MEETING OF THE

Audit and Finance Subcommittee

Date:
October 11, 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 14th floor or call 602.262.7433.
Audit and Finance Subcommittee
Thursday, October 11, 2018
10th Floor, Lake Mead Conference Room (10B)
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Action Recommended

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

2. Minutes
   Minutes from the September 13, 2018 Audit and Finance Subcommittee meeting are presented for approval.

3. City of Phoenix Credit Card Audit
   Mary Modelski, Manager, Internal Auditor, will present the results of the City of Phoenix – Public Transit Department-Valley Metro Purchasing Cards to the Audit and Finance Subcommittee (AFS) for acceptance.

4. FTE Addition Audit
   Mary Modelski, Manager, Internal Audit, will present the results of the Full Time Employee Addition Audit to the Audit and Finance Subcommittee (AFS) for acceptance.
5. **Contract Options Years for Investment Management Services (IMS)**

Paul Hodgins, Chief Financial Officer, will request the Audit and Finance Subcommittee forward to the Boards of Directors for the Chief Executive Officer to execute options years there and four with PFM Asset Management LLC for investment management services for a total amount not to exceed $120,000.

6. **Internal Audit Update**

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

7. **Internal Audit Exceptions Update**

Mary Modelski, Manager, Internal Audit will provide an update to the Audit and Finance Subcommittee on the progress of audit exceptions.

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 **December 6, 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
October 5, 2018

SUBJECT
Items for Citizens Present

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

BACKGROUND | DISCUSSION | CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
This item presented for information only.

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

ATTACHMENT
None
Minutes

October 5, 2018

AGENDA ITEM 2

Audit and Finance Subcommittee
Thursday, September 13, 2018
Lake Mead Conference Room
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Meeting Participants
Councilmember Eric Orsborn, City of Buckeye, Chair
Mayor Thelda Williams, City of Phoenix, Vice Chair
Councilmember Robin Arredondo-Savage, City of Tempe – by phone
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 12:01 p.m.

1. Public Comment

None.

2. Minutes

Minutes from the June 14, 2018, Audit and Finance Subcommittee meeting presented for approval.

IT WAS MOVED BY MAYOR WILLIAMS, SECONDED BY VICE MAYOR PETERSON AND UNANIMOUSLY CARRIED TO APPROVE THE JUNE 14, 2018 AFS MINUTES.

3. Executive Session

Chair Orsborn asked if we have an Executive Session necessary.

Mr. Minnaugh said yes. Chair Orsborn asked for a motion.

IT WAS MOVED BY MAYOR WILLIAMS, SECONDED BY COUNCILMEMBER HALL AND UNANIMOUSLY CARRIED TO ADJOURN INTO EXECUTIVE SESSION.

Regular session adjourned at 12:03 pm.

Regular session reconvened at 1:58
4. **Executive Session Action Items**

Chair Orsborn said there are no action items.

5. **Internal Audit Update**

Chair Orsborn said that due to this item being information only that we can move it forward to the October meeting.

6. **Audit Exceptions Log**

Chair Orsborn said that due to this item being information only that we can move it forward to the October meeting.

7. **Future Agenda Items**

Chair Orsborn asked the AFS if there were any future agenda items. Mayor Williams asked that language be inserted in the policy that AFS be advised of investigations occurring so that they don’t read about it in the newspaper.

Mr. Smith said he will ensure that staff insert language in the Ethics Policy to notify the AFS of any investigations that are occurring.

Ms. Modelski introduced her new staff member, Jennifer Davis, and her consultant, Amber Vitale to the Audit and Finance Subcommittee members.

8. **Next Meeting**

The next meeting of the Audit and Finance Subcommittee is October 11, 2018 at 12:00 p.m.

With no further discussion, the meeting adjourned at 2:01 p.m.
DATE
October 5, 2018

AGENDA ITEM 3

SUBJECT
City of Phoenix – Public Transit Department – Valley Metro Purchasing Cards Audit

PURPOSE
Present the results of the City of Phoenix – Public Transit Department- Valley Metro Purchasing Cards to the Audit and Finance Subcommittee (AFS) for acceptance.

BACKGROUND/DISCUSSION/CONSIDERATION
The Public Transit Department - Valley Metro Purchasing Cards audit was a scheduled audit on the City of Phoenix audit plan. The objective of the audit was to determine that Valley Metro credit card controls were adequate to ensure compliance with policies and regulations.

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee accept the City of Phoenix – Public Transit Department- Valley Metro Purchasing Cards.

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

ATTACHMENT
City of Phoenix – Public Transit Department- Valley Metro Purchasing Cards
Public Transit Department
Valley Metro Metro Purchasing Cards
June 20, 2018

Report Highlights

Prior Audit Recommendations
All four prior audit recommendations that relate to credit card purchasing were implemented.

Policies and Procedures
The credit card transactions we tested were appropriate; however, some documentation exceptions were noted. In addition, we found that the use of cardholder agreements needed improvement.
Executive Summary

Purpose

Our purpose was to determine that Valley Metro credit card controls were adequate to ensure compliance with policies and regulations.

Background

Valley Metro is the regional public transportation agency providing coordinated transit options to residents of the greater Phoenix area. Our scope included credit card transactions from May 2016 through January 2018. During this period, there were 25 active cardholders at Valley Metro who conducted 3,959 transactions totaling $1,304,233.

Our audit testing covered four areas:

1) Prior credit card audit recommendations
2) Credit cardholder agreements
3) Credit card monitoring controls
4) Credit card transaction guidelines – Valley Metro and Federal

Results in Brief

Prior audit recommendations related to credit card purchases were implemented. There were four recommendations tested for compliance. Three dealt with policy updates to improve controls over Chief Executive Officer (CEO) expenses, itemized receipts, and reconciliation of travel reports. The fourth required all cardholders to utilize the corporate account and follow organizational policy.

Usage of the credit cardholder agreement needed improvement. While all current cardholders have a signed agreement, portions of our audit period lacked documented acknowledgement of policies, establishment of spending limits, and replacement or return of credit cards.

Credit card usage monitoring was adequate according to Valley Metro policy, with one exception where charges occurred after the return of the credit card. The expenses noted in the exception were business-related. We recommended immediate cancellation of all returned credit cards to prevent further occurrences of this kind.

Individual credit card transaction testing showed all sample transactions were appropriate; however, some exceptions were noted.
We found that all 100 transactions tested were for appropriate business use. However, some exceptions were noted for lack of itemized receipts and lack of approvals (meal pre-approvals, technology approvals, and approvals for purchases greater than $3,000).
### Department Responses to Recommendations

**Rec. 2.1:** Valley Metro – Require all current cardholders to immediately sign the policy acknowledgement and compliance form when a new credit card policy is in effect.

**Response:** Valley Metro concurs with the recommendation. No more than 10 business days prior to implementing a new credit card policy, all cardholders will receive training on the policy and will sign an acknowledgment form. After the effective date of the new policy, cardholders will not be permitted to use their card if the acknowledgment form has not been signed. Any new cardholders will receive the training and must sign the acknowledgment form prior to receiving the card for use.

**Target Date:** Sept. 14, 2018

**Explanation, Target Date > 90 Days:** NA

**Rec. 2.2:** Valley Metro – Assure all cardholders have current single purchase and monthly spending limit documentation on file.

**Response:** Valley Metro concurs with the recommendation. The Credit Card Administrator will annually review the documentation on file to ensure it is complete and has identified the appropriate single purchase and monthly limits.

**Target Date:** Sept. 14, 2018

**Explanation, Target Date > 90 Days:** NA

**Rec. 2.3:** Valley Metro – Assure all appropriate approval signatures are completed for credit card limit changes, replacements, and returns.

**Response:** Valley Metro concurs with the recommendation. The Credit Card Administrator will annually review the documentation on file to ensure it is complete and has the required approvals.

**Target Date:** Sept. 14, 2018

**Explanation, Target Date > 90 Days:** NA

**Rec. 3.1:** Valley Metro – Require credit cards to be canceled immediately upon return.

**Response:** Valley Metro concurs with the recommendation. The Credit Card Administrator, once a card has been returned, shall verify with the Controller that all pending charges have been processed and shall cancel the card within 5 business days of the card being returned.

**Target Date:** Sept. 14, 2018

**Explanation, Target Date > 90 Days:** NA
**Rec. 4.1: Valley Metro – Expand monitoring role within the credit card policy to include review of:**

- Submittal of itemized receipts
- Preapprovals for meals from Division Heads
- Approvals for technology purchases from the Chief Technology Officer
- Approvals for purchases greater than $3,000 from Division Head and Contracts and Procurement

**Response:** Valley Metro concurs with the recommendation. Each cardholder’s immediate supervisor will be responsible to ensure that proper documentation is included for each purchase, including any pre-approval forms for meals or travel with signatures. The Credit Card Administrator will verify that technology purchases have proper approval by the Division Head responsible for IT. The Credit Card Administrator will verify that purchases greater than $3,000 have the proper approvals from the Division Head and Contracts and Procurement.

**Target Date:** Sept. 14, 2018

**Explanation, Target Date > 90 Days:** NA
1 – Compliance with Prior Audit Recommendations

Background

We completed an audit of Valley Metro in April 2016 (Valley Metro Travel / Expenditure Audit 1160100), which reviewed staff-related expenditures for compliance with organizational policies, and assessed the adequacy of the financial control environment. As part of this audit, we assessed compliance with recommendations from the April 2016 audit pertaining to credit card purchases.

There were four recommendations tested for compliance:

1) Recommendation 1.1:
VMR and RPTA Boards update policy and/or employment agreements to reflect supervisory approvals necessary for CEO Monthly Expense Reports and credit card statements.

2) Recommendation 1.2:
Valley Metro staff review and consistently apply agency policy related to itemized receipts for all purchases.

3) Recommendation 2.6:
Valley Metro staff modify procedures to include a reconciliation of credit card expenditures to travel reports to ensure that all costs are captured, including conference registrations, miscellaneous airfare charges, and when necessary, foreign transaction fees, for transparency and accounting purposes.

4) Recommendation 5.7:
Valley Metro executive staff ensure that all organizational employees utilize the corporate commercial credit card account and follow organizational policy.

Results

From a policy modification standpoint, Valley Metro implemented all the credit card related recommendations from the prior audit. Application of the new controls could be improved in the areas of itemized receipts and reconciliation of travel reports.

Recommendations 1.1 and 1.2 were implemented. The policy was updated to require the Audit Finance Subcommittee Chair to review the CEO’s credit card expenses, and to require itemized receipts for every purchase. Application of the policy could be improved regarding itemized receipts, as noted in Observation 4 of our detailed transaction testing. Recommendation 5.7 was implemented. All cardholders were on the same Wells Fargo account.

Recommendation 2.6 was implemented from a policy standpoint, in that reconciliation of all travel related credit card expenses was required. However, application of the policy
could be improved. We tested the following transactions from May 2016 through January 2018:

### Travel Expenses Reconciled to Travel Report

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>%</th>
<th># Transactions</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card Travel Expenses Identified</td>
<td>$130,216</td>
<td>345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expenses Tested</td>
<td>$43,912</td>
<td>141</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expenses Reconciled</td>
<td>$43,441</td>
<td>99%</td>
<td>130</td>
<td>92%</td>
</tr>
<tr>
<td>Travel Expenses Not Reconciled</td>
<td>$471</td>
<td>1%</td>
<td>11</td>
<td>8%</td>
</tr>
</tbody>
</table>

8% of transactions did not reconcile to the travel reports

### Recommendations

None
2 – Compliance with Valley Metro Credit Cardholder Agreement

Background

The Agency Credit Cardholder Agreement, Request and Change Form (CC Form), served several purposes:

- Acknowledgement that credit cardholders understand and will comply with the current Valley Metro Credit Card, Acceptable Use Policy
- Establishment of new cardholder single purchase and monthly spending limits
- Document changes in existing cardholder’s individual purchase and monthly spending limits
- Document issuance of new credit cards to replace lost credit cards
- Document return of credit card that will no longer be used

We tested compliance of the use of the CC Form from May 2016 through January 2018.

Results

All current credit cardholders have signed the CC Form acknowledging the current policy. However, there were gaps during our testing period when cardholders did not have a signed CC Form on file for months, some as long as a year.

The current credit card policy took effect in July 2016. Changes from the prior policy included additional approvals, oversight responsibilities, purchase preapprovals, and bank contact information. According to the policy, all cardholders should have signed a new CC Form acknowledging understanding of and compliance with the new policy; however, none did at that time.

Eventually, all cardholders either had their spending limits adjusted, requiring them to sign the CC Form, or left Valley Metro employment. This accounted for 18 cardholders. The remaining 10 were new cardholders (from the time the policy was implemented) and had signed the CC Form upon receiving their credit card.

Valley Metro inconsistently documented initial single and monthly purchase limits on the CC Form.

All cardholders were required to have a CC Form documenting single and monthly purchase limits with the approval of the Division Head, Chief Financial Officer (CFO), and CEO. During our testing period, 28 cardholders were identified:

- 17 did not have documented and approved initial single purchase limits
- 14 did not have documented and approved monthly purchase limits
**Monitoring controls did not consistently ensure that single and monthly purchase limits were not exceeded.**

We limited our testing to periods of time when cardholder spending limits were documented on the CC Form. Of the 17 cardholders with single purchase limits documented on the CC Form, one exception was noted, where a $4,840 purchase was made on a $3,000 limit. Of the 14 cardholders with monthly purchase limits documented on the CC Form, five exceptions were noted.

**Valley Metro inconsistently used the CC Form to change existing single or monthly purchase limits.**

There were 13 changes for either single or monthly purchase limits during our testing period. Nine occurrences had the proper approvals, the remaining four did not. Three of the CC Forms were missing the Division Head approval and one was missing the Audit and Finance Subcommittee Chair signature.

**All replacement credit card occurrences lacked proper usage of the CC Form.**

There were four replacement credit cards issued during our testing period. Three of the instances had no CC Form. One instance used the CC Form, but did not have the required CFO and CEO signatures.

**All returned credit card occurrences lacked proper usage of the CC Form.**

There were seven returned credit cards during our testing period. Four of the instances had no CC Form. Three instances used the CC Form, but did not have the required CFO and CEO signatures.

**Recommendations**

2.1 Valley Metro – Require all current cardholders to immediately sign the policy acknowledgement and compliance form when a new credit card policy is in effect.

2.2 Valley Metro – Assure all cardholders have current single purchase and monthly spending limit documentation on file.

2.3 Valley Metro – Assure all appropriate approval signatures are completed for credit card limit changes, replacements, and returns.
3 – Monitoring of Credit Card Expenditures

Background

Monitoring of credit card transactions by Valley Metro was performed by four individuals/groups, as required by their Credit Card Policy. Their duties included:

1) Credit Card Administrator – Coordinates and reviews the monthly Transaction Detail Report and approval process including, by not limited to, auditing a sample of transactions.

2) Division Heads – Monitor and approve individual cardholder purchases.

3) Finance Division – Reviews monthly credit card purchase approvals and billing statements, and ensures timely payment. Reviews and performs accounting transactions, and coordinates with Credit Card Administrator, Division Heads, Managers, and Cardholders to ensure accurate reconciliation of statement balances.

4) Chair, Audit and Finance Subcommittee – Reviews and approves CEO’s monthly activity and expenditures.

We ensured monthly approvals were performed by each group from May 2016 through January 2018.

Results

*Monthly approvals were performed by the Credit Card Administrator, Finance Division, and the Audit and Finance Subcommittee Chair during the audit period without exception. Division Head approvals were completed with one exception.*

The Credit Card Administrator, Finance Division, and the Audit and Finance Subcommittee Chair approval process occurs monthly. Testing was based on the Credit Card Administrator performing monthly sample audits, the Finance Division reconciling cardholder expenses to statement balances, and the Audit and Finance Subcommittee Chair approving CEO expenses. These monitoring duties were performed without exception during the 21 months tested.

The Division Head testing was based on the review and approval of individual cardholder statements each month. This resulted in 315 tests over the 21 months. The one exception noted was the result of charges occurring after the return of a credit card. While the approximately $400 in charges were for legitimate purposes, they were not reviewed and approved by the Division Head.

Recommendations

3.1 Valley Metro – Require credit cards to be canceled immediately upon return.
4 – Testing of Individual Transactions

Background

The testing of individual credit card transactions was required to comply with the Valley Metro Credit Card, Acceptable Use Policy. We tested the requirement that itemized receipts were submitted with all purchases. In addition, we tested the following three prohibited credit card purchase areas:

1) Business meals not pre-approved in writing by the responsible Division Head.
2) Single purchase exceeding $3,000 without written approvals from the Division Head and the Contracts and Procurement representative.
3) Technology purchases not approved by the Chief Technology Officer.

In addition, since Valley Metro receives federal funds, we tested compliance with the Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which identifies allowable and unallowable expense areas.

We tested a sample of transactions from May 2016 through January 2018.

Results

Valley Metro was inconsistent in obtaining pre-approval of meal purchases and in submitting itemized receipts.

We identified 196 meals, totaling $43,496, and tested 50 (26%), totaling $12,448 (29%), for compliance with Valley Metro’s policy. There were 27 meal purchases that did not have the required pre-approval. Three meal purchases had a summary receipt instead of the required itemized receipt.

Valley Metro was inconsistent in complying with its credit card policy pertaining to high-dollar transactions (greater than $2,000).

We identified 82 transactions greater than $2,000, totaling $200,881, and tested 50 (61%), totaling $123,969 (62%), for compliance with policy. Of the 50 tested, we found the following:

- 9 did not have itemized receipts. The receipts were either not itemized or were for a technology purchase where an advanced quote was used instead of the actual purchase price.
- 15 were for technology purchases; 14 were not preapproved by the Chief Technology Officer.
- 1 was greater than $3,000 and did not have written approval from the Division Head and Contracts and Procurement representative.
1 was for an additional meal purchase and did not have Division Head preapproval.

**All transactions tested complied with federal guidelines for allowable costs.**

Of the 82 high-dollar transactions, we tested 35 (43%), totaling $85,128 (42%), for allowability per federal guidelines, specifically the Uniform Guidance. Allowable transaction areas identified under the Uniform Guidance included: computing devices, conference costs, maintenance and repair, professional services, public relations, and rental costs. Some transactions were found to be unallowable, but no federal funds were used.

**Recommendations**

4.1 Valley Metro – Expand monitoring role within the credit card policy to include review of:

- Submittal of itemized receipts
- Preapprovals for meals from Division Heads
- Approvals for technology purchases from the Chief Technology Officer
- Approvals for purchases greater than $3,000 from Division Head and Contracts and Procurement
Scope, Methods, and Standards

Scope

We reviewed Valley Metro credit card purchases from May 2016 through January 2018.

Methods

We used the following methods to complete this audit:

- Reviewed Valley Metro credit card, procurement, and travel policies.
- Reviewed Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards commonly known as Uniform Guidance.
- Tested compliance with prior audit recommendations related to credit card usage.
- Tested compliance with usage of Valley Metro’s Agency Credit Cardholder Agreement, Request and Change Form.
- Tested compliance with credit card activity monitoring as required by the Valley Metro credit card policy.
- Tested a sample of credit card transactions to assure compliance with the Valley Metro credit card policy and federal guidelines.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
DATE
October 5, 2018

SUBJECT
Full Time Employee Addition Audit

PURPOSE
Present the results of the Full Time Employee Addition Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

BACKGROUND/DISCUSSION/CONSIDERATION
The Full Time Employee Addition audit was a special request made by the AFS during the June 14, 2018 scheduled meeting. The objective of the audit was to determine if the addition of full time employee positions to the organization have been budgeted and approved by the Board of Directors.

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee accept the Full Time Employee Addition Audit.

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

ATTACHMENT
Full Time Employee Addition Audit Report
Full Time Employee Additions

September 2018

Audit Report

Internal Audit

Distribution

Audit and Finance Subcommittee
Scott Smith, Chief Executive Officer
Paul Hodgins, Chief Financial Officer
Penny Lynch, Human Resource Director
Michael Minnaugh, General Counsel
To Scott Smith, Chief Executive Officer:

The purpose of this report is to communicate the process of adding Full Time Employees to the organization. This report was a special request of the Audit and Finance Subcommittee and was not part of Valley Metro’s Annual Internal Audit Plan for Fiscal Year 2019.

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

The process by which full time employees are added to the organization’s headcount is based on the positions falling within the overall department or organizations fiscal year budget. Although the budget for staff costs is developed based on an assumption of a certain number of positions by pay grade and title, it is not feasible to tie the employee headcount to the financial year budget as the budget is not broken down by employee headcount. Therefore, as long as the cost to add the position to the organization does not exceed the organizations fiscal year budget and the Chief Executive Officer approves of the position, a position can be added and the overall headcount number is increased. In some cases, we found a Consultant may have been filling a role and was converted to an employee. In other cases, a new position was created and an employee was added.

Since the mid and annual fiscal year budget was approved by the Board of Directors which allowed for changes and increase in funding which could be used for staff costs and the ARS 48-5122.3 grants the powers, duties, and responsibilities to the Chief Executive Officer for hiring, no exceptions were noted for the process of adding full time employees for the timeframe under review.

During the course of this audit, individuals from Budget, Capital and Service Development, Finance and Human Resources assisted by providing information on how positions are requested, determined, added or modified, and supplied evidence for testing. Their support is greatly appreciated.

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

Mary Modelski
Internal Audit Manager
September 27, 2018
Objective

Determine if the addition of full time employee positions to the organization have been budgeted and approved by the Board of Directors.

Scope

The timeframe under review was January 1, 2016 through July 6, 2018. Testing was not performed to determine how much the department or organizations budget specifically increased by adding staff. As salaries for employees are comingled within the use of funds, Operation and Capital.

Methodology

This audit focused on all employees hired between 2016 and 2018 by comparing Human Resource (HR) and Payroll files, consultant position tracking by the Capital and Service Development, Board presentations and meeting minutes of the Board’s approval of the annual budget, which includes increases to the number of full time employees. A cross reconciliation has also been completed to ensure that terminated positions being filled aligned with any direction provided by the Board and the Chief Executive Officer (CEO).

Specific individuals were interviewed from Budget, Human Resources and Finance to learn the process for requesting and adding staff, consultants or converting existing consultants to employees. Employee listings and Human Resource reports were compared to determine positions that had been added, realigned in reporting structure, or changes in the personnel who was filling the roles. Audit and Finance Subcommittee and Board of Directors agendas, meeting minutes and presentations were reviewed to determine direction provided as to addition or changes in staffing. Along with the Arizona Revised Statute was also reviewed to determine if any and what powers, duties and responsibilities were granted.
Background

During the June 14, 2018 Audit and Finance Subcommittee (AFS) meeting, a request was made to follow-up on a zero-based budget audit of full time employees within Valley Metro. The concern was that Valley Metro was filling positions that had not been approved by the Board of Directors and/or that too many positions were being requested. AFS questioned if positions outside of the Board’s approval were being filled, if Consultants were being converted to a full time employee, or was the position being filled from a new hire. After further direction from the AFS, Internal Audit received authorization to complete an audit of full time employee additions.

Staffing Needs

Employees are added to the organization via 1) the annual budget process, 2) midyear budget adjustment, 3) as needed by the department and approval is requested from the CEO, or 4) replacement of an individual who has left the organization. Consultants can be added to assist a department with the approval of the CEO and if available funding exists in the department or overall organizations budget.

To request additional staff, the department head includes in their fiscal year budget submissions, on the staffing tab, a position request(s) and justification summary for the position(s) in the next fiscal year. The budget and staffing request is submitted to the Budget department typically in November for the next fiscal year’s budget. The Budget department consolidates all requests for new positions and submits a summary to the Chief Finance Officer (CFO). The CFO meets with the CEO and Executive Leadership Team to discuss the requested positions and financial impact to the departments and/or overall roll-up of the organization’s budget. Positions, which are approved by the CEO, are then presented by the CFO to the Transit Management Committee/Rail Management Committee (TMC/RMC), AFS, and Board of Directors.

If a position is required during the current fiscal year, the department head would present the need and justification to the CFO and CEO for approval. If the CFO states there are sufficient funds available with the current year fiscal year for the department or overall budget to cover the additional position, the CEO could approve of the position. During the midyear budget adjustment, the department head would include if there were any departmental budget adjustments or additional staff added for the current fiscal year. This information is submitted to the Budget department in October or November of the current fiscal year.
The CEO is charged with the responsibility of managing all employees, including hiring employees. This responsibility is granted to the CEO per the Administrative code (ARS 48-5122.3) of the Regional Public Transportation Authority (Board approved on November 21, 2013), the Chief Executive Officer shall have the following powers, duties, and responsibilities:

(3) The hiring, discharge, salary determination, and general supervision and direction of all employees of the Authority which shall be based upon their respective qualifications and capabilities in accordance with state and federal affirmative action policies.

This Administrative code is used by the CEO as authority to approve of new positions being added to the organization.

Committee/Board Approval

The CFO presents the mid and annual fiscal year budget first to the TMC/RMC for comments and suggestions for improvements in clarity. Next, the AFS is presented and takes action on the mid and annual fiscal year budget. Finally, the mid and annual fiscal year budget is presented to the Board of Directors for approval. Below are snapshots of the April 20, 2017 and June 13, 2018 Board of Directors budget presentations, related to staffing:

<table>
<thead>
<tr>
<th>Division</th>
<th>Adopted 2017</th>
<th>Mid-Year Additions</th>
<th>Proposed 2018</th>
<th>Preliminary 2019</th>
<th>Preliminary 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Service Development</td>
<td>38</td>
<td>4</td>
<td>11</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Communication &amp; Marketing</td>
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<td>Human Resources</td>
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<td>2</td>
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<tr>
<td>Information Technology</td>
<td>9</td>
<td></td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td>12</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations and Maintenance - RPTA</td>
<td>58</td>
<td>7</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations and Maintenance - VMR</td>
<td>118</td>
<td></td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Safety and Security</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Positions</td>
<td>310</td>
<td>15</td>
<td>35</td>
<td>15</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Division</th>
<th>Adopted 2017</th>
<th>Mid-Year Additions</th>
<th>Proposed 2018</th>
<th>Preliminary 2019</th>
<th>Preliminary 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPTA</td>
<td>129.3</td>
<td>8.7</td>
<td>12.8</td>
<td>8.3</td>
<td>3.0</td>
</tr>
<tr>
<td>VMR</td>
<td>180.7</td>
<td>6.4</td>
<td>22.3</td>
<td>6.8</td>
<td>0.0</td>
</tr>
</tbody>
</table>
In addition to the staff changes, the CFO presents to the Board of Directors how Operating and Capital funds have and will be used in the fiscal year. During June 13, 2018 meeting, the Board of Directors were shown fiscal year 2018 and 2019 Use of Operating funds. Staffing costs can be included within any of the listed uses below:
Following the presentation on the budget, the Board of Directors were asked to approve of the fiscal year’s budget. As noted below, the Board is asked to approve the budget not specific to staff additions:

**Consultant Conversions**

Human Resources stated an official record of individuals who were transitioned from Consultants to employees was not maintained. Therefore, Internal Audit was unable to conclude as to the actual number of individuals converted from consultant to employee. According to Budget, Department Heads made the determination as to which Consultants to migrate to full time employees via the budget process. The cost for these employees were then shifted from expense to operating funds based on doing a Consultant fee to staff salary comparison. The chart below was prepared from information collected from the Capital and Service Development and Budget departments as to projected annual savings for what positions were known to be converted. The rate used for staff is based upon hourly rate and anticipated benefit costs.
Staffing Levels

Between April 2016 and April 2018, staffing levels were increased by 59 positions. The following chart illustrates the number of additional positions added by division that were proposed to the Board of Directors through multiple budget meetings.

### Staff Level Increases by Division

<table>
<thead>
<tr>
<th>Division</th>
<th>Total Additions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Service Development</td>
<td>16</td>
</tr>
<tr>
<td>Communication &amp; Marketing</td>
<td>8</td>
</tr>
<tr>
<td>Executive Office</td>
<td>5</td>
</tr>
<tr>
<td>Finance</td>
<td>2</td>
</tr>
<tr>
<td>Human Resources</td>
<td>2</td>
</tr>
<tr>
<td>Information Technology</td>
<td>2</td>
</tr>
<tr>
<td>Legal</td>
<td>2</td>
</tr>
<tr>
<td>Operations and Maintenance - RPTA</td>
<td>10</td>
</tr>
<tr>
<td>Operations and Maintenance - VMR</td>
<td>7</td>
</tr>
<tr>
<td>Planning &amp; Accessible Transit</td>
<td>1</td>
</tr>
<tr>
<td>Safety and Security</td>
<td>4</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>59</strong></td>
</tr>
</tbody>
</table>
In addition to new positions being added, some reporting structures were either eliminated or realigned. Below is a summary of positions determined to have been added, moved, realigned or retitled:

- **2017**
  - The Chief Operating Officer was converted from the Chief of Staff position and inherited several key responsibilities from Human Resources and reports to the CEO.
  - An Internal Audit Department was added to the Executive Office Division with two positions allocated, an Internal Audit Manager was hired.
  - The Chief Engineer position was eliminated and the Construction and Utilities staff were moved under the Capital and Service Development.
  - The Controller position was converted from Manager of Revenue Generation to the Finance Division and reports to the CFO.
  - The Administrative Support Services and Project Management Team were moved under the Chief Operating Officer.
  - The Chief Technology Officer position was retitled to the Information Systems Manager.

- **2018**
  - Information Technology, Marketing, and Commute Solutions was moved from Communications and Marketing Department and Chief Technology Officer to the Chief Operating Officer.
  - Contracts and Procurement was moved from General Counsel to the CFO.
  - Community Relations was moved from Communications and Marketing Department to Capital and Service Development Division.
  - Planning and Accessible Transit was moved under the Chief Operating Office.
  - The Chief Operating Officer Divisions were retitled Agency Business, Technology and Service.

From January 2016 to July 2018, Valley Metro hired a total of 251 employees, including Consultants conversions for new, open and/or realigned positions. There were also 191 employees that were terminated or removed during this timeframe. On the following page is a table reflecting changes by Division:
## Changes in Employee by Division

<table>
<thead>
<tr>
<th>Division</th>
<th>Hired</th>
<th>Termed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Business, Technology &amp; Services</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Capital &amp; Service Development</td>
<td>48</td>
<td>24</td>
</tr>
<tr>
<td>Communications &amp; Strategic Initiative</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Executive</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Finance &amp; Procurement</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Human Resources</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Legal</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>153</td>
<td>133</td>
</tr>
<tr>
<td>Safety, Security, and QA</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>251</strong></td>
<td><strong>191</strong></td>
</tr>
</tbody>
</table>
DATE
October 5, 2018

SUBJECT
Contract Option Years Three and Four for Investment Management Services (IMS)

PURPOSE
To request the Audit and Finance Subcommittee forward to the Boards of Directors for the Chief Executive Officer (CEO) to execute options years three and four with PFM Asset Management LLC for investment management services for a total amount not to exceed $120,000.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro RPTA executed a contract with PFM Asset Management LLC (PFM) in September 2015. The goal for the investment contract is to maximize return on cash and investments in accordance with the RPTA Investment Policy and ARS Title 35. The contract was approved by the Board of Directors in August 2015 for a term of one year with four one year options. The Board authorized the first one-year option in August 2016 and the second option year in August 2017.

PFM was authorized to begin investments in October 2015 with an initial transfer of $30 million into the investment account. An additional $20 million was subsequently transferred into the investment account and the full $50 million was invested in securities by March 2016. Subsequent to Board approval of the updated Investment Policy, PFM has diversified the portfolio to include Corporate Notes and Commercial Paper, up to the maximum identified in the policy. PFM continues to actively pursue investment opportunities that stretch the average maturity within the constraints of RPTA’s cash flow needs.

Fiscal Impact
Funds kept in the agency’s savings accounts currently are earning no more than 15 bps. Debt service funds are kept in the Treasurer’s Local Government Investment (LGIP) Pool 7. The majority of funds not in the investment portfolio are currently in the LGIP Pool 5, with yields significantly higher than the WF savings accounts. The table below shows average balances (in millions), interest earnings (in thousands) and calculated yields for each of these three investment types over the past three fiscal years. The yield calculated for PFM is based solely on interest recorded relative to the average market value and does not take into account changes in market value nor any premiums or discounts when the securities were purchased.
<table>
<thead>
<tr>
<th></th>
<th>Average Balance</th>
<th>Interest Earned</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY16</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WF savings</td>
<td>$79.4</td>
<td>$127.7</td>
<td>16</td>
</tr>
<tr>
<td>LGIP</td>
<td>$9.9</td>
<td>$26.7</td>
<td>27</td>
</tr>
<tr>
<td>PFM</td>
<td>$40.5</td>
<td>$431.6</td>
<td>107</td>
</tr>
<tr>
<td><strong>FY17</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WF savings</td>
<td>$34.2</td>
<td>$47.8</td>
<td>14</td>
</tr>
<tr>
<td>LGIP</td>
<td>$60.3</td>
<td>$367.6</td>
<td>61</td>
</tr>
<tr>
<td>PFM</td>
<td>$45.1</td>
<td>$679.4</td>
<td>151</td>
</tr>
<tr>
<td><strong>FY18</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WF savings</td>
<td>$20.1</td>
<td>$22.3</td>
<td>11</td>
</tr>
<tr>
<td>LGIP</td>
<td>$26.4</td>
<td>$343.8</td>
<td>130</td>
</tr>
<tr>
<td>PFM</td>
<td>$35.2</td>
<td>$436.3</td>
<td>124</td>
</tr>
</tbody>
</table>

**COST/BUDGET**

Funding for the Investment Management Services contract is a portion of the investment earnings generated by the RPTA investment pool. The fee for assets under management (estimated at $50 million) is as follows:

- 4 basis points (bps) base fee, ($20,000 per year)
- Up to 8 bps incentive fee (maximum $40,000 per year)
  - Incentive is earned when the portfolio managed by PFM outperforms the established benchmark (BofA Merrill Lynch 1-Year Treasury Note Index). PFM earns 50% of the total return improvement over the benchmark, not to exceed 8 bps.

In addition to the fee paid to PFM, there is an annual fee paid to Wells Fargo for custodial services, in the amount of $15,000.

**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 E: Maintain strong fiscal controls to support Valley Metro’s long-term sustainability.
- **Goal 4: Focus on economic development, regional competitiveness and financial resources**
  - Tactic C: Seek opportunities to increase revenue generation.

**COMMITTEE PROCESS**

RTAG: September 18, 2018 for information
TMC: October 3, 2018 for action
AFS: October 11, 2018 for action
Board of Directors: October 18, 2018 for action
RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to exercise option years three and four to the contract with PFM Asset Management LLC for Investment Management Services for a not-to-exceed cost of $120,000.

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

ATTACHMENT
None
DATE                        AGENDA ITEM 6
October 5, 2018

SUBJECT
Internal Audit Update

PURPOSE
To 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
Valley Metro
Audit and Finance Subcommittee
Internal Audit Update
October 2018

Update:

Policies:

- Ethics – Policy LGL-01.01 was signed effective 9/11/18 and emailed by General Counsel to Valley Metro Leadership Team on 9/13/18 for distribution to staff. Acknowledgements were due to Human Resources by 9/28/18.

- Procurement Policy – COP rejected manual for two issues. Chief Procurement Officer/Chief Financial Officer (CFO) working to provide additional procedures to address issues by the end of 2018 calendar year.

- Credit Card – Policy has been updated. CFO is routing for management signature and will schedule training for credit card administrators.

Work in progress:


- Relocation audit – Tempe’s City Auditor completed fieldwork and will be presenting in December.

- Non-contract procurement audit – Finishing testing and presenting management with issues for response.

- Contract management audit – Began collecting preliminary information so we can kick-off an audit after selecting specific contracts.

- ERP Implementation audit – Working with Human Resource Project Manager to determine when to complete pre-implementation audit.

- Credit card audit – Testing is underway.

- Travel and entertainment audit – Testing is underway.

- Human Resources – Posting for a second position.
Information Summary

DATE
October 5, 2018

AGENDA ITEM 7

SUBJECT
Audit exceptions update

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

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

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

COMMITTEE PROCESS
AFS: October 11, 2018 for information

RECOMMENDATION
Item presented for information only.

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

ATTACHMENT
Audit exceptions log
<table>
<thead>
<tr>
<th>Finding Title</th>
<th>Department</th>
<th>Report Number</th>
<th>Finding Number</th>
<th>Finding Description</th>
<th>Recommendations</th>
<th>Management Response</th>
<th>Auditor Comments</th>
</tr>
</thead>
</table>
| Outdated policies and procedures over Information Technology (IT) | IT         | 12/2017       |                | 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. | 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. | We intend to revise all policies and procedures to ensure that our policies and procedures comply with the strictest requirements/best practices. | 2/7/2018 | 3/31/2018 | Manager, Information Technology & Executive Leadership Team | 10/1/18: IT requested until Oct 4th to respond. IA noted responses received after Oct 3rd would be included in Nov's report.  
9/7/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by Oct 2nd.  
9/7/18: Per Oz "Change Management policy is draft complete as provided in previous update, Re-work of Asset Management policy is still in progress as per last update, and the Incident Response Plan has been presented to the executive management for input and requires some modification and additional collaboration based on the results."  
8/31/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by Sept 5th.  
7/12/18: Mgmt has started modifications on the 3 policies. Additional supporting forms referred to in the policy needs to be refined and communication still needs to be completed. 7/2/18: Requested an update on status or remediated items by July 10th from P. Ozlin & R. Antoniak.  
6/13/18: P. Ozlin advised he has the supporting documentation lined up and a framework response. Just needs to finalize level of detail.  
6/4/18: Followed up w/R. Antoniak for status advised need to wait until 6/12/18 for P. Ozlin to return for update. |
<table>
<thead>
<tr>
<th>Finding Title</th>
<th>Department</th>
<th>Report Number</th>
<th>Finding Number</th>
<th>Finding Description</th>
<th>Recommendations</th>
<th>Management Response</th>
<th>Report Date</th>
<th>Due Date</th>
<th>Responsible Party</th>
<th>Auditor Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware tracking</td>
<td>IT</td>
<td>12/2017</td>
<td>3</td>
<td>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.</td>
<td>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.</td>
<td>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.</td>
<td>3/7/2018</td>
<td>6/10/2018</td>
<td>Manager, Information Technology</td>
<td>10/1/18: IT requested until Oct 4th to respond. IA noted responses received after Oct 3rd would be included in Nov's report. 9/27/18: Requested status update or remediated items from P. Ozlin &amp; R. Antoniak by Oct 2nd. 9/7/18: Per Oz &quot;Asset dispositions past decommissioning are suspended pending approval of a dispensation proposal by executive management, once that is approved the disposal can be recorded in KACE. We are conducting our quarterly inventory on non-reporting devices as provided by KACE; please see supporting document &quot;Non-Reporting Devices 18CQ3&quot;.</td>
</tr>
<tr>
<td>Finding Title</td>
<td>Department</td>
<td>Report Number</td>
<td>Finding Number</td>
<td>Finding Description</td>
<td>Recommendations</td>
<td>Management Response</td>
<td>Report Date</td>
<td>Due Date</td>
<td>Responsible Party</td>
<td>Auditor Comments</td>
</tr>
<tr>
<td>---------------------</td>
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<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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<td>--------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Tracking of software| IT         |               | 12/2017        | 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 moderns 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 is installed on company machines, it is recommended that the IT Department be notified. | 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 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. | 2/7/2018      | 6/30/2018     | Manager, Information Technology & Database Administrator                                                                                                                                            | 10/1/18: IT requested until Oct 4th to respond. IA noted responses received after Oct 3rd would be included in Nov’s report.  
9/17/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by Oct 2nd.  
9/7/18: Per Oz “Software installed in the environment is now being monitored through the KACE Systems Management Appliance. Please see supporting document "Capture_SoftwareLicensesCatalog.jpg" for an example screen capture. Over/under licensing reports are also available, but the loading of our software licensing agreements into the system for accurate reporting is still in process.  
8/11/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by Sept 5th.  
7/12/18: While meeting with IT Manager requested a written status update. Item still in process.  
7/21/18: Requested status update or remediated items by Judge 10th from P. Ozlin & R. Antoniak.  
Network segments are regularly being scanned for unknown devices, please see supporting document "Capture_NetworkDeviceScan.jpg."
<table>
<thead>
<tr>
<th>Finding Title</th>
<th>Department</th>
<th>Report Number</th>
<th>Finding Description</th>
<th>Recommendations</th>
<th>Management Response</th>
<th>Auditor Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inconsistencies in tracking and monitoring of hardware purchases</td>
<td>IT</td>
<td>12/2017</td>
<td>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 of 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.</td>
<td>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.</td>
<td>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.</td>
<td>10/1/18: IT requested until Oct 4th to respond. IA noted responses received after Oct 3rd would be included in Nov’s report. 9/7/18: Requested status update or remediated items from P. Ozlin &amp; R. Antoniak by Oct 2nd. 9/7/18: Per Oz “We have implemented the KACE System Management Appliance to act as our asset management system. The majority of existing equipment has been loaded into the system and progress is being made on the remainder. Items being currently purchased are well documented through a hard-copy process that is in the process of being migrated into KACE.”</td>
</tr>
</tbody>
</table>

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. | 27/7/2018 | 6/30/2018 | Manager, Information Technology | 8/31/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by Sep 5th. 7/12/18: While meeting with IT Manager requested written status update on the status. Item still in-process. 7/2/18: Requested status update or remediated items by July 10th from P. Ozlin & R. Antoniak. |
<table>
<thead>
<tr>
<th>Finding Title</th>
<th>Department</th>
<th>Report Number</th>
<th>Finding Number</th>
<th>Finding Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Policy Clarification</td>
<td>Finance</td>
<td>04/2018</td>
<td></td>
<td>1 The Travel policy:</td>
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<td></td>
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<td>• Encourages individuals to stay at the conference or training host hotel site. If the host hotel nightly rate exceeds the GSA Lodging Rate Schedule, the excess host hotel rate is authorized. GSA §301-11.303 states: &quot;The maximum amount that you may be reimbursed under actual expense is limited to 300 percent (rounded to the next higher dollar) of the applicable maximum per diem rate.&quot; 17 of 93 travel instances were identified where the daily rate for lodging was in excess of the GSA published rate but under 300 percent cap. The rates ranged from $35 to over $100 per night above the allowed GSA rate. Total spending on lodging for travel during fiscal year 2017 was $599,551, of which a total of $2,539 was spent in excess of GSA lodging limits (4.26%). Additionally, the Travel Authorization form states “Hotel expenses are reimbursable up to the maximum GSA hotel rate”. Also, “the traveler is responsible for the difference in the rates.” Evidence of reimbursement by the traveler of the amount in excess of the GSA rate did not exist.</td>
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<td>• Defines: “Agency Travel, Conference and Out-of-County Training form – The Valley Metro (Agency) form used to process all authorized and budgeted Agency travel.</td>
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<td>This form requires Division Head, Chief Financial Officer (CFO) and Chief Executive Officer (CEO) signature approval”. Of the 93 forms completed, two Division Head signatures were found not to be present.</td>
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<td>• Identifies one of the responsibilities of the traveler is to “submit actual post-travel expenses with itemized receipts and the Agency Travel, Conference and Out-of-County Training form to Travel Administrator with five (5) working days after competing travel”. Of the 93 forms submitted, we found 45 forms were not submitted within five working days, based upon the date of the Expense Report. Below is a table outlining the number of days, after travel was completed, the Expense form was dated: 2-5 Days 6-9 Days 11-15 Days Over 18 Days 22 forms 11 forms 5 forms 7 forms</td>
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<td>• States: “The traveler will adjust the Per Diem amount for meals provided by business host or conference when applicable. If hotel has full breakfast included it will be deducted from per diem; continental breakfasts provided will not be deducted”. We found six occasions where a traveler requested per diem when food was to be provided by the host. The policy is silent on situation where the traveler may not be able to take part in others meals provided, due to dietary restrictions or timing of the meal coincides with business requirements.</td>
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<td>Further clarity should be added to the Travel policy advising the traveler if they are taking part in the meal provided by the host, the per diem amount should reflect accordingly. Travelers should be held accountable for submission of their Expense form within the five-days after travel has been completed. Finally, management should ensure appropriate signatures are gained prior to booking or reconciling final travel expenses.</td>
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<td>Management should align the Travel policy intent with associated forms and practices. If circumstances warrant travel to be completed in less than 21 day of the submission the Agency Travel, Conference and Out-of-County Training form, the policy should reflect such verbiage. The Travel Authorization form should be revised to include identification if the user is staying at the host hotel and the rate exceeds the GSA rate. Otherwise, revisions to verbiage related to &quot;hotel expense are reimbursed up to the maximum GSA hotel rate&quot;; and a traveler is responsible for the difference in the rates should be considered.</td>
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<td></td>
<td></td>
<td>Management concurs with the recommendation. Additional clarity is being added to the Travel Policy and procedures will be updated to ensure that documentation is proper and complete.</td>
</tr>
</tbody>
</table>
| | | | | [Updated Travel forms and training would be forthcoming. 8/31/18: Requested status update or reinafored items from P. Hodgins by Sep 5th. 7/12/18: Management provided a status update of: "The final draft of the new policy was sent to Leadership team for review on June 22. No additional changes were requested and policy was finalized on June 30, however the has not been signed due to vacations and travel. It is expected to be signed by July 16 and posted to the intranet shortly thereafter. An overview of the new policy will be given to agency managers on July 30. In-depth training for the agency's travel administrators is being developed and will be complete by July 30, with training provided to the administrators by August 17." 7/2/18: Requested status]
<table>
<thead>
<tr>
<th>Finding Title</th>
<th>Department</th>
<th>Report Number</th>
<th>Finding Number</th>
<th>Finding Description</th>
</tr>
</thead>
</table>
| Travel Policy Exceptions     | Finance    | 04/2018       |                | After reviewing 93 travel requests, 87 instances were in compliance. In six instances, documentation was insufficient to determine whether costs were appropriate. The six instances were:  
  - One traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost comparison nor explanation was not included. Therefore evidence to verify the saving was not present.  
  - One traveler used a more expensive vehicle option for transportation for a San Francisco hotel to the Oakland airport at the end of the conference. The cost was $96. An explanation as to why this vehicle was selected did not exist within the travel file.  
  - One traveler utilized the terminal parking at Phoenix Sky Harbor airport for two days. Resulting in a reimbursed expense of $50.00 ($25 a day) verses $72 ($11 a day). The Travel policy states: "economy parking should always be used." This was the travelers’ first trip for Valley Metro and was unaware of the Travel policy parking requirements.                                                                 |
|                               |            |               |                | Recommendations: Management should require travelers acknowledge review of the current Travel policy on an annual basis. Travel Administrators should document within the travel file any unusual requests for travel expenses and receive appropriate approval for such requests prior to booking. Travelers should be required to explain any unusual expenses incurred on the Expense form prior to being approved for reimbursement. |
|                               |            |               |                | Management Response: Management concurs with the recommendation. Annual refresher training will be provided to ensure compliance with the Travel Policy.                                                                  |

- One traveler purchased the CEO a $150 ticket for the Rail Rodeo Awards Banquet and submitted the expense. The traveler did obtain the CEO approval on her Expense form; but additional approval was not obtained from the CFO nor Board of Directors on the expense for the CEO.  
  - On two occasions airfare was purchased at four and six days prior to departure resulting in fares of $1,052.00 (Savannah GA) and $1,285.20 (San Francisco). The Travel policy states: "submit the Agency Travel, Conference and Out-of-County Training Form at least 21-days in advance to travel so that the Travel Administrators can purchase travel at least 14-days prior to departure." The travel was approved, but the reasons why these purchases were made less than 14-days prior to departure was not documented within the travel file.  
  - The Travel policy states: "Extenuating circumstances may arise during travel which may require unanticipated expenses. Whenever possible, approval should be received from the CEO and CFO prior to incurring the expense." Evidence to demonstrate follow-up on unusual expenses was not maintained with Expense forms. This is resulting in expenses being Travel policy exceptions.  

Updated Travel forms and training would be forthcoming.  
8/31/18: Requested status update or remediated items from P. Hodgins by Sept 5th.  
7/12/18: Management provided a status update of:  
"An overview of the new policy will be given to agency managers on July 30. In depth training for the agency's Travel administrators is being developed and will be complete by July 30, with training provided to the administrators by August 17."  
7/2/18: Requested status update or remediated item by July 10th from P. Hodgins.
<table>
<thead>
<tr>
<th>Finding Title</th>
<th>Department</th>
<th>Report Number</th>
<th>Finding Number</th>
<th>Finding Description</th>
<th>Recommendations</th>
<th>Management Response</th>
<th>Report Date</th>
<th>Due Date</th>
<th>Responsible Party</th>
<th>Auditor Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Expense Reimbursement Compensation</td>
<td>Human Resources</td>
<td>Memo - 02/2018</td>
<td></td>
<td>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: &quot;to define methods of expense reimbursement compensation for management, CEO, Directors and Managers&quot;. Policy: &quot;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)&quot;</td>
<td>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.</td>
<td>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.</td>
<td>2/10/2018</td>
<td>8/26/2018</td>
<td>Human Resource Director</td>
<td>10/3/18: P. Lynch advised IA that a draft procedure in which the stipend usage verbiage will be forwarded by the end of this week to the Office and Business Services Administrator for proper formatting before final issuance. 10/1/18: P. Lynch provided IA with a draft procedure. IA advised stipend usage verbiage could be included. 9/27/18: Requested status updated on updated procedures from P. Lynch by Oct 2nd. 9/6/18: Requested from P. Lynch status on updated procedures. 9/9/18: Received a memo from P. Lynch addressed to the IA Manager reaffirming, Directors and managers receiving the management expense reimbursement compensation stipend prior 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 policy is key to ensuring fair and equitable distribution of benefits to employees without bias or creating an unfair environment for employees.</td>
</tr>
<tr>
<td>Finding Title</td>
<td>Department</td>
<td>Report Number</td>
<td>Finding Number</td>
<td>Finding Description</td>
<td>Recommendations</td>
<td>Management Response</td>
<td>Report Date</td>
<td>Due Date</td>
<td>Responsible</td>
<td>Auditor Comments</td>
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<tr>
<td>Small Dollar Purchases-Monitoring Procedures (Personal Services Contracts &amp; Sole Source Procurements)</td>
<td>Finance/Procurement</td>
<td>PHX-1170062</td>
<td>3.2</td>
<td>Two personal services contracts were not monitored to ensure appropriate CEO or Board approvals. The personal services contracts were initially created for short periods and small dollar values; however, through change orders these contracts were extended for several years with increased values. In our test sample, we identified two vendors which were engaged with Valley Metro as independent contractors under personal services contract. One personal services contract for videography was created on November 23, 2013, for services occurring from December 1, 2013 through June 30, 2014, and at a sum not to exceed $20,000. This personal service contract was amended five times extending services through June 30, 2017 and increasing the total value to $142,130. This contract was not competitively bid and CEO approval was not obtained as required by VMR policy for a contract of this dollar amount. Of the FY16 payment to this vendor, $5,300 was identified as FTA funds. Another personal services contract for graphic design consulting services was procured by RPTA for the period of September 23, 2013 through November 29, 2013, and at a sum not to exceed $9,200. Through several change orders this contract was extended through June 30, 2016, with an increased contract value to $89,200. Two sole source procurements for consulting services performed by the same vendor did not provide the required analysis that the vendor's costs were fair and reasonable. Accounting records reflected payments to a vendor totaling $89,200 for consulting services rendered from February through September 2016, split equally ($44,750) between VMR and RPTA. On April 15, 2016, a purchase order and sole source justification memo to pay the vendor were completed after the vendor already started providing services to Valley Metro. Section 2 of the sole source justification memo requested, &quot;...a detailed explanation as to how the anticipated costs to Valley Metro are fair and reasonable and the steps taken to make the determination.&quot; The memo indicated that the dollar amount of services by the vendor to Valley Metro was not to exceed $50,000 and six months. On July 7, 2016, an additional purchase order and sole source memo were submitted to pay the vendor for services. The sole source justification reflected that services were not to exceed $50,000 or six months. Neither of the sole source justification memorandums provided analysis or comparison of the vendor's anticipated costs with that of similar consulting services to determine reasonableness of the costs.</td>
<td>Work with Valley Metro to develop monitoring procedures for personal service contracts and sole source procurements to ensure compliance with policies and procedures.</td>
<td>Public Transit with work with Valley Metro to ensure development of procedures that include monitoring of personal service contracts and sole source procurements to ensure compliance with all applicable policies and procedures.</td>
<td>8/27/2017</td>
<td>1/31/2018</td>
<td>Chief Financial Officer</td>
<td>9/28/18: B. Cummings indicated procedures were still in progress. 9/27/18: Requested a status update on procedure progress from P. Hodgins &amp; B. Cummings by Oct 2nd. 9/10/18: Requested an update on the procedures from B. Cummings. 9/06/18: Per B. Cummings, &quot;All personal service contracts will be reviewed and phased into competitively bid contracts or converted over to FTE. CPO is compiling a current list of any outstanding personal service contracts and will meet with directors to determine best path forward. 9/04/18: Requested quarterly update from P. Hodgins &amp; B. Cummings. 7/24/18: IA advised COP that the Joint Procurement Manual will be updated to include specified procedures with anticipated completion by the end of the calendar year. Quarterly updates will be provided. 7/24/18: Email string from W. Miller and A. Cook (COP) indicated the submitted Joint Procurement Manual was rejected to remediate Finding 3.2, status updated to &quot;Started&quot;. 7/02/18: IA sent COP the Joint Procurement Manual effective June 25, 2018.</td>
</tr>
<tr>
<td>Finding Title</td>
<td>Department</td>
<td>Report Number</td>
<td>Finding Number</td>
<td>Finding Description</td>
<td>Recommendations</td>
<td>Management Response</td>
<td>Report Date</td>
<td>Due Date</td>
<td>Responsible Party</td>
<td>Auditor Comments</td>
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</tr>
<tr>
<td>Small Dollar Purchases-Review Aggregate Purchases Procedures</td>
<td>Finance/Procurement</td>
<td>PHX - 1170062</td>
<td>3.3</td>
<td>VMR procurements at OMC employed reasonable competition, were transparent, and well documented. We did note that there was no procedure in place that required the consistent review of aggregate vendor purchases to determine if contracts were needed. We tested ten vendors with transactions totaling over $400,000. Competition was used in 38% ($156,188), no competition in 45% ($185,642), and micro purchases, which did not require competition, made up the remaining 17% ($68,321). Several of the sole source procurements were required due to the manufacturer’s warranty on the LRV, that necessitated the use of original equipment manufacturer parts. In interviews with OMC staff, we learned that there is no policy requiring the review of aggregate vendor purchases to determine if contracts are necessary or would be beneficial to the organization. Staff indicated that in November 2016, they implemented their own internal annual review of vendor purchases. A review of Ellipse purchases reflected that there were several made to the same vendor that in aggregate were over $50,000; while competition was employed, contacts were not obtained. Contracts may provide Valley Metro with enhanced competitive pricing and purchase protection.</td>
<td>Work with Valley Metro OMC to develop procedures to the consistent review of inventory purchases to determine when contracts should be obtained.</td>
<td>Public Transit with work with Valley Metro to ensure development of procedures for the consistent review of inventory purchases to determine when contracts should be obtained.</td>
<td>8/17/2017</td>
<td>1/31/2018</td>
<td>Chief Financial Officer</td>
<td>9/28/18: B. Cummings indicated procedures were still in progress. 9/27/18: Requested a status update on procedure progress from P. Hodgins &amp; B. Cummings by Oct 2nd. 9/10/18: Requested an update on the procedures from B. Cummings. 9/26/18: Per B. Cummings, &quot;CPO is putting together process for reviewing all purchase order requests against previous purchase orders awarded to the same vendor over the previous (2) fiscal years. Continuous PO's will be required to be contacts or justification will be required that reasonable justifies the need for continuous POs (with the exception of State Contracts).&quot;</td>
</tr>
</tbody>
</table>

CPO will work with the OMC to either centralize procurement so this process is done for them or will work with the OMC to follow the same process."
9/04/18: Requested quarterly update from P. Hodgins & B. Cummings.
7/24/18: IA advised CPO that the Joint Procurement Manual will be updated to include anticipated procedures by the end of the calendar year. Quarterly updates will be provided.
7/14/18: Email string from W. Miller and A. Cook (COP) indicated the submitted Joint Procurement Manual was rejected to remediate Finding 3.3; status updated to "Started". 7/02/18: IA sent COP the Joint Procurement Manual effective June 25, 2018.
Information Summary

DATE
October 5, 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. Dell, Inc. Contract Award
Execute a contract change order to exercise the remaining three option years with Clean Energy for CNG facility maintenance in an amount not to exceed $775,000.

B. Commercial Property and Liability Insurance Coverage Purchase
Execute a contract with Trend Offset Printing Services, Inc. for one-year base term with four one-year option(s) to provide support to print the Valley Metro Transit Book on a semi-annual basis in an amount not to exceed $1,400,000 with a 10% contingency of $140,000 beginning July 1, 2018.

C. Oracle Human Resources Information System (HRIS): Phase II Contract Extension
Execute a contract with Medical Transportation Management (MTM) for the delivery of paratransit eligibility and fixed-route travel training services for an amount not to exceed $8.9 million, which includes a 10% contract contingency of $890,000.

D. First Transit, Inc. Contract Change Order
Execute a contract change order with First Transit, Inc. for the final 4-year option in the amount of $290.1 million for revenue service and engine and transmission rebuilds plus a $9.5 million contingency for unforeseen items such as additional revenue service, enhanced service for special events, transit education and bus bridges or for any other unanticipated costs, for a total of $299.6 million.

E. Federal Transit Administration Pass-Through Grant Agreements – RPTA
Execute IGAs with the City of Phoenix to allow Valley Metro to be reimbursed for eligible activities.
F. **Light Rail Vehicle (LRV) Steel Tires and Tie Block Kits Five-Year Supply Contract Award**

Execute a 5-year supply contract for LRV steel tires and tire block kits with Penn Machine Company in an amount not to exceed $1,173,515.

G. **Federal Transit Administration Pass-Through Agreements – Rail**

Execute Intergovernmental Agreements (IGAs) with the City of Phoenix to allow Valley Metro to be reimbursed for eligible activities.

H. **Tempe Streetcar Funding Commitment Resolution 2018-10**

To affirm Valley Metro’s commitment to provide Public Transportation Funds to the Tempe Streetcar project.

**RECOMMENDATION**
For information only.

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

**ATTACHMENT**
Information Summaries for items listed above
DATE
October 5, 2018

SUBJECT
Dell, Inc. Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a five-year contract with Dell, Inc. for standard computer equipment purchases in an amount not to exceed $1,709,500 plus an additional $170,950 (10%) contingency for the period of November 1, 2018 to October 30, 2023.

BACKGROUND | DISCUSSION | CONSIDERATION
Staff has reviewed the purchasing activities of the IT department and found potential cost savings in modifying how we buy standard equipment. By moving from individual purchase orders to a contract we can save an estimated $10,000 a year in processing costs. It will also reduce the lead time on computer equipment purchases by two to three days. The value of the contract is based on a five-year refresh cycle for server infrastructure along with workstations, laptops, and tablets with a growth rate based on the last three fiscal years.

COST AND BUDGET
The contract with Dell, Inc. is for a term of five years totaling $1,880,450 which includes a 10 percent contingency of $170,950. The costs for this purchase agreement are split 50/50 between RPTA and VMR. The RPTA portion is $940,225 and the VMR portion is $940,225.

<table>
<thead>
<tr>
<th>Purchase</th>
<th>Vendor</th>
<th>Contract</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract - Bulk Purchase Agreement</td>
<td>Dell, Inc.</td>
<td>State Contract: ADSPO16-098163</td>
<td>$1,880,450</td>
</tr>
</tbody>
</table>

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

- **Goal 2: Advance performance based operation**
  - Tactic C: Deliver projects and services on-time/on-budget
  - Tactic E: Maintain strong fiscal controls to support Valley Metro’s long-term sustainability.
COMMITTEE PROCESS
RTAG: September 18, 2018 for information
TMC/RMC: October 3, 2018 for action
Boards of Directors: October 18, 2018 for action

RECOMMENDATION
Staff recommends that the TMC/RMC forward to the Boards of Directors authorization for the CEO to execute a five-year contract with Dell, Inc. for standard computer equipment purchases in an amount not to exceed $1,709,500 plus an additional $170,950 (10%) contingency for the period of November 1, 2018 to October 30, 2023.

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

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

ATTACHMENT
None
DATE          AGENDA ITEM 8B
October 5, 2018

SUBJECT
Commercial Property and Liability Insurance Coverage Purchase

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to purchase renewal coverage for Valley Metro’s insurance needs, for an amount not to exceed $1,966,129. RPTA’s obligation is $207,552. VMR’s obligation is $1,758,577.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro purchases insurance to cover losses related to Valley Metro-owned property and to protect Valley Metro from claims. RPTA and VMR jointly purchase the insurance.

Valley Metro’s insurance broker, Arthur J. Gallagher (AJG), obtained quotes from various insurance carriers to meet Valley Metro’s ongoing insurance needs. Staff, risk managers and AJG representatives reviewed the insurance renewal process and proposals.

Attached are two tables that summarize and evaluate insurance premium pricing for RPTA and VMR.

- Table 1 summarizes the insurance premium pricing for RPTA. These figures represent RPTA’s allocation of the combined RPTA and VMR insurance premium from the expiring insurance year and the current renewal year. Total excess liability limits are $60,000,000 excess of a $250,000 self-insured retention.
- Table 2 summarizes the insurance premium pricing for VMR. These figures represent VMR’s allocation of the combined RPTA and VMR insurance premium from the expiring insurance year and the current renewal year. Total excess liability limits are $100,000,000 excess of a $250,000 self-insured retention.

Valley Metro’s insurance policies cover exposures of RPTA and VMR. The premium is split between RPTA and VMR based on risk exposure as determined by the market, financial analysis and evaluated by insurance underwriters. This combined approach provides the agency with greater coordination in coverage and in overall purchasing power.
COST AND BUDGET

Premium costs by type of insurance coverage for RPTA and VMR:

<table>
<thead>
<tr>
<th>Coverage Type</th>
<th>RPTA Premium</th>
<th>VMR Premium</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Renewal Coverage</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>$18,852</td>
<td>$275,698</td>
<td>$294,550</td>
</tr>
<tr>
<td>Inland Marine Rolling Stock</td>
<td>N/A</td>
<td>$181,758</td>
<td>$181,758</td>
</tr>
<tr>
<td>Inland Marine Town Lake Bridge</td>
<td>N/A</td>
<td>$30,710</td>
<td>$30,710</td>
</tr>
<tr>
<td>DIC – Excess Flood/Quake Town Lake Bridge</td>
<td>N/A</td>
<td>$34,936</td>
<td>$34,936</td>
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<tr>
<td>Crime</td>
<td>$3,470</td>
<td>$3,471</td>
<td>$6,941</td>
</tr>
<tr>
<td>Auto Liability &amp; Physical Damage</td>
<td>$23,591</td>
<td>$90,372</td>
<td>$113,962</td>
</tr>
<tr>
<td>Excess Liability – Buffer Layer</td>
<td>$12,021</td>
<td>$175,804</td>
<td>187,825</td>
</tr>
<tr>
<td>Primary Excess Liability – 1st layer</td>
<td>$33,838</td>
<td>$494,882</td>
<td>$528,720</td>
</tr>
<tr>
<td>Excess Liability – 2nd layer</td>
<td>$37,972</td>
<td>$108,638</td>
<td>$146,610</td>
</tr>
<tr>
<td>Excess Liability – 3rd layer</td>
<td>$25,778</td>
<td>$73,751</td>
<td>$99,529</td>
</tr>
<tr>
<td>Excess Liability – 4th layer</td>
<td>$36,066</td>
<td>$103,185</td>
<td>$139,251</td>
</tr>
<tr>
<td>Excess Liability – 5th layer</td>
<td>N/A</td>
<td>$82,560</td>
<td>$82,560</td>
</tr>
<tr>
<td>Excess Liability – 6th layer</td>
<td>N/A</td>
<td>$40,145</td>
<td>$40,145</td>
</tr>
<tr>
<td>Pollution Liability (Renewed in 2015 – 3 yrs.)</td>
<td>N/A</td>
<td>$23,589</td>
<td>$23,589</td>
</tr>
<tr>
<td>Stand-Alone Terrorism (NCBR)</td>
<td>$1,697</td>
<td>$24,810</td>
<td>$26,507</td>
</tr>
<tr>
<td>Cyber/Privacy</td>
<td>$14,267</td>
<td>$14,268</td>
<td>$28,535</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$207,552</strong></td>
<td><strong>$1,758,577</strong></td>
<td><strong>$1,966,129</strong></td>
</tr>
</tbody>
</table>

Cost allocation between RPTA and VMR budgets has historically been about 11% to RPTA budget and 89% to VMR budget based on annual calculation of the value of assets. The upward cost adjustment between last year’s expiring premium and this year’s renewal premium is approximately 12%, or $219,000.

For the term December 1, 2018 – November 30, 2019, VMR’s estimated contract obligation is $1,758,577 and is fully funded within the VMR Adopted FY 2019 Operating and Capital Budget. Contract Obligations beyond FY 2019 are incorporated into the VMR Five-Year Operating Forecast and Capital Program (FY 2019 thru FY 2023).

For the term December 1, 2018 – November 30, 2019, RPTA’s estimated contract obligation is $207,552 and is fully funded within the FY 2019 RPTA Adopted Operating Budget. Contract Obligations beyond FY 2019 are incorporated into the RPTA Five-Year Operating Forecast and Capital Program (FY 2019 – FY 2023).

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.
- Tactic E: Maintain strong fiscal controls to support Valley Metro’s long-term sustainability.

**COMMITTEE ACTION**
RTAG: September 18, 2018 for information
TMC/RMC: October 3, 2018 for action
Boards of Directors: October 18, 2018 for action

**RECOMMENDATION**
Staff recommends that the TMC/RMC forward to the Boards of Directors authorization for the CEO to purchase renewal coverage for Valley Metro’s insurance needs for an amount not to exceed $1,966,129. RPTA’s obligation is $207,552. VMR’s obligation is $1,758,577.

**CONTACT**
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General Counsel
Legal Division
(602) 744-5599
mminnaugh@valleymetro.org

**ATTACHMENTS**
Table 1- RPTA Insurance Pricing
Table 2- VMR Insurance Pricing
<table>
<thead>
<tr>
<th>Line of Coverage</th>
<th>Policy Limit</th>
<th>Renewal Premium</th>
<th>Expiring Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Renewal Coverage</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Property 2</strong></td>
<td>Blanket Limit</td>
<td>$18,852</td>
<td>$7,758</td>
</tr>
<tr>
<td><strong>Crime</strong></td>
<td>$2,000,000</td>
<td>$3,470</td>
<td>$2,999</td>
</tr>
<tr>
<td><strong>Auto Liability &amp; Physical Damage</strong></td>
<td>$750,000</td>
<td>$23,591</td>
<td>$21,038</td>
</tr>
<tr>
<td><strong>Excess Liability SIR Buffer Layer</strong></td>
<td>$500,000</td>
<td>$12,021</td>
<td>$37,023</td>
</tr>
<tr>
<td><strong>Primary Excess Liability 1st layer in excess of $750,000</strong></td>
<td>$10,000,000</td>
<td>$33,838</td>
<td>$105,067</td>
</tr>
<tr>
<td><strong>Excess Liability – 2nd layer</strong></td>
<td>$10,000,000</td>
<td>$37,972</td>
<td>$29,846</td>
</tr>
<tr>
<td><strong>Excess Liability – 3rd layer</strong></td>
<td>$15,000,000</td>
<td>$25,778</td>
<td>$18,494</td>
</tr>
<tr>
<td><strong>Excess Liability – 4th layer</strong></td>
<td>$25,000,000</td>
<td>$36,066</td>
<td>$28,546</td>
</tr>
<tr>
<td><strong>Stand-Alone Terrorism (NCBR)</strong></td>
<td>$50,000,000</td>
<td>$1,697</td>
<td>$2,093</td>
</tr>
<tr>
<td><strong>Cyber/Privacy</strong></td>
<td>$1,000,000</td>
<td>$14,267</td>
<td>$15,530</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$207,552</strong></td>
<td><strong>$268,394</strong></td>
<td></td>
</tr>
</tbody>
</table>

1 Premium allocation for RPTA and VMR is based on financial risk exposure analysis.

2 Adjustment in premium is based on an updated Statement of Values that has incorporated additional fixed assets that require insurance coverage.

3 The auto liability and physical damage coverage applies to RPTA non-revenue vehicles. It does not apply to buses used in revenue service.
### TABLE 2 - VMR Insurance Pricing

<table>
<thead>
<tr>
<th>Line of Coverage</th>
<th>Policy Limit</th>
<th>Renewal Premium</th>
<th>Expiring Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Renewal Coverage</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property 2</td>
<td>Blanket Limit</td>
<td>$275,698</td>
<td>$133,301</td>
</tr>
<tr>
<td>Inland Marine Rolling Stock</td>
<td>$150,660,000</td>
<td>$181,758</td>
<td>$181,758</td>
</tr>
<tr>
<td>Inland Marine Town Lake Bridge</td>
<td>$22,581,224</td>
<td>$30,710</td>
<td>$30,710</td>
</tr>
<tr>
<td>DIC – Excess Flood &amp; Quake</td>
<td>$15,000,000 x/o $5mil u/l</td>
<td>$34,936</td>
<td>$34,936</td>
</tr>
<tr>
<td>Crime</td>
<td>$2,000,000</td>
<td>$3,471</td>
<td>$2,999</td>
</tr>
<tr>
<td>Auto Liability &amp; Physical Damage 3</td>
<td>$750,000</td>
<td>$90,372</td>
<td>$70,430</td>
</tr>
<tr>
<td>Primary Excess Liability Buffer Layer</td>
<td>$500,000</td>
<td>$175,804</td>
<td>$143,577</td>
</tr>
<tr>
<td>Primary Excess Liability 1st layer in</td>
<td>$10,000,000</td>
<td>$494,882</td>
<td>$407,455</td>
</tr>
<tr>
<td>excess of $750,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess Liability – 2nd layer</td>
<td>$10,000,000</td>
<td>$108,638</td>
<td>$115,744</td>
</tr>
<tr>
<td>Excess Liability – 3rd layer</td>
<td>$15,000,000</td>
<td>$73,751</td>
<td>$71,718</td>
</tr>
<tr>
<td>Excess Liability – 4th layer</td>
<td>$25,000,000</td>
<td>$103,185</td>
<td>$110,704</td>
</tr>
<tr>
<td>Excess Liability – 5th layer</td>
<td>$25,000,000</td>
<td>$82,560</td>
<td>$81,528</td>
</tr>
<tr>
<td>Excess Liability – 6th layer</td>
<td>$15,000,000</td>
<td>$40,145</td>
<td>$40,145</td>
</tr>
<tr>
<td>Pollution Liability 4</td>
<td>$5,000,000</td>
<td>$23,589</td>
<td>$27,113</td>
</tr>
<tr>
<td>Stand-Alone Terrorism (NCBR)</td>
<td>$50,000,000</td>
<td>$24,810</td>
<td>$38,155</td>
</tr>
<tr>
<td>Cyber/Privacy</td>
<td>$1,000,000</td>
<td>$14,268</td>
<td>$15,530</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>$1,758,577</td>
<td>$1,478,690</td>
<td></td>
</tr>
</tbody>
</table>

---

1. **Premium allocation for RPTA and VMR is based on financial risk exposure analysis.**
2. **Adjustment in premium is based on an updated Statement of Value that has incorporated additional fixed assets that require insurance coverage.**
3. **The auto liability and physical damage coverage applies to VMR non-revenue vehicles. It does not apply to rail cars used for service.**
4. **The Pollution Liability policy was renewed in 2015 for a three (3)-year policy term at a premium of $27,113. The policy will be renewed this renewal cycle.**
DATE
October 5, 2018

SUBJECT
Oracle Human Resources Information System (HRIS): Phase II Contract Extension

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a five-year extended contract with DLT Solutions for professional services and software licensing not to exceed $1,215,720 which includes a $110,520 (10%) contingency for the period of January 1, 2019 to June 30, 2024.

BACKGROUND | DISCUSSION | CONSIDERATION
In April 2018 the Board authorized the CEO to engage with DLT Solutions for $330,000 for Phase I of the project, the goal of which is to improve personnel sourcing and management, benefits management, and the security of employee Personally Identifiable Information (PII) at the Agency. These funds covered the cost of licensing the Oracle HRIS software for the first year and initial implementation assistance covering calendar year 2018. Staff now requests funds for the remainder of the implementation assistance in calendar year 2019 and for licensing the software from FY20 through FY24.

COST AND BUDGET
The Oracle HRIS contract for approval has a total term not to exceed five and a half years. For the total term of the contract, the award cost is $1,215,720, which includes a contingency amount totaling $110,520 (10%) contingency for the period of January 1, 2019 to June 30, 2024.

All costs in FY19 are included in the RPTA FY 2019 Operating and Capital Budget. Contract Obligations beyond FY19 will be incorporated into the RPTA FY20 Operating and Capital Budget and Five-Year Operating Forecast and Capital Program (FY20 thru FY24).

<table>
<thead>
<tr>
<th>Purchase</th>
<th>Vendor</th>
<th>Contract</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oracle HRIS FY 2019 Implementation Services</td>
<td>DLT Solutions</td>
<td>US Communities 13120-RFP, Maricopa</td>
<td>$487,900</td>
</tr>
<tr>
<td>Oracle HRIS FY 2020 – FY 2024 Software Licensing Subscription</td>
<td>DLT Solutions</td>
<td>US Communities 13120-RFP, Maricopa</td>
<td>$617,300</td>
</tr>
<tr>
<td>Contingency (10%)</td>
<td>---</td>
<td>---</td>
<td>$110,520</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>$1,215,720</strong></td>
</tr>
</tbody>
</table>
STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:

- **Goal 2: Advance performance based operation**
  - 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

COMMITTEE PROCESS
RTAG: September 18, 2018 for information
TMC: October 3, 2018 for action
Board of Directors: October 18, 2018 for action

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute a five-year extended contract with DLT Solutions for professional services and software licensing not to exceed $1,215,720 which includes a $110,520 (10%) contingency for the period of January 1, 2019 to June 30, 2024.

CONTACTS
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rantoniak@valleymetro.org

Phil Ozlin  
Manager, Information Technology  
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pozlin@valleymetro.org

ATTACHMENTS
None
Information Summary

DATE
October 5, 2018

AGENDA ITEM 8D

SUBJECT
First Transit, Inc. Contract Change Order

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract change order with First Transit, Inc. for the final 4-year option in the amount of $290.1 million for revenue service and engine and transmission rebuilds plus a $9.5 million contingency for unforeseen items such as additional revenue service, enhanced service for special events, transit education and bus bridges or for any other unanticipated costs, for a total of $299.6 million.

BACKGROUND | DISCUSSION | CONSIDERATION
In January 2013, Valley Metro awarded the East Valley bus fixed route contract to First Transit. The original contract terms stipulated a three-year base with a seven-year option. During the first three years of the contract period, First Transit struggled to meet several key performance indicators and the quality of service did not meet Valley Metro high standards. As a result, staff recommended amending the contract terms and in May 2016, the Board awarded First Transit with a three-year extension with a four-year renewal option.

During the first two years of the three-year extension, First Transit has significantly improved their overall service quality and consistently met Valley Metro’s high performance standards in most of the key performance areas. Valley Metro staff presented the Board with a performance update at the August Board meeting.

The current contract includes a milestone evaluation period at the end of years three and six, which provides First Transit with an opportunity to address major marketplace changes that affect the cost of operations. To ensure service quality continues to improve, Valley Metro has agreed to add the following to the base contract:

- Quality Control Manager
- Labor Relations Manager

First Transit has provided Valley Metro with a continuous improvement plan that outlines the steps that they have taken to continue to improve service quality and develop a service and performance based culture that focuses on delivering superior customer service to Valley Metro, their customers, and their stakeholders.
COST AND BUDGET
The estimated annual revenue miles will be 11,781,000 at the beginning of the change order for the final 4-year option period that begins July 1, 2019. Changes to service costs over the four-year option period are included in the following table.

Contractor Service Costs*

<table>
<thead>
<tr>
<th></th>
<th>Current (Millions)</th>
<th>FY 19</th>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>FY 23</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Costs</td>
<td>$66.9</td>
<td>$69.3</td>
<td>$70.1</td>
<td>$72.1</td>
<td>$74.5</td>
<td></td>
<td>$286.0</td>
</tr>
<tr>
<td>(Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blended Cost</td>
<td>$5.68</td>
<td>$5.89</td>
<td>$5.95</td>
<td>$6.12</td>
<td>$6.33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>per Mile (CPM)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Increase</td>
<td>$2.4</td>
<td>$0.80</td>
<td>$2.00</td>
<td>$2.40</td>
<td></td>
<td></td>
<td>$7.6</td>
</tr>
<tr>
<td>(Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased Blended CPM</td>
<td>$0.21</td>
<td>$0.06</td>
<td>$0.17</td>
<td></td>
<td>$0.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Increase</td>
<td>3.6%</td>
<td>1.2%</td>
<td>2.9%</td>
<td>3.3%</td>
<td></td>
<td>2.7%</td>
<td></td>
</tr>
</tbody>
</table>

*Based on 11.8 million miles

Valley Metro prepares a five-year mid-life engine rebuild program to maintain the bus fleet in a state of good repair. The program focuses on buses with a 12-year life expectancy (heavy duty buses) whereas upon reaching either six years or 250,000 miles the engines are rebuilt. First Transit subcontracts the rebuilding of these engines to local qualified maintenance vendors and passes through these costs to Valley Metro without any markup. The contract with First Transit states that mid-life engine rebuild costs are the responsibility of Valley Metro. These costs are included in the proposed change order amount.

Cost for the first year of the four-year option period is estimated at $70.3 million and will be included in the RPTA Proposed FY20 Operating and Capital Budget. Contract obligations beyond FY20 will be incorporated into the Proposed RPTA Five-Year Operating Forecast and Capital Program (FY2020 thru FY2024). A contract contingency of $9.5 million is also requested for unanticipated costs.

Below are the contractor costs for each year of the four-year option period and the proposed change order amount:
Four-year Option Proposed Change Order Amount (Millions)

<table>
<thead>
<tr>
<th></th>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>FY 23</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Base Costs</td>
<td>$69.3</td>
<td>$70.1</td>
<td>$72.1</td>
<td>$74.5</td>
<td>$286.0</td>
</tr>
<tr>
<td>Engine &amp; Transmission Rebuilds</td>
<td>$1.0</td>
<td>$1.0</td>
<td>$0.9</td>
<td>$1.2</td>
<td>$4.1</td>
</tr>
<tr>
<td>Total Change Order</td>
<td>$70.3</td>
<td>$71.1</td>
<td>$73.0</td>
<td>$75.7</td>
<td>$290.1</td>
</tr>
</tbody>
</table>

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

- Goal 1: Increase Customer Focus
  - Tactic A: Improve Customer Satisfaction
- Goal 2: Advance performance based operation
  - Tactic A: Operate an effective, reliable, high performing transit system

COMMITTEE PROCESS
RTAG: September 18, 2018 for information
TMC: October 3, 2018 for action
Board of Directors: October 18, 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 First Transit, Inc. for the final 4-year option in the amount of $290.1 million for revenue service and engine and transmission rebuilds plus a $9.5 million contingency for unforeseen items such as additional revenue service, enhanced service for special events, transit education and bus bridges or for any other unanticipated costs, for a total of $299.6 million.

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

ATTACHMENT
None
DATE
October 5, 2018

AGENDA ITEM 8E

SUBJECT
Federal Transit Administration Pass-Through Grant Agreements

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

BACKGROUND | DISCUSSION | CONSIDERATION

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

<table>
<thead>
<tr>
<th>Grant</th>
<th>FTA Program</th>
<th>Federal Share</th>
<th>Local Share</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-xxx</td>
<td>5307 – Formula</td>
<td>$24,710,530</td>
<td>$5,523,714</td>
<td>$30,234,244</td>
</tr>
<tr>
<td>2018-xxx</td>
<td>5307 – Formula (Avn-Gdy UZA)</td>
<td>$3,539,920</td>
<td>$1,937,920</td>
<td>$5,477,840</td>
</tr>
<tr>
<td>2018-xxx</td>
<td>5310 – Enhanced Mobility</td>
<td>$592,884</td>
<td>$532,884</td>
<td>$1,125,768</td>
</tr>
<tr>
<td>2018-xxx</td>
<td>5337 – SOGR HiBus</td>
<td>$94,957</td>
<td>$23,739</td>
<td>$118,696</td>
</tr>
<tr>
<td>2018-xxx</td>
<td>5339 – Bus and Bus Facilities</td>
<td>$4,147,608</td>
<td>$773,592</td>
<td>$4,921,200</td>
</tr>
<tr>
<td>2018-xxx</td>
<td>STP</td>
<td>$2,276,791</td>
<td>$0</td>
<td>$2,276,791</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$35,362,690</td>
<td>$8,791,849</td>
<td>$44,154,539</td>
</tr>
</tbody>
</table>

- Funds from the Section 5307 Urbanized Area Formula Program are awarded for preventive maintenance, ADA operating assistance and fleet replacement. Additional funds from previous federal fiscal year apportionments are awarded in grant 2018-006 for fleet expansion.
- Funds from the Section 5307 Urbanized Area Formula Program for the Avondale-Goodyear Urbanized Area are awarded for operating assistance and fleet replacement.
- Funds from Section 5310, Enhanced Mobility for Seniors and Individuals with Disabilities Program awarded for operating support for Ride Choice and travel training.
- Funds from Section 5337, State of Good Repair Hi Capacity Bus Program, are awarded for preventive maintenance.
- Funds from the Section 5339, Bus and Bus Facilities Program, are awarded for replacement fleet.
- Funds from the Surface Transportation Program flexed from the Federal Highways Administration are awarded for replacement and expansion fleet for the vanpool program.
The City of Phoenix is the designated recipient for all FTA grant funds for the region. Valley Metro undertakes projects approved for FTA grant funding, then submits requests to Phoenix for reimbursement of actual expenses incurred. Phoenix then executes a drawdown of funds from FTA to pass-through the reimbursement to Valley Metro.

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

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

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

Goal 2: Advance performance based operation
- Tactic C: Deliver projects and services on time/on budget

COMMITTEE PROCESS
RTAG: September 18, 2018 for information
TMC: October 3, 2018 for action
Board of Directors: October 18, 2018 for action

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

CONTACT
Paul Hodgins
Chief Financial Officer
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phodgins@valleymetro.org

ATTACHMENT
None
DATE
October 5, 2018

AGENDA ITEM 8F

SUBJECT
Light Rail Vehicle (LRV) Steel Tires and Tire Block Kits Five-Year Supply Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a 5-year supply contract for LRV steel tires and tire block kits with Penn Machine Company in an amount not to exceed $1,173,515.

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.

LRV wheels are manufactured by Penn Machine Company. The wheel consists of a steel hub, steel tire and rubber blocks. The design of the wheel allows for the removal and replacement of the steel tire without having to replace the entire wheel assembly. The tires are designed with steel that is softer than the tracks to minimize track wear.

The contractor will provide 96 LRV steel tires and tire block kits per year over the 5-year contract period. This is a materials/parts only requirements contract. All labor will be done in house by Valley Metro Rail staff.

The recommended vendor to purchase the tires from is Penn Machine Company and is a non-competitive procurement due to the company being the original equipment manufacturer (OEM). Valley Metro light rail vehicles are using Bochum tires which is a German design and Penn Machine Company is the only company in the US licensed to make and sell the Bochum products. The Bochum tires are manufactured in such a way that the entire tire is not of the same hardness and is designed around safety, ride quality and wear. This construction in combination with the type of rails that Valley Metro is running on with flange lubrication is what’s giving Valley Metro the above average wear in the industry. They are also the only company with the knowledge and technical drawings to manufacture tires with the Valley Metro Rail tire profile.

An independent cost estimate and a non-competitive procurement justification including a cost comparison and price analysis have been completed. The proposed price has been deemed fair and reasonable based on the price analysis.
Information Summary

DATE
October 5, 2018

AGENDA ITEM 8G

SUBJECT
Federal Transit Administration Pass-Through Grant Agreements

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

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

<table>
<thead>
<tr>
<th>Grant</th>
<th>FTA Program</th>
<th>Federal Share</th>
<th>Local Share</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-xxx</td>
<td>5307 – Formula</td>
<td>$1,408,151</td>
<td>$352,038</td>
<td>$1,760,189</td>
</tr>
<tr>
<td>2018-xxx</td>
<td>5337 – SOGR FG</td>
<td>$857,531</td>
<td>$214,384</td>
<td>$1,071,915</td>
</tr>
<tr>
<td>2018-xxx</td>
<td>CMAQ from ALCP</td>
<td>$10,621,061</td>
<td>$641,995</td>
<td>$11,263,056</td>
</tr>
<tr>
<td>2018-xxx</td>
<td>STP from ALCP</td>
<td>$12,677,470</td>
<td>$857,281</td>
<td>$13,534,751</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$35,243,722</strong></td>
<td><strong>$4,371,940</strong></td>
<td><strong>$39,615,662</strong></td>
</tr>
</tbody>
</table>

- Funds from the Section 5307 Urbanized Area Formula Program are awarded for preventive maintenance.
- Funds from Section 5337, State of Good Repair Fixed Guideway Program, are awarded for major component overhauls.
- Funds from Congestion Mitigation/Air Quality flexed from the Federal Highways Administration awarded for Gilbert Road Extension, Tempe Streetcar, Capitol/I-10 West and LRV acquisition.
- Funds from the Surface Transportation Program flexed from the Federal Highways Administration are awarded for Gilbert Road Extension and Downtown Chandler alternatives analysis.

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

**COST AND BUDGET**

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

**STRATEGIC PLAN ALIGNMENT**

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

- Goal 2: Advance performance based operation
  - Tactic C: Deliver projects and services on time/on budget

**COMMITTEE PROCESS**

RTAG: September 18, 2018 for information
RMC: October 3, 2018 for action
Board of Directors: October 18, 2018 for action

**RECOMMENDATION**

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

**CONTACT**

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

**ATTACHMENT**

None
DATE
October 5, 2018

SUBJECT
Tempe Streetcar Funding Commitment

PURPOSE
To affirm Valley Metro’s commitment to provide Public Transportation Funds to the Tempe Streetcar project.

BACKGROUND | DISCUSSION | CONSIDERATION
In May 2018 the Valley Metro Rail Board approved the Rail Transit Life Cycle Program (TLCP) which included funding for the Tempe Streetcar. In June 2018 the Board approved the FY 2019 Adopted Operating and Capital Budget and 5-Year Capital Program with funding identified for the Tempe Streetcar consistent with the TLCP.

Subsequent to the Board actions, the Federal Transit Administration conducted a risk assessment of the project. As a result of the assessment, FTA has required that an additional $2.4 million in contingency be added to the project. Staff decided to change slightly the mix of funding, moving $5 million in CMAQ funds out of the project and replacing with PTF. The CMAQ will be used on another PTF funded project to ensure no impact to the TLCP.

As a result, the amount of PTF for the project is now $7.4 million higher than shown in the adopted documents. FTA has asked that the VMR Board affirm that the full amount of PTF is committed to the Tempe Streetcar project.

COST AND BUDGET
All expenses are in the approved FY 2019 Adopted Operating and Capital Budget and 5-Year Capital Program. Below is a table summarizing the changes in funding from the adopted TLCP to the documents currently submitted to FTA for grant approval.

<table>
<thead>
<tr>
<th></th>
<th>TLCP</th>
<th>Submitted</th>
<th>Change</th>
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<tbody>
<tr>
<td>Small Starts</td>
<td>$75.0</td>
<td>$75.0</td>
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</tr>
<tr>
<td>CMAQ</td>
<td>$19.0</td>
<td>$14.0</td>
<td>-$5.0</td>
</tr>
<tr>
<td>City of Tempe</td>
<td>$13.0</td>
<td>$13.0</td>
<td>$0.0</td>
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<tr>
<td>PTF</td>
<td>$92.4</td>
<td>$99.8</td>
<td>$7.4</td>
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<td><strong>Total</strong></td>
<td>$199.4</td>
<td>$201.8</td>
<td>$2.4</td>
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</table>
STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:
Goal 2: Advance performance based operation
  • Tactic C: Deliver projects and services on time/on budget

COMMITTEE PROCESS
RTAG: September 18, 2018 for information
RMC: October 3, 2018 for action
Board of Directors: October 18, 2018 for action

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors a recommendation to affirm the commitment of $99.8 million in regional Public Transportation Funds to the Tempe Streetcar project.

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

ATTACHMENT
None
DATE
October 5, 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>
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