**COST AND BUDGET**
The current total Design contract authority is $10,246,537. The amount of the proposed increase to contract authority is $1,350,000, bringing the total contract authority to $11,596,537. Funds are presently available in the project’s overall contingency to cover this work.

Project funding is included in the Valley Metro Rail adopted FY18 Operating and Capital Budget. Contract obligations beyond FY18 are incorporated into the Five-Year Operating Forecast and Capital Program (FY18 thru FY22).

**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**
  - Tactic C: Deliver projects and services on-time/on-budget.

- **Goal 3: Grow transit ridership**
  - Tactic A: Expand and improve transit services to reach new markets.
  - Tactic B: Improve connectivity of transit services for greater effectiveness.

**COMMITTEE PROCESS**
RTAG: January 16, 2018 for information
RMC: February 7, 2018 for action
Board of Directors: February 22, 2018 for action
RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to increase the Tempe Streetcar design contract authority by up to $1,350,000. Funds will be held by Valley Metro staff and made available to the Designer, Stantec, as needed to complete the project.

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

ATTACHMENT
1- Contingency Summary
## Change Order and Funding Needs Summary

<table>
<thead>
<tr>
<th>Executed Change Orders</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline Schedule Change</td>
<td></td>
</tr>
<tr>
<td>Draft DCM Review Change in Scope</td>
<td></td>
</tr>
<tr>
<td>Rio Salado Alignment Alternatives</td>
<td></td>
</tr>
<tr>
<td>Design Services During Construction for Early Work Package</td>
<td></td>
</tr>
<tr>
<td>30% Design 1st and Ash Intersection - CNPA</td>
<td></td>
</tr>
<tr>
<td>Rio Salado Alignment Alternative</td>
<td></td>
</tr>
<tr>
<td>30% Design Deliverable Delay</td>
<td></td>
</tr>
<tr>
<td>SRP Irrigation Design</td>
<td></td>
</tr>
<tr>
<td>Design Services During Construction for Early Work Package 2</td>
<td></td>
</tr>
<tr>
<td>Accessibility Review Models</td>
<td></td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>$419,462</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pending Changes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Systems Additions</td>
<td></td>
</tr>
<tr>
<td>24&quot; Inch Waterline Salvage</td>
<td></td>
</tr>
<tr>
<td>Final Design Roundabout - CNPA</td>
<td></td>
</tr>
<tr>
<td>Scope of Services Revision</td>
<td></td>
</tr>
<tr>
<td>Rio Salado Single Center Running Track</td>
<td></td>
</tr>
<tr>
<td>Cost Cutting Measures</td>
<td></td>
</tr>
<tr>
<td>Independent Cost Estimate</td>
<td></td>
</tr>
<tr>
<td>Design Services During Construction (Full)</td>
<td></td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>$2,075,678</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Contract Contingency</th>
<th>$1,295,140</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Executed Change Order Total</td>
<td>($419,462)</td>
</tr>
<tr>
<td>Less Pending Changes Total</td>
<td>($2,069,338)</td>
</tr>
<tr>
<td>Forecasted Funding Shortfall</td>
<td>($1,200,000)</td>
</tr>
</tbody>
</table>

| Additional Contingency for Potential Unknown Changes          | $150,000 |
| Total Additional Contract Authority Requested                 | $1,350,000 |
Information Summary

DATE
February 13, 2018

SUBJECT
Future Agenda Items Request and Report on Current Events

PURPOSE
Chair Orsborn will request future agenda items from members, and members may provide a report on current events.

BACKGROUND/DISCUSSION/CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
This item presented for information only.

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

ATTACHMENT
None.

Pending Items Request

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

Valley Metro I 101 N. 1st Ave. Phoenix, AZ 85003 602.262.7433