



MEETING OF THE

# Audit and Finance Subcommittee

Date:

April 11, 2019

Starting Time

12:00 p.m.

Location:

Valley Metro

Lake Powell Conference Room (10A)  
101 N. 1<sup>st</sup> Avenue, 10<sup>th</sup> Floor Phoenix

**If you require assistance accessing the meetings on the 10<sup>th</sup> floor, please go to the 14<sup>th</sup> floor or call 602.262.7433.**



# Agenda

April 4, 2019

## **Audit and Finance Subcommittee**

Thursday, April 11, 2019

10th Floor, Lake Powell Conference Room (10A)

101 N. 1st Avenue, 10th Floor

12:00 p.m.

### Action Recommended

1. Public Comment

1. For information

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

2. For action

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

3. Internal Audit – Audit Plan Discussion

3. For information

Mary Modelski, Director, Internal Audit, will provide an update on audits completed and obtain feedback on the proposed plan.

4. Internal Audit Exceptions Update

4. For information

The Internal Audit Exceptions log is presented for information.



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

5. For information

Paul Hodgins, Chief Financial Officer, will provide an overview of the RPTA FY20 Preliminary Operating and Capital Budget.

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

6. For information

Paul Hodgins, Chief Financial Officer, will provide an overview of the Valley Metro Rail, Inc. FY20 Preliminary Operating and Capital Budget.

7. Future Agenda Items

7. For information

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

8. Next Meeting

8. For information

The next meeting of the Audit and Finance Subcommittee is **May 9, 2019 at 12:00 p.m.**

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



# Information Summary

**DATE**

April 4, 2019

**AGENDA ITEM 1****SUBJECT**

Public Comment

**PURPOSE**

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

**BACKGROUND | DISCUSSION | CONSIDERATION**

None

**COST AND BUDGET**

None

**COMMITTEE PROCESS**

None

**RECOMMENDATION**

This item presented for information only.

**CONTACT**

Paul Hodgins  
Chief Financial Officer  
602-262-7433  
[phodgins@valleymetro.org](mailto:phodgins@valleymetro.org)

**ATTACHMENT**

None



# Minutes

April 4, 2019

**AGENDA ITEM 2**

Audit and Finance Subcommittee  
Thursday, March 14, 2019  
Lake Mead Conference Room  
101 N. 1st Avenue, 10<sup>th</sup> Floor  
12:00 p.m.

## **Meeting Participants**

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

Chair Orsborn called the meeting to order at 12:00 p.m.

### 1. Public Comment

None.

### 2. Minutes

Minutes from the January 10, 2019, Audit and Finance Subcommittee meeting presented for approval.

**IT WAS MOVED BY COUNCILMEMBER ARREDONDO-SAVAGE, SECONDED BY COUNCILMEMBER PETERSON AND UNANIMOUSLY CARRIED TO APPROVE THE JANUARY 10, 2019 AFS MINUTES.**

### 3. Credit Card Transactions Audit

Mary Modelski, Director, Internal Audit presented the results of the Credit Card Transactions Audit to the AFS for acceptance.

Ms. Modelski said there were four findings related to credit card transactions with 11 components related to findings and that she is tracking items that have not been remediated. She reported that management concurred with all but two finding recommendations.

- Finding 1.1: Policy Compliance – Documented Division Head Approvals Not Maintained. Due Date: March 31, 2019



- Finding 1.2: Policy Compliance – Insufficient/Incomplete Documents within Cardholder Reconciliation Packets. Due Date: April 30, 2019

Management disagreed with Findings 1.1 and 1.2 recommendations however, processes will be implemented to ensure that credit card transactions have been approved by cardholder's manager/supervisor. Changes to policy will be made to reflect responses of management staff of these findings.

Due to management disagreeing with the above findings, Ms. Modelski said that she will not be tracking these findings on the monthly Exception Log. However, she said that she will review for compliance during next audit review in fiscal year 2020 and if they have not been remediated they will be designated a repeat finding.

- Finding 1.3: Policy Compliance – Supporting Documents Not Maintained within Cardholder Reconciliation Packets. Due date: March 31, 2019

Management concurs with this findings recommendation and will update the procedures for the Credit Card Administrator to ensure the review of sequential transactions and to follow-up with credit cardholder and division heads when necessary.

- Finding 2: Policy Clarifications – Credit Card, Acceptable Use. Due Date: March 31, 2019

Management partially concurs with this findings recommendations. The credit card policy will be revised to refer to other relevant policies and ensure that adequate supporting documentation is maintained and credit card transactions properly approved pursuant to those policies.

- Finding 3: Policy Non-Compliance not Identified or not Properly Escalated. Due Date: March 31, 2019

Ms. Modelski said she will have this audit posted to Valley Metro website later today.

**IT WAS MOVED BY COUNCILMEMBER ARREDONDO-SAVAGE, SECONDED BY COUNCILMEMBER STIPP AND UNANIMOUSLY CARRIED TO ACCEPT THE CREDIT CARD TRANSACTIONS AUDIT.**

#### 4. Internal Audit Exceptions Update

The Internal Audit Exceptions log was provided as information only. No further discussion took place.

#### 5. Refunding Bond Issuance Authorization – Fourth Supplemental Resolution

Paul Hodgins, Chief Financial Officer, recommended that the Audit and Finance Subcommittee approve and forward to the Board of Directors to adopt the Fourth Supplemental Resolution authorizing the issuance of tax-exempt, senior lien bonds in



FY 2019 in an amount sufficient to refund certain maturities of the Series 2009B bonds and to pay costs of issuing the bonds.

**IT WAS MOVED BY COUNCILMEMBER STIPP, SECONDED BY COUNCILMEMBER ARREDONDO-SAVAGE AND UNANIMOUSLY CARRIED APPROVING TO FORWARD TO THE BOARD OF DIRECTORS ADOPTION OF THE FOURTH SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE OF TAX-EXEMPT, SENIOR LIEN BONDS IN FY 2019 IN AN AMOUNT SUFFICIENT TO REFUND CERTAIN MATURITIES OF THE SERIES 2009B BONDS AND TO PAY COSTS OF ISSUING THE BONDS.**

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

Paul Hodgins, Chief Financial Officer, provided a presentation overview of the RPTAFY20 Preliminary Operating and Capital Budget that the included the following:

- Uses of Funds: Operating & Capital
- Proposition 400 Transportation Excise Tax
- Pass-Through Funds to VMR
- Sources of Funds: Operating & Capital
- Sources of Funds : Operating
- Uses of Funds: Operating
- Valley Metro Fixed Route System
- Fixed Route Bus
- Contract Rates – East Valley Bus
- Contract Rates – West Valley Bus
- Baseline: Fixed Route Bus
- Demand Services
- Contract rates – Demand Services
- Baseline: Demand Services
- Sources of Funds: Capital
- Uses of Funds: Capital
- Uses of Funds: Pass-Throughs to VMR
- Staff Changes from FY19 to FY20
- Travel and Conferences
- Totals by Year
- Upcoming Budget Schedule FY20

Councilmember Stipp said that more detail needs to be included in the budget.

Councilmember Arredondo-Savage said there needs to be more context. She would like to see a forecast of ridership and revenues. She requested more information on staff



changes and asked that FY18 be included so she can compare to FY19 and FY20. She like that FY18 was included in the Travel and Conferences slide and asked that the FY18 Proposed Budget numbers also be included.

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

Paul Hodgins, Chief Financial Officer, provided a presentation overview of the VMR FY20 Preliminary Operating and Capital Budget that the included the following:

- Uses of Funds: Operating & Capital
- Sources of Funds: Operating & Capital
- Operating Budget
- Rail Operations and Maintenance
- Baseline: Rail Operations and Maintenance
- Uses of Funds: Operating
- Sources of Funds: Operating
- Uses of Funds: Project Development
- LRT Capital Project Schedule
- Sources of Funds: Capital
- Uses of Funds: Capital
- Staff Changes from FY19 to FY20
- Upcoming Budget Schedule FY20

Councilmember Stipp requested that staffing should delineate which positions are funded by which entity. He also requested a detail breakdown of what is Fiscal Administrative versus Agency Administrative.

Councilmember Arredondo-Savage said that more level of detail of staffing needs to be added. She requested that FY18 Actuals be included also.

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

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

- Mobility Center Office Space Reconfiguration
- Purchase of Aerial/Device Bucket Trucks
- Light Rail Vehicle (LRV) Communication and Video System Upgrade Contract Award





9. Future Agenda Items

None.

10. Next Meeting

The next meeting of the Audit and Finance Subcommittee is April 11, 2019 at 12:00 p.m.

With no further discussion, the meeting adjourned at 1:36 p.m.



# Information Summary

**DATE**

April 4, 2019

**AGENDA ITEM 3****SUBJECT**

Fiscal Year 19/20 Audit Plan for discussion

**PURPOSE**

To request input for the Internal Audit proposed Fiscal Year 19/20 Audit Plan.

**BACKGROUND/DISCUSSION/CONSIDERATION**

The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 2010 states:

*The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.*

*2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.*

*2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.*

*2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.*

Based upon interviews with leadership, Internal Audit is looking for input from the Audit and Finance Subcommittee related to areas they would like included in the attached proposed Fiscal Year 19/20 Audit Plan.

This plan is subject to change based upon resource availability and request for additional assistance with other projects.



**COST AND BUDGET**

None

**COMMITTEE PROCESS**

None

**RECOMMENDATION**

Item presented for information only.

**CONTACT**

Mary Modelski

Internal Audit Director

[mmodelski@valleymetro.org](mailto:mmodelski@valleymetro.org)

602-262-7433

**ATTACHMENT**

DRAFT Fiscal Year 19/20 Audit Plan

# Valley Metro

## Audit and Finance Subcommittee

### Internal Audit Update

**April 2019**



## Annual Risk Assessment



- **Meet with:**
  - Valley Metro management – under way
  - Key stakeholders – under way
  - Audit and Finance Subcommittee (AFS) – April
- **Gather areas of concern**
  - What are some of your areas of concern?
  - Do you have any specific area you would like reviewed? Why?
- **Document areas of concern** – on going
- **Rank areas of concern** - May
- **Compile recommendations for 2019/20 Audit Plan** - June
- **Submit recommended 2019/20 Audit Plan to AFS for approval** - June
- **Publish 2019/20 Audit Plan on Internet IA webpage** - June



## Fiscal Year 18/19 Audit Plan

Process	Objective – Determine if:	Completed
Credit card transactions	Credit card transactions adhere to the documented policy	February 2019
New employee relocation expenses	New employee relocation expenses adhere to the documented policy	November 2018
Travel and entertainment expenses	Travel and entertainment expenses adhere to the documented policy	December 2018
Contract Management	Determine if contract(s) were awarded, monitored and closed according to policy	May 2019
ERP Implementation	Determine if key controls have been established/tested per phase of the implementation	On-going
External Audit(s)	Facilitate execution of external audit(s) conducted by outside parties	On-going
Contract Management (specific)	Determine if specific vendor contracts were awarded, monitored and closed according to policy	On-going
Human Resource Information Management System Implementation	Determine if key controls have been established/tested per phase of the implementation	On-going
CSD Vendor Payment process analysis	Determine if efficiencies have been gained based upon updates to the CSD vendors approval processes	March 2019

## Fiscal Year 19/20 Proposed Audit Plan



Process	Objective – Determine if:
Credit card transactions	Credit card transactions adhere to the documented policy
Travel expenses	Travel expenses adhere to the documented policy
Contract Management (specific)	Determine if specific vendor contracts were awarded, monitored and closed according to policy
Human Resource Information Management System (HRMIS) Implementation	Determine if key controls have been established/tested per phase of the implementation
ERP Implementation	Determine if key controls have been established/tested per phase of the implementation
External Audit(s)	Facilitate execution of external audit(s) conducted by outside parties



# Information Summary

**DATE**

April 4, 2019

**AGENDA ITEM 4****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**

None

**RECOMMENDATION**

Item presented for information only.

**CONTACT**

Mary Modelski

Internal Audit Director

[mmodelski@valleymetro.org](mailto:mmodelski@valleymetro.org)

602-262-7433

**ATTACHMENT**

Audit exceptions log

**Valley Metro - Internal Audit**  
 Audit Finding Follow-Up  
 April 2019

Finding Title	Department	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
Small Dollar Purchases-Monitoring Procedures (Personal Services Contracts & Sole Source Procurements)	Finance/Procurement	<p>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.</p> <p>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 services 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, \$5,200 was identified as FTA funds.</p> <p>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.</p> <p>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.</p> <p>Accounting records reflected payments to a vendor totaling \$89,500 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.</p>	Work with Valley Metro to develop monitoring procedures for personal service contracts and sole source procurements to ensure compliance with policies and procedures.	Public Transit will 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.	08/17/17	01/31/18	Chief Financial Officer	IA noted on 3/18/19 the Procurement Manual was posted to the VM intranet with an effective date of 3/1/19. However, it does not contain a signature page approving the document nor has an agency wide email been sent to notify employees of the updated document. IA requested clarification on the "issuance" of the manual from the CFO & CPO on 3/22 & 3/27.
		Section 2 of the sole source justification memo requested, "...a detailed explanation as to how the anticipated costs to Valley Metro are fair and reasonable and the steps taken to make the determination." 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.						
Small Dollar Purchases-Review Aggregate Purchases Procedures	Finance/Procurement	<p>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.</p> <p>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.</p> <p>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, contracts were not obtained. Contracts may provide Valley Metro with enhanced competitive pricing and purchase protection.</p>	Work with Valley Metro OMC to develop procedures to the consistent review of inventory purchases to determine when contracts should be obtained.	Public Transit will work with Valley Metro to ensure development of procedures for the consistent review of inventory purchases to determine when contracts should be obtained.	08/17/17	01/31/18	Chief Financial Officer	IA noted on 3/18/19 the Procurement Manual was posted to the VM intranet with an effective date of 3/1/19. However, it does not contain a signature page approving the document nor has an agency wide email been sent to notify employees of the updated document. IA requested clarification on the "issuance" of the manual from the CFO & CPO on 3/22 & 3/27.

**Valley Metro - Internal Audit**  
 Audit Finding Follow-Up  
 April 2019

Finding Title	Department	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
Outdated policies and procedures over Information Technology (IT)	IT	<p>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;</p> <ul style="list-style-type: none"> <li>• Remote access to the system</li> <li>• Approved and appropriate use of personal devices on the network</li> <li>• Naming convention</li> <li>• Patch implementation, testing and oversight</li> <li>• Process for ensuring new software and hardware populates correctly and completely in Lansweeper, etc. and</li> <li>• Acquisition of hardware and software</li> </ul> <p>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.</p> <p>Best practices would be to have a documented consistent process in place in order to mitigate risk and ensure strategies are carried out.</p>	<p>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.</p> <p>The user community should also be educated on updates made to applicable policies and procedures to allow for consistent enforcement.</p>	We intend to revise all policies and procedures to ensure that our policies and procedures comply with the strictest requirements/best practices.	02/07/18	03/31/18	Manager, Information Technology & Executive Leadership Team	3/28/19: Per the IT Manager, the Change Management and Incident Response policies are awaiting CEO approval and the Asset Management policy is still under development.





# Information Summary

**DATE**

April 4, 2019

**AGENDA ITEM 7****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](mailto:phodgins@valleymetro.org)

**ATTACHMENT**

None.

**Pending Items Request**

Item Requested	Date Requested	Planned Follow-up Date