MEETING OF THE
Audit and Finance Subcommittee

Date:
August 13, 2020

Starting Time
12:00 p.m.

Location:
Via WebEx/Phone

If you require assistance accessing the meetings on the 10th floor, please go to the 14th floor or call 602.262.7433.
1. **Public Comment (yellow card)**

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

2. **Minutes**

Minutes from the June 11, 2020 Audit and Finance Subcommittee meeting are presented for approval.

3. **Executive Session**

The Audit and Finance Subcommittee may vote to enter Executive Session for discussion or consultation and for legal advice with the attorney or attorneys of the public body and to consider its position and instruct its attorneys regarding the public body's positions concerning matters listed on the agenda, personnel matters and contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation; all as authorized by A.R.S. Section 38-431.03 A.1, A.3, and A.4.

*The agenda for Executive Session involves consultation, review and evaluation of Valley Metro’s employment-related performance review process for the Chief Financial Officer and Chief Auditor.*

4. **Executive Session Action Items**

The Audit and Finance Subcommittee may take action related to items discussed as part of Agenda Item 3.

Action Recommended

1. For Information
2. For action
3. For action
4. For action
5. **Fiscal Year 2021 Agency Internal Audit Plan**

Scott Smith, CEO, will present the FY21 Agency Internal Audit Plan for discussion and possible action.

6. **Draft Internal Audit Charter**

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

7. **Draft Audit and Finance Subcommittee Charter**

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

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

Jennifer Davis, Sr. Internal Auditor, will present the results of the Paratransit Services Contract Management Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

9. **Reduced Fare Update**

Paul Hodgins, Chief Financial Officer, will provide an update on reduced fare mitigation.

10. **Internal Audit Update**

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

11. **Internal Audit Exceptions Update**

The Internal Audit Exceptions log is presented for information.

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

Paul Hodgins, Chief Financial Officer, will provide an overview of upcoming intergovernmental agreements, contract change orders, awards, amendments.
Chair Arredondo-Savage will request future AFS Agenda items from members and members may provide a report on current events.

The next meeting of the Audit and Finance Subcommittee is scheduled for **Thursday, September 10, 2020 at 12:00 p.m.**

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

DATE
August 6, 2020

SUBJECT
Public Comment

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

COST AND BUDGET
None

RECOMMENDATION
This item is presented for information only.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COMMITTEE PROCESS
None

CONTACT
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ATTACHMENT
None
Minutes

August 6, 2020

Audit and Finance Subcommittee
Thursday, June 11, 2020
Via WebEx/Phone
12:00 p.m.

Meeting Participants
Councilmember Robin Arredondo-Savage, Chair, City of Tempe
Councilmember Lauren Tolmachoff, City of Glendale
Vice Mayor Bill Stipp, City of Goodyear
Councilmember Francisco Heredia, City of Mesa
*Mario Paniagua, Assistant City Manager, City of Phoenix, representing Mayor Kate Gallego

(*Denotes non-voting member)

Chair Arredondo-Savage called the meeting to order at 12:02 p.m.

Chair Arredondo-Savage said good afternoon, everybody, thank you all for being here. We are going to discuss item numbers 5, 6, and 7 right after the meeting minutes.

1. Public Comment

None.

2. Minutes

Chair Arredondo-Savage said are there any changes, suggestions, corrections from anyone on the May 14, 2020 meeting minutes? If not, is there a motion?

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER TOLMACHOFF, AND UNANIMOUSLY CARRIED TO APPROVE THE MAY 14, 2020 AFS MEETING MINUTES.

3. Fiscal Year 2021 Agency Internal Audit Plan

Scott Smith, Chief Executive Officer, provided an overview of the Fiscal Year 2021 (FY21) Agency Internal Audit Plan and agency risk assessment conducted by Vickie Murphy, former interim Director, Internal Audit, which was compiled through meetings with senior management to help identify and manage agency risks. AFS members
requested additional information on the risk assessment. Mr. Smith agreed to share with members.

**No action taken. Deferred to the August 13, 2020 AFS meeting.**

4. **Draft Internal Audit Charter**

Ms. Alexis Tameron Kinsey, Chief of Staff, provided an overview of the Draft Internal Audit Charter.

AFS members expressed concern with function and administrative procedures of Chief Auditor reporting to Chief Executive Officer. Vice Mayor Stipp said this is a direct conflict. Chief Auditor should be independent of reporting functionally to Chief Executive Officer and should report to the Board of Directors and/or Audit and Finance Subcommittee, and administratively to Chief Executive Officer. Additionally, it was recommended that the performance evaluation of Chief Auditor should not be administrative. Vice Mayor Stipp also advised that all ten core principles of the IIA Redbook should be incorporated and addressed in the charter language. These core principles will help define expectations of Chief Auditor and AFS and provide clarification of the order of how Charter is phrased.

Chair Arredondo-Savage tasked Ms. Tameron Kinsey to revise the Internal Audit Charter separating the functional and administrative reporting of Chief Auditor. Additionally, incorporating all ten core principles of the IIA Redbook in the Internal Audit Charter and addressing whom will follow through on remediation of audit findings, recommendations and overall, more clarification on the wording of the Internal Audit Charter, clarifying the difference between the words “governance” and “management.”.

**No action taken. Deferred to the August 13, 2020 AFS meeting.**

5. **Draft Audit and Finance Subcommittee Charter**


There was discussion and concerns expressed about wording of Executive Sessions so as the AFS not to be in violation of charter. It was recommended that the word “may” will be used instead of “shall,” and “in consultation with Chief Executive Officer” will be replaced with “if appropriate” to prevent the AFS from being in violation of Charter. Furthermore, whom will address remediation should be addressed and the performance evaluation process of Chief Auditor should be aligned with the process of Chief Financial Officer's performance evaluation.
Chair Arredondo-Savage said that consistency is vital and instrumental in a successful charter. She tasked Ms. Tameron Kinsey to make the recommended revisions.

No action taken. Deferred to the August 13, 2020 AFS meeting.


Paul Hodgins, Chief Financial Officer, provided a brief presentation overview of the Valley Metro RPTA Fiscal Year 2021 (FY21) Budget and Five-Year Operating Forecast and Capital Program (FY21 through FY25) that included the following items:

- Additional Information Requested
- Travel
- Merit Adjustment, Staffing
- Tuition Reimbursement
- Office Space
- Baseline: RPTA Operations
  - Bus Operations
  - Paratransit Operations
  - Ridechoice Operations
- Uses of Funds: Operating & Capital
- Sources of Funds: Operating & Capital
- Uses of Funds: Operating
- Sources of Funds: Operating
- Uses of Funds: Capital
- Sources of Funds: Capital
- Pass-thru Funds: Uses
- Pass-thru Funds: Sources
- RPTA/Shared Staff Changes from FY20 to FY21
- 5-Year Operating Assumptions
- 5-Year Operating Sources and Uses
- Budget Schedule

Mr. Hodgins said COVID-19 has forced us to pivot and make some assumptions and create a budget that is fiscally restrained to the best that we know. In discussions with Chair Arredondo-Savage, she asked that we focus more on the outstanding questions or issues that came up, so we inserted some slides to hopefully address those.

Chair Arredondo-Savage said thank you, Paul, for making sure that those things stay front and center for us to make sure that they are addressed as we move through this budget process. Go ahead and do a quick run through and then we'll dive a little deeper.
Mr. Hodgins said there were concerns expressed with the travel budget presented in March, so we further reduced the travel budget approximately $100,000 since more conferences have gone virtual. There is some travel that is still required for vehicle inspections, meetings with FTA or Congressional delegations, however, we will be looking at every travel request to ensure that it is essential or required for business operations, so we've cut travel back significantly.

Next is the merit adjustments. There has been significant discussion about merit adjustments. What is in the budget is really a three percent placeholder. We suggest that the AFS review the budget after the first quarter and make a recommendation to implement a merit adjustment. It doesn't have to be the full three percent. It should be what the AFS feels comfortable granting. If the AFS doesn't feel comfortable making a decision after the first quarter, we could push that for a further review in the second quarter or for further review later. We have that placeholder in the budget that give us some flexibility with regard to a merit adjustment.

There were some concerns expressed by the AFS about staffing reductions. We have provided a little chart showing how many are currently vacant positions versus the new positions that were proposed for FY21 and just to reiterate we are not going to simply take those vacant positions and hire consultants to fill in. It will be a budget savings for that.

There were some concerns expressed by the AFS about the tuition reimbursement program and where the budget for this program stands. We are proposing for FY21 $105,000. This is based on the number of employees who are currently participating.

Chair Arredondo-Savage asked how many staff are currently participating in the tuition reimbursement program.

Mr. Hodgins said 15 staff are currently participating.

Councilmember Tolmachoff asked what the maximum per year that is reimbursed and if any amount goes over that amount is it taxable.

Mr. Hodgins said the maximum amount is $5,250 and any amount over that is taxable.

There were some concerns expressed by the AFS about the office space and the need to maintain the office space especially with the teleworking and if there was some view to extending teleworking to reduce our space needs. This was discussed internally with Valley Metro staff and it was decided that with the pandemic still going and some of the social distancing and things that are recommended, we don't want to decrease our space needs at this point. We want to see how the phased return goes and how things go with the pandemic. We don't want to reduce the space to a point where we can't maintain that social distancing, but in the long term, we certainly are willing to explore
the opportunity for additional teleworking to reduce our space needs. Obviously, that discussion will have to be beyond the pandemic. The one thing I will note is that our current lease expires in 2025 which is just five years away. The opportunities for a sublease may not be very good so, that's certainly something we can evaluate as we move forward.

Those were really the outstanding concerns that we had heard regarding the RPTA budget. If there are any additional questions or concerns, I'd be happy to answer them. Or I can just run through very quickly the annual budget proposed.

Chair Arredondo-Savage said no, I thought you captured them pretty well. Is there anything missing?

Councilmember Tolmachoff said on the RPTA shared staff changes slide, there’s a few changes. I don't know if you want to just go through the changes.

Chair Arredondo-Savage said let's do that. The only other thing that I wanted to bring up before we move on to the rest of the presentation that we had talked about was the market rate study just to see where we are and to not let that fall off on the wayside. I think it was in discussion with the merit pay and understanding our employees being paid fairly at market rate. If not, then we would weigh the merit pay differently. I just don't want that to get lost.

Mr. Hodgins said I’m sorry. I should have mentioned that we have done a couple of market studies recently for some key areas, but we could do some additional studies. That is something I envision that would be part of the AFS review, making a recommendation on what to do with merit. In the next few months, we will work with HR and they can come up with some surveys. But that would be part of what you review is in coordination with the merit.

Looking at some of the staff changes, this slide highlights the RPTA only plus shared positions between RPTA and Valley Metro Rail, difference between the FY20 budget and FY21 so it's a decrease of 13 positions overall for the RPTA effort. Is this the slide you had a question on Councilmember Tolmachoff?

Councilmember Tolmachoff said yes, I have a couple questions. One, and I don't disagree with it. I see that Legal has been restored. I think they originally asked for four. It was two and now, it's four, but the number of FTEs is the same. Where did those other two FTEs come from? The overall, the total number of FTEs is the same and we added two from what we had originally anticipated for Legal.

Mr. Hodgins said right. So, Legal had asked for another attorney and then a position, a paralegal or legal professional, to support public records and some of the additional risk management issues. In really digging through and evaluating those, we felt that there was still a need for those, so we kept them in. They’re offset by changes in other areas.
Councilmember Tolmachoff said so that's what I'm asking. What were the changes in other areas? Where did we reduce? My other question is, there is a reduction in Internal Audit Services. Is that where one of the Legal positions came from?

Mr. Hodgins said potentially. We didn't necessarily link the two legal positions with specific other positions. There are a couple of decreases in the CEO's office. There is one in the Capital and Service Development, so we didn't necessarily tie them to specific positions that are held vacant, but we felt that they were important enough to keep in there. So, the internal audit position, I mentioned that last month. That position is Vicki Murphy's Senior Internal Audit position that we put on hold.

Councilmember Tolmachoff said I get that the number of FTEs is the same as it was before. We just rearranged things all inside the same box. I just was curious of what we were rearranging. I had honestly forgotten that we were holding that position. We are going to hold that position open, but not fill it at least for right now. Is that right?

Mr. Hodgins said yes. We haven't eliminated the position. We've just left it unfunded for fiscal year 2021 and we can reevaluate during the year.

Councilmember Tolmachoff said that makes sense and I don't have a problem. I just didn't really understand not having all the information looking at the slide knowing exactly how we are arranging the desk chairs essentially so that's what I was asking.

Mr. Hodgins said I just want to make sure I answered it okay.

Chair Arredondo-Savage said I think you brought up a really good point. In Legal and then in Safety and Security where there were increased changes it would be helpful not just for this committee but moving forward just more justification and explanation of how we got to those numbers. That would be beneficial probably for everybody.

Mr. Hodgins said we can certainly provide the justification for those specific positions. We went back and really had each director provide substantial justification for the position so we could provide that.

Chair Arredondo-Savage said I'm sure you vetted it out, if you could provide just a quick summary. An executive summary in regard to why the change would probably be pretty helpful.

Councilmember Tolmachoff said that would be helpful. I'm not exactly sure what everything on that slide means and I'm not disputing any of it. I just didn't really understand it.

Chair Arredondo-Savage said there has been an evolution of change. I think it's really good to capture as much as we can. Because like I said, you guys live and breathe it.
We breathe it. And then there’s people that don’t breathe it at all and try to understand it so I think the more explanation we can give would be better and beneficial, more transparent for sure.

Mr. Hodgins said that was the end of the fiscal year 2021 annual which is what we would be asking for approval from the AFS and the Board. The five-year is more of an acceptance. We know that what’s in the five-year right now is based on really our pre-COVID assumptions, other than making some adjustments for fare revenue and as we work through what our long-term service look is that will definitely have an impact on our five-year.

I can very quickly go through the operating sources and uses over the five years. It’s about a billion dollars more than half of that on fixed route bus service, paratransit being just over $200 million. Our five-year capital, again, mainly fleet replacement focused on bus and van pool with some facilities and equipment upgrades so over $762 million in uses and sources largely funded by federal and our Prop 400 public transportation funds.

So very quick overview of the five-year so what we would ask for is your approval to forward this to the Board for their approval.

Vice Mayor Stipp said first of all, Paul, thank you so much for getting us through to this point. I didn't envy you this year and I definitely don't envy you going into next year because I think next year is going to be much harder. But the question I have is going back to the earlier statement about doing the compensation, classification study. When we are making comparisons to the “market,” I know we try to find transit agencies which can be difficult at times, but the numbers that we use for employees counts and budget totals are a little skewed.

So, we talk about our total budget being like $700 million when, in fact, $515 million of that is actual capital money so that's not actually operating budget money. We talk about the number of employees; we count all of our contracted employees as technically employees when we do employee counts. So, I’d say like to see who we’re using as comparisons and how we’re going through it. Going in the future when we start, when we’re doing not only employee benefit comparatives, but when we are starting to compare ourselves to other organizations because it will never be an apple-to-apple comparison. I definitely do not want to be comparing apples to potatoes so if we can try to narrow that down as we move across, I think it would be helpful for everybody to follow particularly this small group and then as we get to the larger group it would be more helpful to understand because for cities, it's easy. For this particular organization, it's not. So, clarifying that might be helpful, but other than that, it's a great job and I appreciate your work.

Mr. Hodgins said thank you. Penny, do you want to talk a little bit about who we typically look for in terms of peers when we do these studies?
Ms. Lynch said thank you, Paul. Generally, we use that list from Planning as far as the transportation agencies go. We use that list that was established and then also our local city market.

Vice Mayor Stipp said would you be able to just send that list back out?

Mr. Hodgins said yes, we could certainly send you who our peer cities are or peer agencies.

Vice Mayor Stipp said and the peer cities and the peer agencies that we use and their numbers.

Chair Arredondo-Savage said I want to ask the committee about one thing moving forward, do you think that would be a good exercise for us moving forward? Are there any concerns or thoughts about taking a conservative approach and getting prepared for what could be the worst-case scenario?

Mr. Hodgins said absolutely. I think when we start preparing for fiscal year 2022, we may have some idea of what the impact on our revenue stream is, but we may want to have a dual path budget. One that's more pessimistic and one that's maybe more optimistic. Start with our high-level look at what we think our revenues could be from both extremes and what's our priority if revenues come in really low and don't meet our expectations, what are our priorities for the budget, where would we look to cut if it's not that bad.

Chair Arredondo-Savage said yes, I certainly support that. My biggest concern is even in our own transportation budget, we are asking them to come back with the budget with a 15 percent cut. I don't disagree with at least going through that exercise. CARE funds are great and that's going to be helpful, but that is a one-shot deal. We've got to make sure that we are being vigilant in regard to financial responsibility moving forward.

Councilmember Tolmachoff said that's prudent. I think Paul could be working with a worst-case scenario and then the best-case scenario and, hopefully, end up somewhere in between. We would have an idea of how far down you project the revenues could drop. The last ridership report was relative but, there was real improvements in ridership. We're experiencing now I think another wave. Everybody keeps using the word unprecedented and this is unprecedented, so I understand the difficulties in making projections, but we need to be prepared for a worst-case scenario in the event that that's what we end up dealing with.

Vice Mayor Stipp said I agree wholeheartedly that at least some exercise before we start looking at service reductions and that sort of activity. What we are looking at organizationally is probably appropriate as long as we're going through exercises. It's probably the most appropriate thing to do before we start talking about service cuts.
Chair Arredondo-Savage said we do need a motion to approve this and move it to the entire board.

IT WAS MOVED BY COUNCILMEMBER TOLMACHOFF, SECONDED BY VICE MAYOR STIPP AND UNANIMOUSLY CARRIED TO APPROVE THE VALLEY METRO RPTA FISCAL YEAR 2021 (FY21) PROPOSED OPERATING AND CAPITAL BUDGET AND ACCEPT THE FIVE-YEAR OPERATING FORECAST AND CAPITAL PROGRAM (FY21 THROUGH FY25).

7. Valley Metro Rail, Inc. Fiscal Year (FY21) Proposed Operating and Capital Budget and Five-Year Operating Forecast and Capital Program (FY21 through FY25)

Paul Hodgins, Chief Financial Officer, provided a brief presentation overview of the Valley Metro Rail Fiscal Year 2021 (FY21) Budget and Five-Year Operating Forecast and Capital Program (FY21 through FY25) that included the following items:

- Additional Information Requested
- VMR Operations
- Baseline: Light Rail Operations
- Baseline: Streetcar Operations
- LRT Capital Project Schedule
- Uses of Funds: Project Development
- Uses of Funds: Operating & Capital
- Sources of Funds: Operating & Capital
- Uses of Funds: Operating
- Sources of Funds: Operating
- Uses of Funds: Capital
- Sources of Funds: Capital
- VMR Only Staff Changes from FY20 to FY21
- 5-Year Operating Assumptions
- 5-Year Operating Sources and Uses
- 5-Year Operating by Segment
- 5-Year Capital Sources and Uses
- 5-Year State of Good Repair
- Budget Schedule

Mr. Hodgins said for Valley Metro Rail the main concern really was the continued increase in the costs of light rail. We presented some information on what's driving the increase for fiscal year 2021.

We do have some planning studies that we are working on. Several of them we are just finishing up. Capitol I-10 West both Phase I and Phase II, we'll need to work with the
City of Phoenix on how we're moving forward with that. But overall for the operating budget we're looking at about a $72 million operating budget which is still a slight increase from fiscal year 2020 although we've made some decreases in certain areas, agency operating and our planning project development budget.

Sources of funds, again, the big change here is the increase in CARES funds to support operations which is a big reduction to the net member city contributions for Phoenix, Tempe, and Mesa.

On the capital side, approximately $436 million budget there for mainly the corridor projects and the OMC expansion that are either wrapping up next year or ramping up in the case of Northwest Phase II and South Central.

On the sources, again, we rely on federal funds for our capital projects to support especially the corridors. Significant increase as we hope to sign a full funding grant agreement for South Central. We're looking at a big increase. FTA has now allocated $200 million to the project and we hope to get $100 million a year until we have $530 for that project.

Looking at the staff changes for Valley Metro Rail, it's a decrease of two overall and from the fiscal year 2020 budget.

And very quickly on the five-year, we'll be opening three new corridors over that five-year period. It's just under $400 million for sources and uses, primary source being member city contributions, the three rail cities that fund rail operations, and also some of the Prop 400 funds for, mainly for planning.

Just a quick look at the operating costs by segment as we bring new extensions online. On the capital side, much larger capital budget about $1.8 billion over the five years, again, primarily related to corridor projects. And about $35 million overall in state of good repair, some of which is regionally funded with Prop 400, some of which funded by the member cities.

So very quick run through on the Valley Metro Rail budget. Again, I'd be happy to answer any further questions and ask for your approval. Thank you.

Chair Arredondo-Savage said board members are there any questions? I think our same concerns, of course, will carry over to this budget also too. Is there a motion for approval?

IT WAS MOVED BY COUNCILMEMBER TOLMACHOFF, SECONDED BY VICE MAYOR STIPP AND UNANIMOUSLY CARRIED TO APPROVE THE VALLEY METRO RPTA FISCAL YEAR 2021 (FY21) PROPOSED OPERATING AND CAPITAL BUDGET AND ACCEPT THE FIVE-YEAR OPERATING FORECAST AND CAPITAL PROGRAM (FY21 THROUGH FY25).
8. **Internal Audit Update**

Jennifer Davis, Sr. Internal Audit, provided an update on actions taken on Internal Audit activities. She said updates on some of the external audits that we have going on. The City of Phoenix, Contract Risk Assessment response was received just on Monday so that they're looking for a response from us on CAP due dates by the end of June and then CAPs to be finalized by the end of September. We'll present some information on that in more detail in August.

The ADOT audit, again, we submitted some information to ADOT the beginning of June. Currently, we are working on the Security Emergency Preparation Plan (SEPP) and the PTASP so helping those groups get through their CAPs is really kind of what my focus is going to be on until we get a Chief Auditor and an audit plan.

This item presented for information only.

9. **Internal Audit Exceptions Update**

Jennifer Davis, Sr. Internal Auditor, provided an update on Internal Audit Exceptions and said the assignment of the audit exceptions follow-up to Jim has been evident. I see a focus on closing their corrective action plans and staying on task with those. We only have four upcoming and everyone's saying that they are on task with that. Inventory Management Policy is circulating and should be finalize in August. I'm happy with how the progress is going.

The only thing with the paratransit review that I completed, is we're going to do a different format come August rather than a formal report. There were no material exceptions noted so I'll present it as a PowerPoint presentation. This will be a higher level of reporting and a little bit more concise. We will see how that goes and if that works for those types of audits going forward that might be a format that we move to if we don't actually have corrective action plans going forward. That's something I'm working with Alexis and Jim on so at the August meeting, the paratransit review will be a PowerPoint presentation.

Chair Arredondo-Savage said excellent. The only thing I noticed though Jennifer is, do you remember the bus operations audit? Where are we with that?

Ms. Davis said they closed all those in December.

Chair Arredondo-Savage said it was all done. So those have all been cleared.

This item presented for information only.

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

A. Fiscal Year 2021 (FY21) Intergovernmental Agreements (IGA)
B. Autonomous Vehicle Pilot Program with Waymo Contract Extension
C. Enterprise Resource Planning (ERP)/Enterprise Asset Management (EAM) System Contract Award
D. Intergovernmental Agreement between the City of Phoenix and Valley Metro Rail, Inc for Bridge Inspections
E. Amendment to the Agreement for Operations and Maintenance of the Light Rail Transit System between the City of Phoenix and Valley Metro (Agreement No. 122030-AR-0)
F. Northwest Extension Phase II Third Party Utility Relocation Work Orders
G. South Central Extension/Downtown Hub Design and Construction Agreement

Mr. Hodgins said the Enterprise Resource Planning (ERP)/Enterprise Asset Management (EAM) is a key project for the organization.

Concerns from the AFS members were expressed and discussed about the timing of implementation and the cost to implement.

Chair Arredondo-Savage said that any questions from the AFS members should be sent to Paul Hodgins and Pat Dillon.

This information presented for information only.

11. Future Agenda Items

This item presented for information only.

The next meeting of the Audit and Finance Subcommittee is August 13, 2020 at 12:00 p.m.

With no further discussion, the meeting adjourned at 2:10 p.m.
DATE
August 6, 2020

SUBJECT
Executive Session

PURPOSE
The Audit and Finance Subcommittee may vote to enter Executive Session for discussion or consultation and for legal advice with the attorney or attorneys of the public body and to consider its position and instruct its attorneys regarding the public body’s position concerning matters listed on the agenda, personnel matters and contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation; all as authorized by A.R.S. Sections 38-431.03 A.1, A.3., and A.4.

The agenda for Executive Session involves consultation, review and evaluation of Valley Metro’s employment-related performance review process for the Chief Financial Officer and Chief Auditor.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
The Audit and Finance Subcommittee may vote to enter Executive Session.

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ATTACHMENT
None
Information Summary

DATE
August 6, 2020

AGENDA ITEM 4

SUBJECT
Executive Session Action Items

PURPOSE
The Audit and Finance Subcommittee may take action related to items discussed as part of Agenda Item 3.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COST AND BUDGET
None

COMMITTEE PROCESS
None

RECOMMENDATION
The Audit and Finance Subcommittee may take action related to the items discussed as part of Agenda Item 3.

CONTACT
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ATTACHMENT
None
Information Summary

DATE
August 6, 2020

AGENDA ITEM 5

SUBJECT
Fiscal Year 2020/2021 Audit Plan

PURPOSE
Request authorization for Internal Audit to execute the proposed Fiscal Year 2020/2021 Audit Plan.

COST AND BUDGET
Funding for the Fiscal Year 2020/2021 Audit Plan is included in the Fiscal Year 2020/2021 Valley Metro Budget and in the Five-Year Operating Forecast and Capital Program (FY2019 thru FY2024).

RECOMMENDATION
Staff recommends that the Audit and Finance Subcommittee authorize Internal Audit to proceed with the proposed Fiscal Year 2020/2021 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.
Internal Audit performed an Internal Audit Risk Assessment over the organization in March 2020, meeting with each Division Head and General Counsel. Attached is the proposed Fiscal Year 2020/2021 Audit Plan.

This plan is subject to change based upon resource availability and request for additional assistance with other projects, such as consultation on policy revisions, training, and enhancement to internal controls.

COMMITTEE ACTION
AFS: August 13, 2020 discussion and action

CONTACT
Scott Smith
Chief Executive Officer
Ssmith@valleymetro.org
602-262-7433

ATTACHMENT
Fiscal Year 2020/2021 Audit Plan
Valley Metro’s
Annual Audit Plan
Fiscal Year 2020-2021
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Purpose
Valley Metro’s Annual Audit Plan for Fiscal Year 2021 (July 2020 – June 2021) is provided to management for informational purposes only. Internal Audit Services reports to the Chief Executive Officer for administrative purposes. The Audit and Finance Subcommittee (AFS) is responsible for reviewing and approving the Annual Audit Plan, along with any changes to the plan that occur throughout the year.

The primary purpose of this plan is to convey the audits that will be performed during the fiscal year. The plan is a living document that requires continual monitoring and revisions as conditions change, resource needs change and to meet the needs of the Valley Metro.

Audit Goals and Objectives
Audit Services developed three main goals:

1. Compliance – Ensure Valley Metro staff are complying with established policies and procedures.
2. Contract Compliance – Ensure consultants, and contractors comply with contract requirements and federal cost principles when performing work for or on behalf of Valley Metro; and
3. Add Value – Provide management with independent, objective assurance and consulting services designed to add value and improve the effectiveness of the Valley Metro’s operations and internal controls.

General Office Administration, Development and Training
As with any office there are certain hours that are needed to perform administrative duties. Audit Services strives to spend between 85 and 90% of our total staff hours on audit projects. The remaining time is spent on Training, Staff Development and Administrative Duties.

Training
Training is provided to our staff to maintain their proficiency in the audit standards as well as the areas that they work in. Under the audit standards, the internal audit group is required to have continuing professional education to further develop their knowledge in various audit areas each year. We try to provide them at least 40 hours per year.

Staff Development
In addition to technical training, we provide the staff training in soft skills and team building. We try to provide staff up to 40 hours of professional development training each year.
Audit Types
To provide management with independent, objective assurance and consulting services designed to add value and improve the effectiveness of the department operations and internal controls, there are two types of Internal Audits that may occur:

- **Operational audits** which are concerned with the effectiveness and efficiency of operational units within MDT. Effectiveness is measured by how successfully an organization achieves its goals and objectives. Efficiency is measured by how well an entity uses its resources to achieve its goals.
- **Compliance audits** which measures the compliance of the process with some established department, federal, or state laws, regulations, and/or policies/procedures.

Audit Services also participates in consulting engagements for Valley Metro. These engagements are not audits, but they help management manage risk, improve department’s operations, and/or add value. Typically, these are small projects, or participation in a committee.

Audit Strategy
We will accomplish our goals by performing internal audits designated by the AFS. The audits will address areas of risks within the department as well as areas that will provide added value to management.

Prior Year Wrap-up
At the end of fiscal year 2020, Internal Audit will have one internal audit still in process. This audit will be completed during fiscal year 2021. The audit is:

- Contract Management Audit – Marketing & Advertising
**Risk Assessment**

The International Professional Practices Framework established by the Institute of Internal Auditors requires Internal Audit to establish a risk-based plan to develop the priorities of the internal audit activity and to ensure such activity is consistent with the organization’s goals.

Internal Audit performed an Internal Audit Risk Assessment over the organization in March 2020, meeting with each Division Head and General Counsel. The overall areas of high-risk identified at Valley Metro are related to developing policies and ensuring funds are collected on-time. These are both areas that management is working on.

For the Internal Audit Risk Assessment, Internal Audit focused on other high-risk areas identified by management and areas of interest identified by the AFS. For each area identified, Internal Audit identified an audit to address the risk. Each of the areas of risk are listed below:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Risk Factors</th>
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<tbody>
<tr>
<td>Provide safe, reliable, and efficient rail services.</td>
<td>The operation of the light rail is contracted out to ensure operations are maintained. Valley Metro relies heavily on contracted services to manage this risk.</td>
</tr>
<tr>
<td>Maintaining a safe and secure transit experience for Light Rail passengers.</td>
<td>The security unit utilizes a private security contractor to provide customer service, highly visible preventative transit security, fare inspection, and special event coordination. Valley Metro relies heavily on contracted services to manage this risk.</td>
</tr>
<tr>
<td>Manage grants to ensure funds are spent according to the grant agreements.</td>
<td>There are two individuals that manage grant compliance in Finance, but staff are starting to cross train the functions in case the individuals leave Valley Metro. The majority of compliance requirements are managed at the program level. Decentralization of the compliance management increases the risk of inconsistency and not meeting all federal requirements.</td>
</tr>
<tr>
<td>Ensure accountability to the Board of Directors and AFS.</td>
<td>The Board of Directors and AFS are concerned about accountability in various areas. The main areas of concern are:</td>
</tr>
<tr>
<td></td>
<td>• Travel Expenses</td>
</tr>
<tr>
<td></td>
<td>• Credit Card Transactions</td>
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</table>
Audit Plan
Based on review and discussion, the AFS decided to perform the following audits to help reduce the risks noted above:

- **Operational Audit – Federal Grant Compliance**: The audit will focus on overall internal controls for federal grant tracking and reporting. It will review the internal controls in Finance and identify the internal controls in the various program areas. The audit will leverage the risk assessment performed by the City of Phoenix.
- **Operational Audit – Mobility Center Cash Collection**: The audit will focus on the ticket sales and cash collections at the Mobility Center. It will review the process followed to ensure it is effective, efficient, and internal controls are established to safeguard ticket sales.
- **Operational Audit – Contract Management – Rail Transportation Services**: The audit will focus on the contract management process over the Rail Operations contract. It will review contract monitoring and financial payments for the last two fiscal years.
- **Operational Audit – Contract Management – Fare Inspection and Security Services**: The audit will focus on the contract management processes over the Allied Services contract. We will review contracting monitoring and financial payments for the last two fiscal years.
- **Compliance Audit – Travel Expenses**: The audit will focus on whether travel expenses requested, incurred, and reimbursed; adhered to Valley Metro policies and any other matters that raise to a level of attention. It will cover all expenses incurred in Fiscal Year 2019-2020.
- **Compliance Audit – Credit Card Transactions**: The audit will focus on whether credit card activities adhered to applicable policies and if management has addressed prior audit recommendations. It will cover all transactions in Fiscal Year 2019-2020.

**Special Projects**
Other areas that the management has requested assistance from Internal Audit:

**Enterprise Resource Planning (ERP) System**
Valley Metro is in the process of developing an ERP system. Internal Audit will participate in the implementation to assist in identifying internal controls, best practices, and providing feedback.

**Safety and Security Audit**
Arizona Department of Transportation performed an audit over Safety and Security. Internal Audit will assist Safety and Security in addressing recommendations that resulted from that audit.
## Fiscal Year 20/21 Audit Plan

<table>
<thead>
<tr>
<th>Process</th>
<th>Objective – The audit will focus on:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Grant Compliance</td>
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</tr>
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<td>Mobility Center Cash Collection</td>
<td>the ticket sales and cash collections at the Mobility Center. It will review the process followed to ensure it is effective, efficient, and internal controls are established to safeguard ticket sales.</td>
</tr>
<tr>
<td>Contract Management – Rail Transportation Services</td>
<td>the contract management process over the Rail Operations contract. It will review contract monitoring and financial payments for the last two fiscal years (FY 18/19 &amp; FY 19/20).</td>
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<td>Contract Management – Fare Inspection and Security Services</td>
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</tr>
<tr>
<td>Travel Expenses</td>
<td>whether travel expenses requested, incurred, and reimbursed; adhered to Valley Metro policies and any other matters that raise to a level of attention. It will cover all expenses incurred in FY 19/20.</td>
</tr>
<tr>
<td>Credit Card Transactions</td>
<td>whether credit card activities adhered to applicable policies and if management has addressed prior audit recommendations. It will cover all transactions in FY 19/20.</td>
</tr>
<tr>
<td>Special Projects</td>
<td><strong>Internal Audit will assist:</strong></td>
</tr>
<tr>
<td>Enterprise Resource Planning (ERP) System</td>
<td>in identifying internal controls, best practices, and providing feedback.</td>
</tr>
<tr>
<td>Safety and Security Audit</td>
<td>in addressing recommendations that resulted from that audit.</td>
</tr>
<tr>
<td>External Audit(s)</td>
<td>in facilitating the execution of external audit(s) conducted by outside parties</td>
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</tbody>
</table>
DATE
August 6, 2020

SUBJECT
Internal Audit Charter

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

COST AND BUDGET
None

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

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

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

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

COMMITTEE ACTION
AFS: August 13, 2020 for discussion and action

CONTACT
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Chief of Staff/Senior Advisor
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602-322-4450

ATTACHMENT
Internal Audit Charter
Purpose and Mission
The purpose of Valley Metro’s Internal Audit activity is to serve Valley Metro and its Boards of Directors by providing independent, objective assurance and consulting services designed to add value and improve Valley Metro’s operational processes. The mission of internal audit is to assist Valley Metro in providing a safe, efficient and reliable transit network by providing risk-based and objective assurance, advice, and insight. The internal audit activity helps Valley Metro accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance\(^1\), risk management, and internal control processes.

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal auditors will:

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

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

**Scope of Internal Audit Activities**

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

- Risks relating to the achievement of Valley Metro’s strategic objectives are appropriately identified and managed.
- The actions of Valley Metro’s officers, directors, employees, and contractors are in compliance with Valley Metro’s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, plans, procedures, laws, and regulations that could significantly impact Valley Metro.
• Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
• Resources and assets are acquired economically, used efficiently, and protected adequately.

An audit report shall be prepared and issued by the Chief Auditor or designee following the conclusion of an approved internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the AFS.

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

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

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

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

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

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

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

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

Internal Audit Activity Charter

Approved this __________ day of __________, __________.

Approval/Signatures

_________________________________    _________________
Audit and Finance Subcommittee Chair    Date

_________________________________
General Counsel    Date

_________________________________
Chief Executive Officer    Date
DATE  AGENDA ITEM 7
August 6, 2020

SUBJECT
Audit and Finance Subcommittee Charter

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

COST AND BUDGET
None

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

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

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

COMMITTEE ACTION
AFS: August 13, 2020 for discussion and action

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

ATTACHMENT
Audit and Finance Subcommittee Charter
Audit and Finance Subcommittee Charter

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

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

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

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

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

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

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

The subcommittee is entitled to receive explanations from management and staff of the organization that it deems necessary to discharge its responsibilities. The AFS may engage independent counsel and/or other advisers as it deems necessary to carry out its duties.
Composition of the Audit and Finance Subcommittee
The AFS will consist of up to five (5) members. A member’s financial background will be considered, along with geographic representation. One of the five members will always be the elected official representing the City of Phoenix. Two (2) of the members will represent both RPTA and VMR (with the aforementioned Phoenix member retaining one of the two VMR positions). No more than two members of the AFS will be from the VMR Board due to quorum requirements.

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

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

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

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

Operational Principles

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

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

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

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

Information requirements
The AFS shall establish and communicate its information requirements. This shall include the nature, extent, and timing of such information requirements. Information shall be provided to the AFS at least one week prior to the meeting.
Executive sessions
Executive sessions of the AFS may be held for purposes of discussing/considering personnel issues; non-public records; legal advice; the Board’s position on contract negotiations, litigation or claim settlement; and any other purpose authorized by A.R.S. Title 38, Chapter 3, Article 3.1. The AFS may schedule, and hold if necessary, a private session with the CEO, the CFO, the Chief Auditor, external assurance providers, and with any other officials that the AFS may deem appropriate at each of its meetings.

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

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

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

Operational Procedures

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

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

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

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

- Chair the meetings of the AFS
- Review agency expenses related to credit cards, travel and entertainment, specifically:
  - Approve credit card expenditures for the CEO
  - Approve travel expense reports for CEO
  - Review monthly expenditure activity for Agency credit cards
  - Review a summary of Local Dining and Refreshments expenditures incurred by the Agency on a quarterly basis
  - Review, approve and sign any Relocation over $25,000 prior to offer letter being sent to Candidate
    - AFS Chair, at their discretion, may defer to the AFS members for decision
- Provide general guidance to CFO and Chief Auditor
Organizational Governance\(^1\)
To obtain reasonable assurance with respect to the RPTA and VMR governance\(^2\), the AFS, in collaboration with the CEO, may review and provide advice on the processes and structures implemented by the Boards to inform, direct, manage, and monitor the financial activities and internal audit functions of the organization toward the achievement of their objectives.

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

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

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

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

Oversight of Internal and External Audit and Other Assurance Providers

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

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

---

\(^1\) See The Institute of Internal Auditors’ October 2014 “Assessing Organizational Governance in the Public Sector” for insight and definition of key concepts; 2017 IPPF IG2110 Governance Implementation and 2110 Governance Standard.

\(^2\) See: Valley Metro Governance and Policy Structure (org chart)
• Review and approve specific audits or engagements to be performed in addition to those outlined in the internal audit plan at the request of or proposed by a member of the AFS, CEO or Chief Auditor.

• Review and provide input on the budget, expertise, and staffing levels, including the use of consultants, of the internal audit program. Review internal audit reports and other communications to management.

• Review and advise management on the results of any special investigations.

• Inquire of the Chief Auditor whether any evidence of fraud has been identified during internal audits and further action to be taken.

• Review and track management’s action plans to address internal audit recommendations.

• Inquire of the Chief Auditor whether any internal audit engagements or tasks have been carried out that did not result in a report to the committee. If there have been, inquire as to the matters of significance, if any, arising from such work.

• Oversee and provide input on the annual performance evaluation of the Chief Auditor.

• Review and provide input on internal audit’s strategic plan, program goals, performance measures, and outcomes.

• Review the internal audit activity’s performance relative to its audit plan.

• Inquire of the Chief Auditor about steps taken to ensure that the audit activity is consistent with The IIA’s *International Standards for the Professional Practice of Internal Auditing (Standards).*

• Ensure that the internal audit function has an external quality assurance (peer) review every five years or more often if deemed necessary.

• Review the results of the independent external quality assurance (peer) review and monitor the implementation of the action plans to address recommendations raised.

• Advise the Board of any recommendations concerning the continuous improvement of the audit activity.

**External Audit**

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

**Follow Up on Management Action Plans**

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

**Oversight of Chief Financial Officer**

To obtain reasonable assurance with respect to work of the CFO, the AFS, in collaboration with the CEO, should:

• Provide oversight over annual operating and capital budget process of the agency.

• Review budget inputs and assumptions.

• Provide oversight of the compilation of financial reports for the Boards and member agency review.

• Review the annual Transit Life Cycle Program and its financial model
• Review the five-year operating and capital plan
• Oversee and provide input on the annual performance evaluation of the CFO.
• Review and provide input on budget, contracts and procurement management goals, performance measures, and outcomes.

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

Other Responsibilities
In addition, the AFS, in collaboration with the CEO where appropriate, may:
• Perform other activities related to this charter as requested by the Boards.
• Institute and oversee special investigations as needed.
• Regularly evaluate its performance and that of its individual members. [Note: Annual assessments are recommended, per IIA.]

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

Approval/Signatures
_________________________________     ____________________
RPTA Board Chair        Date

_________________________________    _________________
VMR Board Chair        Date

_________________________________    _________________
Audit and Finance Subcommittee Chair     Date

_________________________________    _________________
CEO         Date
Information Summary

DATE
August 6, 2020

AGENDA ITEM 8

SUBJECT
Contract Management – Paratransit Services Audit

PURPOSE
Present the results of the Contract Management – Paratransit Services Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

COST AND BUDGET
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee accept the Contract Management – Paratransit Services Audit.

BACKGROUND/DISCUSSION/CONSIDERATION
The Fiscal Year 2019/2020 Internal Audit Plan approved by the AFS on June 18, 2019, included a contract management review of the Paratransit Services contract with Transdev. The objective of the audit was to determine if the Transdev Regional Paratransit Services Contract (16013-RPS) was awarded in accordance with agency policies. Additionally, to determine if the contract’s performance was monitored and managed from July 2017 through January 2020.

COMMITTEE ACTION
AFS: August 13, 2020

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

ATTACHMENT
Contract Management – Paratransit Services Audit
June 2020

Contract Management – Paratransit Services

AUDIT REPORT – INTERNAL AUDIT

Summary

This report’s purpose is to communicate the results of Internal Audit’s (IA) contract management review for the Paratransit Services contract. Included is the audit’s Objective, Scope, Areas Reviewed and Results. Overall, no material exceptions were noted. Therefore, IA has no recommendations but provides this summary of the items reviewed for informational purposes.
Objective and Scope

Determine if the Transdev Regional Paratransit Services Contract (16013-RPS) was awarded in accordance with agency policies.

Additionally, determine if the contract’s performance was monitored and managed from July 2017 through January 2020.

Areas Reviewed and Results

• Contract Award
  • Request for Proposal (RFP) process
  • Contract Language

• Contract Monitoring
  • Change Orders
  • Contract Monitoring Process
  • Incentive and Disincentive Tracking
  • Pay Applications
RFP Process

33 applicable steps/requirements for the RFP process for Contract 16013-RSP were reviewed for policy compliance.

All items were located in either the SharePoint files or referenced documents.

No exceptions noted

Contract Language

51 applicable contract clauses were reviewed for inclusion in the Transdev Contract 16013-RSP.

All clauses were addressed in the contract.

No exceptions noted
Change Orders

Four change orders were reviewed for the Transdev Contract. IA noted only three were executed. All executed change orders were properly signed and sufficient supporting documentation was maintained. Board approval was not required for the change orders as they did not increase the overall contract authority.

No exceptions noted

Contract Monitoring

IA interviewed applicable staff and documented the contract monitoring processes followed for the Transdev Contract 16013-RPS.

Internal controls were established over the review of information, to include tracking of performance incentives/disincentives.

No exceptions noted
Incentive and Disincentive Tracking

Transdev earned incentives and disincentives based on the monthly review of the following 13 performance metrics:

(1) On-Time Performance for Pick-ups
(2) On-Time Performance for Drop-offs
(3) Accident Frequency
(4) Customer Service/Complaints
(5) Timely Response to Complaints
(6) Roadside Service Calls
(7) Timely Preventive Maint.
(8) Adherence to Vehicle & Driver Standards
(9) Excessive Trip Lengths
(10) Missed Trips
(11) Timely Data/Reporting
(12) ADA Trip Denials
(13) Major System Failures

25 monthly tracking logs from 01/2018 - 01/2020 were reviewed to determine contract monitoring efforts.

Contract monitoring efforts and incentive/disincentive tracking for the 13 Performance Metrics was evident for the 25 months reviewed.

No exceptions noted
Incentive/Disincentive Tracking Summary

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Revenues</th>
<th>Incentives</th>
<th>% of Rev</th>
<th>Disincentives</th>
<th>% of Rev</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/2018-06/2018</td>
<td>$ 8,006,685</td>
<td>$ 80,067</td>
<td>1.00%</td>
<td>$(249,560)</td>
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<td>07/2018-06/2019</td>
<td>$ 19,024,564</td>
<td>$ 190,246</td>
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<td>$(334,987)</td>
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<td>07/2019-01/2020</td>
<td>$ 12,593,595</td>
<td>$ 125,936</td>
<td>1.00%</td>
<td>$(110,531)</td>
<td>-0.88%</td>
<td>$ 15,404</td>
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<tr>
<td>Totals</td>
<td>$ 39,624,844</td>
<td>$ 396,249</td>
<td></td>
<td>$(695,078)</td>
<td></td>
<td>$(298,830)</td>
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</table>

A focus on managing the on-time performance for pick-ups and drop-offs metrics helped reduce the disincentives.

Pay Applications (Pay Apps)

28 Pay Apps and 3 Adjustment Payments from 07/2017 - 10/2019 were reviewed for approvals, accuracy, and support.

In general, Pay Apps contained approval signatures, were accurate, and maintained sufficient supporting documents.

Non-material errors were noted, but did not present a measurable risk. Therefore, no finding was drafted.
Audit conducted by:
Vickie Murphy and Jenn Davis
Sr. Internal Auditors

Audit report approved by:
Scott W. Smith, CEO Date Aug 4, 2020

Audit report presented for approval to the Audit and Finance
Subcommittee: August 13, 2020
DATE
August 6, 2020

SUBJECT
Valley Metro Reduced Fare Update

BACKGROUND | DISCUSSION
The current regional fare structure was adopted by the Valley Metro Board and City of Phoenix Council in 2007. The new structure took advantage of functionality with the fare collection system (FCS) being implemented in 2007/2008, purchased from Scheidt & Bachmann (S&B). The fare has been increased twice since the FCS was implemented, in 2009 and 2013.

The City of Phoenix recently awarded a contract to replace the FCS for both the bus and light rail modes. The new system will be open and flexible to easily allow changes to incorporate innovative technologies.

The new FCS will provide greater control of fare media and usage through account-based technology. This will allow Valley Metro to address the increased use of reduced fare media. The reduced fare paper passes are widely available and historically have not required any identification to demonstrate eligibility. This has resulted in a significant increase in use of reduced fare passes far above what would be expected from the number of eligible riders.

In the interim while the new system was being procured, Valley Metro and the City of Phoenix began requiring retailers to check ID for persons wishing to purchase reduced fares. That new policy was implemented in January 2019. Data for calendar 2018 and 2019 on sales and uses of full and reduced fares show that there was a definite reduction in the retail sales of reduced fares, but no corresponding increase in full fare sales. The accompanying presentation provides more detail.

Additional strategies have been identified to further control the reduced fare abuse. Those strategies are identified in the accompanying presentation. The COVID-19 pandemic has certainly impacted fare collection and staff is not proposing implementing these solutions at this time. Once the system resumes normal fare collection and enforcement, the region could implement these additional strategies as appropriate.

CONTACT
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org

ATTACHMENT
None
Reduce Fare Abuse Update
August 2020

Background

• Reduced Fare use increased significantly
  • Proliferation of retail outlets

• Requirement to check eligibility
  • Added to retail agreements
  • Implemented January 2019
  • Not all retailers have signed new agreement
Data Collected: Calendar 2018 v. 2019

• **Pass Sales**
  • Pass sales by type (reduced fare, full fare)
  • Pass sales by outlet (retail, TVM, cash, etc.)

• **Ridership**
  • Boardings by fare type for bus and light rail
    • Full fare pass use
    • Reduced fare pass use
    • All other fare types (cash, free, etc.)
Next Steps

- **Implement additional controls**
  - Immediate validation on sale at TVMs
  - Limit number of passes per transaction at retail outlets

- **Review additional controls for impacts**
  - Eliminate sales of reduced fares at TVMs
  - Eliminate retailers who don’t sign revised agreement
  - Eliminate retailers who aren’t checking eligibility
DATE
August 6, 2020

SUBJECT
Internal Audit Update

PURPOSE
To update the Audit and Finance Subcommittee on Internal Audit activities and results of External reviews.

COST AND BUDGET
None

RECOMMENDATION
The City of Phoenix Risk Assessment review and other Internal Audit activities are presented for information only; with a consideration to publish the risk assessment.

BACKGROUND/DISCUSSION/CONSIDERATION
None

COMMITTEE ACTION
None

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

ATTACHMENT
City of Phoenix – Valley Metro Risk Assessment Review
Valley Metro
Audit and Finance Subcommittee
Internal Audit Update
August 2020

Update: Fiscal Year 19/20 Audit Plan

<table>
<thead>
<tr>
<th>Process</th>
<th>Status</th>
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<tr>
<td>Credit card transactions</td>
<td>Moved to FY 20/21 Audit Plan</td>
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<tr>
<td>Travel expenses</td>
<td>Complete</td>
</tr>
<tr>
<td>Professional Development</td>
<td>Complete</td>
</tr>
<tr>
<td>Full-Time Employee Additions</td>
<td>August Report</td>
</tr>
<tr>
<td>Paratransit Contract Management</td>
<td>Complete</td>
</tr>
<tr>
<td>OMC Non-Capitalized Rail Parts and Tools Inventory</td>
<td>Complete</td>
</tr>
<tr>
<td>Hardware/Software Management</td>
<td>Complete</td>
</tr>
<tr>
<td>Performance Evaluation</td>
<td>Complete</td>
</tr>
<tr>
<td>Internal Safety and Security Audit Review</td>
<td>ADOT CAPs &amp; ISSA Review-Security Element #1</td>
</tr>
<tr>
<td>HRMIS Implementation</td>
<td>Monitoring</td>
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<tr>
<td>ERP Implementation</td>
<td>Monitoring-Contract Signed 7/31/2020</td>
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<td>External Audits:</td>
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<tr>
<td>City of Phoenix – Contract Risk Assessment</td>
<td></td>
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<tr>
<td>ADOT – Rail Safety Audit</td>
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<tr>
<td>Maricopa Co. – Paratransit</td>
<td></td>
</tr>
<tr>
<td>City of Phoenix – Fare Revenue</td>
<td></td>
</tr>
</tbody>
</table>

Report in packet, 8 CAPs to CoP in June
4 Completed; 4 Due by end of Q1
80 CAPs to ADOT in June, 34 CAPs to close
with PTASP to BoD in September,
remaining CAPs due by May 2021
Complete
Complete
To: Audit and Finance Subcommittee  
From: Jennifer Davis, Senior Internal Auditor  
Date: August 6, 2020  
Re: City of Phoenix – Public Transit Department  
   Valley Metro Risk Assessment - RTPA

Committee members,

The City of Phoenix City Auditor Department, through their external contractor, REDW, LLC, conducted a risk assessment of RTPA to identify future audit areas and help Public Transit comply with FTA requirements for sub-recipient monitoring.

The review identified opportunities to improve monitoring of the following areas:

- Procurement  
- Maintenance  
- Disadvantage Business Enterprise (DBE)  
- Title VI  
- Americans with Disabilities Act (ADA), and  
- Drug and Alcohol Programs

As a result, Public Transit provided RTPA with eight corrective action plans (CAPs) to address these opportunities. RTPA responded, noting four CAPs as implemented/completed and the remaining four CAPs to be addressed during on-going quarterly update meetings. The first update meeting is scheduled for October 1, 2020.

This report is presented for your knowledge of the review’s results and the status of the corrective action plans.
To: Jesus Sapien  
   Public Transit Director

From: Ross Tate  
   City Auditor

Date: February 13, 2020

Subject: VALLEY METRO RISK ASSESSMENT - RPTA

Through our external contractor, REDW LLC, we conducted a risk assessment to identify future audit areas and to help Public Transit comply with Federal Transit Administration (FTA) requirements for subrecipient monitoring.

REDW completed the following objectives related to the subrecipient monitoring of the Regional Public Transportation Authority (RPTA):

1. Performed a risk assessment covering all 21 FTA compliance areas and all applicable Uniform Guidance compliance attributes.
2. Evaluated selected internal controls and compliance documentation to assist in the preparation of the risk assessment and results summary.
3. Developed a sample monitoring plan that included the necessary steps and suggested level of documentation to comply with 2 CFR 200.331.

REDW identified seven opportunities for improvement. REDW provided a narrative summary of the results, which is attached. In addition, REDW provided the risk assessment document and supporting working papers to us and the Public Transit Department.

Scope and Methodology

The scope of this Management Service is the RPTA risk assessment and sample monitoring plan. The work performed does not constitute an audit in accordance with Government Auditing Standards.

1200050F

Project Team: Barbara Coppage, Deputy City Auditor  
Ryan Richelson, Internal Auditor
CC: Public Transit Department
Wendy Miller, Management Assistant II (Audit Liaison)
Ken Kessler, Deputy Director – Management Services
Joe Bowar, Deputy Director – Facilities Division
Shelley Reimann, Special Projects Administrator
**To:** Ross Tate, City Auditor, City of Phoenix City Auditor Department  

**From:** REDW LLC – External Consultants  

**Subject:** Report on Risk Assessment and Sample Monitoring Plan  

**Date:** February 10, 2020  

**Purpose**  

REDW has been engaged by the City Auditor Department to complete the following objectives related to the subrecipient monitoring of the Regional Public Transportation Authority:  

1- Perform a risk assessment covering all 21 FTA compliance areas and all applicable Uniform Guidance compliance attributes.  
2- Evaluate selected internal controls and compliance documentation to assist in the preparation of the risk assessment and results summary.  
3- Develop a sample monitoring plan that includes the necessary steps and suggested level of documentation to comply with 2 CFR 200.331.  

The risk assessment and sample subrecipient monitoring procedures were performed on behalf of the City of Phoenix Public Transit Department (“Public Transit Department” or “Designated Recipient”), over the Valley Metro - Regional Public Transportation Authority (“RPTA” or “Subrecipient”). As the Designated Recipient and Pass-Through Entity (“PTE”), the Public Transit Department, is required to monitor RPTA to ensure compliance with Federal Transit Administration (“FTA”) requirements (as specified in Chapter 53 of Title 49, United States Code, Section 5307) and Federal Uniform Guidance 2 CFR 200.331 and 2 CFR 200.521 compliance.  

**Approach**  

REDW identified and evaluated risk areas based on the FTA and Uniform Guidance compliance attributes. The 2019 FTA Triennial Reviewer’s Guide and Uniform Guidance Compliance Supplement for the Federal Transit Cluster (CFDA No. 20.500/20.507) were also utilized for determining compliance attributes for risk evaluation and monitoring procedures. Gaining an understanding of internal controls over compliance was key to determining the level of risk for each area. This understanding was based on discussions with key RPTA and Public Transit Department personnel and evaluating policies and
procedures related to compliance. For the areas that we deemed high or moderate risk, we conducted onsite visits, reviewed policies and procedures, and reviewed monitoring documents. These additional tests were conducted to ensure the proper risk level was assessed for each compliance attribute.
Subrecipient monitoring is a required process to be performed by pass-through entities (Public Transit Department), as described at 2 CFR 200.331. The following provides an overview of subrecipient monitoring and the requirement to issue management decisions. Formal communication of management decisions related to the monitoring performed should be issued in conjunction with this report to the subrecipient (RPTA) at the discretion of management.

The Uniform Guidance 2 CFR 200.331 (d) and 2 CFR 200.521 requires the Public Transit Department to follow-up and ensure that the subrecipient, RPTA, takes timely and appropriate action on all deficiencies related to the Federal award in the form of a Management Decision.

The following excerpt, taken directly from the CFR, summarizes a designated recipients responsibility to perform subrecipient monitoring and issue management decisions when applicable:

Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

(1) Reviewing financial and performance reports required by the pass-through entity.

(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

(3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521

Management decision means the evaluation by the pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary.
ATTACHMENT B –
Opportunities for Improvement

The following are areas that we observed during our procedures and tests performed of RPTA controls and processes. These procedures were performed to assess the appropriate level of risk for each area. Although the following addresses the level of risk, these levels may change from year to year and will need to be periodically reassessed. The following are areas where we determined that improvements can be made in order to ensure compliance with federal requirements.

Procurement

**Contract Change Orders and Contract Extensions**

We reviewed a sample of change orders and contract extensions in relation to First Transit and Total Ride in which the Public Transit Department had minimal involvement or oversight. Monitoring and oversight of subrecipient procurement is a strong internal control to ensure federal compliance.

To increase oversight, the Public Transit Department should identify significant RPTA contracts determined to warrant additional oversight of federal compliance. The Public Transit Department should require RPTA to obtain approval from the Public Transit Department for all change orders and extensions associated with these identified significant contracts.

**Large Procurement Monitoring**

The Public Transit Department is required to monitor the activities of RPTA to ensure procurement is compliant with federal statues, regulations, and the terms and conditions of the subaward (2 CFR 200.331 (d)). The Public Transit Department provides oversight by reviewing Requests for Proposal (RFP) documentation for large RPTA procurements. High level reviews are performed through the Regional Technical Advisory Group (RTAG), of which the Public Transit Department is a member.

To increase the level of review conducted to ensure compliance, a Public Transit Department staff member should be in attendance for specified RPTA procurement evaluation committee meetings. This individual would be a non-voting observer of the meeting and would allow for greater transparency, communication, and controls over this process.

As a point of emphasis, RPTA’s recently implemented process of providing a draft copy of all federal procurements to the Public Transit Department for review prior to issuance should be continued as requested by the FTA.
ATTACHMENT B –
Opportunities for Improvement

Maintenance

**Warranty Claims**
Prompt and aggressive pursuit of warranty claims is required for buses, vehicles, and other equipment procured with FTA funds. Processing and oversight of warranty claims are delegated by RPTA to third party service providers. RPTA has not established a process for reviewing applicable repairs performed by the service providers to ensure that warranty claims have been submitted on all applicable repairs. A risk of noncompliance exists that all potential warranty claims may not be pursued by the service providers.

The Public Transit Department should require RPTA to assign a designated individual to review significant repairs and ensure that all potential warranty claims are pursued whenever applicable.

Disadvantaged Business Enterprise (“DBE”)

**Inaccurate DBE Reporting**
During our risk assessment evaluation, we identified that DBE information for two contractors was inaccurately submitted by RPTA into B2Gnow. This error was originally identified by an RPTA team member. The vendors with misreported data include:

- SDB Construction (2 years of missing and incomplete data submissions)
- HDR Contractors (8 years of missing and incomplete data submissions)

To ensure compliance, the Public Transit Department should consider requiring RPTA to assign dedicated resources the responsibility of regularly reconciling the information within B2Gnow to the contractor invoices. This process is necessary to ensure accurate DBE reporting. The process is currently manual and time consuming. Consideration should be given to reducing the manual oversight required. The potential for integration between B2Gnow and the accounting system could be explored.

Title VI

**Minority Participation on Boards, Councils, and Committees**
Title VI compliance requires that federal recipients have documented initiatives in place to encourage minority participation on boards, councils, and committees. No such plan or documented initiatives are currently in place within RPTA.
The Public Transit Department should require RPTA to implement a formalized action plan to encourage minority participation on boards, councils, and committees. This action plan should be evaluated and monitored by the Public Transit Department to ensure compliance with federal requirements.

**Americans with Disabilities Act (“ADA”)**

**Bus Electronic Stop Announcements**

A significant number of complaints were submitted through the ADA complaint process describing that Bus Electronic Stop Announcements were not functioning. Department of Transportation ADA regulations require that drivers announce stops (transfer points, major intersections, destination points) when automated stop annunciators are not functioning.

The Public Transit Department should require RPTA to provide additional training and communication to service providers to ensure that this federal requirement is being adhered to. Monitoring of this requirements should be performed by the Public Transit Department to ensure federal compliance.

**Drug and Alcohol Program**

**Employee Drug-Testing Requirements**

During risk assessment procedures, we were provided with a Valley Metro Internal Audit Report. This audit report identified non-compliance with Drug and Alcohol Program requirements. The service provider (“Second Generation” or “Ajo Transportation”) did not meet the 50% employee pool drug-testing requirement for 4 out of the 5 years tested.

An opportunity exists for RPTA to strengthen the oversight of service providers to ensure that FTA requirements, including drug-testing requirements, are adhered to. The Public Transit Department should require RPTA to submit a report of compliance to the Public Transit Department on meeting the employee pool drug-testing requirements. The report should be submitted regularly and follow-up should be performed by the Public Transit Department and RPTA on any identified non-compliance.

**Communication of Changes to Contractors**

During our risk assessment procedures, we were notified that the Public Transit Department is often unaware of changes in service providers utilized by RPTA. This creates difficulties in monitoring compliance to the drug and alcohol program at the City level. Additionally, when the FTA issues compliance updates that need to be communicated to contractors and subcontractors, the Public Transit Department may not be able to communicate these updates to all required parties.
ATTACHMENT B –
Opportunities for Improvement

The Public Transportation Department should require that policies and procedures be implemented at RPTA to ensure that the Public Transit Department is notified of any changes to contractors or sub-contractors. There is an opportunity for RPTA to create a communication tree that informs the Public Transit Department of any updates to contractors and service providers. This information should be updated regularly. A current list of contractors and service providers will ensure that compliance updates are received by all impacted parties.
DATE
August 6, 2020

AGENDA ITEM 11

SUBJECT
Audit Exceptions Update

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

COST AND BUDGET
Funding for monitoring the progress of audit exceptions is included in the FY 2019/20 and FY 2020/21 Valley Metro budgets.

RECOMMENDATION
Items presented for information only.

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

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

COMMITTEE ACTION
None

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

ATTACHMENT
Audit exceptions log
Valley Metro
Audit and Finance Subcommittee
Audit Exception Log Summary
August 2020

Audit Exception Log Summary

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

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Management Action</th>
<th>Due Date</th>
<th>Responsible Parties</th>
<th>Current Actions</th>
<th>Estimated Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Inventory Management Policy and update applicable procedures</td>
<td>8/31</td>
<td>COO and CFO</td>
<td>On track</td>
<td>8/31/2020</td>
</tr>
<tr>
<td>5</td>
<td>Performance Management Procedures</td>
<td>9/30</td>
<td>CAO and HR Director</td>
<td>On track</td>
<td>9/30/2020</td>
</tr>
<tr>
<td>7</td>
<td>Create an Addendum to the Acceptable Use Policy for Approved Software</td>
<td>10/31</td>
<td>IT Manager</td>
<td>On track</td>
<td>10/31/2020</td>
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Note: Exceptions for the Travel Audit and the Credit Card Audit (Ref #s 1 - 4) will be evaluated during the FY 2020/2021 reviews of those areas.

## Future Due Date:

<table>
<thead>
<tr>
<th>Ref #</th>
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<tbody>
<tr>
<td>8</td>
<td>Explore electronic form options for the Division Sponsored Professional Development form; a solution that includes a digital workflow approval process and payment through the Financial System.</td>
<td>6/30/2021</td>
<td>Learning and Development Manager and CFO</td>
<td>Fully executed contract with Denovo Ventures, LLC (7/31/2020). Electronic forms and digital workflow processes will be considered within the scope of the project.</td>
<td>6/30/2021</td>
</tr>
</tbody>
</table>
Remediated since last Meeting:

<table>
<thead>
<tr>
<th>Audit</th>
<th>Audit’s Recommendation</th>
<th>Management Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware and Software Management (Remed 1)</td>
<td>Management should: -Regularly review the ITAM report to identify and remediate any software device license discrepancies.</td>
<td>IT implemented Managing Trial Software (IT-SOP-04.01) effective 07/07/2020.</td>
</tr>
</tbody>
</table>
1. The Travel policy:

- Encourages individuals to stay at the conference or training host hotel site.
- If the host hotel nightly rate exceeds the GSA Lodging Rate Schedule, the excess host hotel rate is authorized. GSA §301-11.303 states: “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.”
- 17 of 93 travel instances were identified where the daily rate for lodging was in excess of the GSA published rate but under the 300 percent cap. The rates ranged from

### Ref # Finding Title Department Report Number Finding Number Finding Description Recommendations Management Response Report Date Due Date Status Responsible Party AFS Notes

1. Travel Policy Clarification Finance 04/2018 1 The Travel policy:

- Encourages individuals to stay at the conference or training host hotel site.
- If the host hotel nightly rate exceeds the GSA Lodging Rate Schedule, the excess host hotel rate is authorized. GSA §301-11.303 states: “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.”
- 17 of 93 travel instances were identified where the daily rate for lodging was in excess of the GSA published rate but under the 300 percent cap. The rates ranged from Management should align the Travel policy intent with associated forms and practices. If circumstances warrant travel to be completed in less than 21-day of the submission the Agency Travel, Conference and Out-of-County Training form, the policy should reflect such verbiage. The Travel Authorization form should be revisited 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 “hotel expense are reimbursed up to the to the maximum GSA hotel rate; and a traveler is responsible for the difference in the

2. Travel Policy Exceptions Finance 04/2018 2 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 cardholder had one credit card reconciliation packets to Division Heads who fail to complete all policy-required documentation. 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.

- Four cardholders had sixteen credit card reconciliation packets that were not signed by the Division Head, but rather a Manager with no delegation of authority paperwork applicable.
- One cardholder had one credit card reconciliation packet that did not have a Division Head signature. Although notations indicating the cardholder was no longer a Valley Metro employee, no Division Head Management should expand the policy’s training requirement beyond the cardholders to include applicable employees in the Agency’s credit card transaction process. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation.

3. Policy Compliance – Documented Division Head Approvals Not Maintained Finance & Procurement 02/2019 1.1 Six cardholders did not have evidence of the Division Head’s review/approval means of a dated Division Head signature for 18 monthly credit card reconciliation packets. If Four cardholders had sixteen credit card reconciliation packets that were not signed by the Division Head, but rather a Manager with no delegation of authority paperwork applicable. If One cardholder had one credit card reconciliation packet that did not have a Division Head signature. Although notations indicating the cardholder was no longer a Valley Metro employee, no Division Head Management should expand the policy’s training requirement beyond the cardholders to include applicable employees in the Agency’s credit card transaction process. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation.

Management disagrees with the recommendation. The intent of the credit card policy is to ensure that credit card transactions comply with the procurement policies and procedures. It is management’s view that a cardholder’s manager is responsible for reviewing and approving the cardholder’s transactions. Management will revise the policy to clarify that a management staff (Manager or Director level) must review and approve transactions. Finance staff will confirm that a management staff has approved the credit card packet and
<table>
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<tr>
<th>Ref #</th>
<th>Finding Title</th>
<th>Department</th>
<th>Report Date</th>
<th>Finding Number</th>
<th>Recommendations</th>
<th>Management Description</th>
<th>Report Date</th>
<th>Due Date</th>
<th>Status</th>
<th>Responsible Party</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Policy Compliance – Insufficient/Incomplete Documents within Cardholder Reconciliation Packets</td>
<td>Finance &amp; Procurement</td>
<td>02/2019</td>
<td>1.2</td>
<td>Credit card reconciliation packets were submitted and processed without all policy required signatures or documentation. One cardholder’s Pre-Approval Local Dining and Refreshments form for a credit card transaction, totaling $113, was for a FTA meeting, did not have the CFO and CEO approval signatures, only the Division Head signature existed. Eight cardholders did not have the Pre-Approval Local Dining and Refreshments forms in their credit card reconciliation packets. Fifty-seven credit card transactions, totaling $16,237, were for management should expand the cardholder’s training requirements beyond the Credit Card, Acceptable Use policy to include other policies wherein credit card purchases maybe applicable, specifically the Agency Local Dining and Refreshments policy. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation.</td>
<td>Management disagrees with the recommendation. Complete documentation for authorized travel or for local dining does not need to be included in the credit card packet, nor should the Credit Card Administrator review travel related charges to ensure that they are authorized. That is all the responsibility of the travel administrators as described in the travel policy, or the Controller as described in the Local Dining policy. Additionally, the Local Dining policy fails to acknowledge the accepted and longstanding practice of providing meals at Committee and Board committees.</td>
<td>2/21/2019</td>
<td>04/30/2019</td>
<td>Open</td>
<td>Chief Financial Officer</td>
<td>Tentatively scheduled for Q1 FY 20/21</td>
</tr>
<tr>
<td>5</td>
<td>Established Performance Management Policies and Procedures Do Not Exist</td>
<td>Human Resources</td>
<td>03/2020</td>
<td>1</td>
<td>Valley Metro does not have documented policies or procedures regarding performance management to address:</td>
<td>Develop, document and implement comprehensive performance management policies and procedures.</td>
<td>3/4/2020</td>
<td>9/30/2020</td>
<td>Open</td>
<td>Human Resource Director &amp; CAO</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>No Established Inventory Management Policy</td>
<td>OMC &amp; Finance</td>
<td>01/2020</td>
<td>1</td>
<td>A written Inventory Management Policy for the parts and tools used at the OMC does not exist. Procedures were not documented, and the processes followed were inefficient in addressing the handling of precious items (e.g., copper and steel), and the reconciliation, disposal, and obsolescence of parts and tools. Management could not provide a documented base knowledge of all items on-site to include in the OMC tools and parts inventories. The OMC has not conducted a full inventory of the parts and tools for the MOE and MOW. A reconciliation of parts on-site to the parts recorded</td>
<td>Management should establish a written: (A) Inventory Management Policy to address: (1) Accounting and securing precious items, metals, parts, and tools; (2) Disposal of obsolete or broken parts and tools; (3) Reconciliation of on-hand quantities of parts and tools, and (4) Employee counseling and/or reimbursement for lost or damaged agency assets. (B) Set of current procedures to address: (1) Performance of full inventory counts of all parts and tools; Taking into account the attached comments, management will establish a written Inventory Management Policy that addresses the four (4) components listed in the audit recommendation. Also, management will establish or modify current written procedures that addresses the other eight (8) components listed in the audit recommendation. These policies and procedures will be written in a manner that will provide the most operationally efficient and economical method.</td>
<td>1/16/2020</td>
<td>08/31/2020</td>
<td>Open</td>
<td>CFO &amp; COD</td>
<td>Pending Next Audit: -</td>
</tr>
<tr>
<td>Ref #</td>
<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>Status</td>
<td>Responsible Party</td>
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<tr>
<td>7</td>
<td>Software License Tracking</td>
<td>IT</td>
<td>02/2020</td>
<td>2.1</td>
<td>The IT department tracks Software as a Service (SaaS) and subscription licenses by reviewing each SaaS administrative portal account. The ITAM inventory system is used for tracking on premise device software licenses and these licenses are reconciled during annual true-up periods for each software application. During our audit we discovered: - Windows 10 Enterprise software was installed on 334 machines and licensed for 180 machines. - Six installations of a PDF editor were installed by employees. - 105 unsupported versions of another PDF editor were installed on machines.</td>
<td>Management should: - Regularly review the ITAM report to identify and remediate any software device license discrepancies. - Ensure machines are being re-imaged before being re-issued to employees to eliminate any risks of unsupported software installed on the machine. - Consider defining the acceptable use of software in the draft Acceptable Use Policy and limit the ability for employees to download and install software onto Valley Metro computers. - This policy should be communicated and acknowledged by employees.</td>
<td>The IT Department agrees with the recommended improvements: 1. An addendum to Acceptable Use Policy detailing approved software will be developed. The policy will be communicated and unapproved software will be deleted. Due Date: October 31, 2020 2. The IT will re-image reissued machines to eliminate old software versions. It is important to note, however, that regular vulnerability scans mitigate any risk posed by older software versions. Due Date: March 31, 2020 3. The IT Department will create a procedure to uninstall inactive software.</td>
<td>3/4/2020</td>
<td>2.1</td>
<td>Open - Pending Oct CAP</td>
<td>Manager, Information Technology</td>
</tr>
<tr>
<td>8</td>
<td>Process Efficiencies for Approving and Tracking Division Sponsored Development Opportunities</td>
<td>HR &amp; Finance</td>
<td>04/2020</td>
<td>1</td>
<td>Valley Metro’s current systems do not support electronic request/approval/processing of professional development forms. Additionally, there is no electronic method to track and report, only the manually maintained Excel file. The professional development processes could be strengthened and more efficient if a centralized electronic approval and tracking system was utilized. This would allow, Divisions to enter and route their department’s trainings for approvals and provide an electronic platform to track and report on the activities.</td>
<td>Valley Metro should include the electronic processing and tracking of Division Sponsored Development opportunities in the implementation of the new Enterprise Resource Planning (ERP) system or another electronic based workflow system.</td>
<td>Both Finance and HR concur with the recommendation. An electronic form that includes workflows would be more efficient than the current paper process. Action Plan: The Learning and Development Manager will work with Finance and IT to explore electronic form options for the Division Sponsored Professional Development form; a solution that includes a digital workflow approval process and payment through the Financial System.</td>
<td>4/2/2020</td>
<td>6/30/2021</td>
<td>Open</td>
<td>Learning and Development Manager and CFO</td>
</tr>
</tbody>
</table>
DATE
August 6, 2020

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. **DMS Facility Services Contract Change Order**
Execute a change order to the DMS Facility Services cleaning service contract to add cleaning and disinfecting fogging of Valley Metro facilities to reduce the risk of COVID-19 through December 31, 2020 at a cost not to exceed $203,827.

B. **Bus Inspection Services Contract Award**
Execute a five-year contract and two option years with Vehicle Technical Consultants, Inc. to provide bus inspection services in an amount not to exceed $2,314,300 for the period November 1, 2020 through October 31, 2027.

C. **Bus Operator Protective Barriers for Fixed Route Bus Fleet Contract Award**
Execute a contract with Complete Coach Works for an amount not to exceed $1,977,439 for the purchase and installation of Bus Operator Protective Barriers for the fixed route bus fleet.

D. **Light Rail Vehicle (LRV) Steel Tires Contract Change Order**
Execute a contract change order with Penn Machine Company for additional LRV steel tires and tire block kits in an amount not to exceed $316,994 for the final three years of the contract.

E. **Light Rail Vehicle (LRV) Door Control Unit Upgrade Contract Award**
Execute a contract with IFE North America to complete an LRV fleet door control unit (DCU) upgrade in an amount not to exceed $979,862.

F. **Asset Management & Vehicle Maintenance Ticketing System Upgrade**
Purchase server equipment, professional services, and training not to exceed $331,000.
G. South Central Extension/Downtown Hub Project: Amended Funding Agreement

Amend the existing funding agreement with the City of Phoenix for the South Central Extension/Downtown Hub Project for Phoenix to provide an additional $350 million to Valley Metro.

H. Siemens Mobility, Inc. Light Rail Vehicles Contract Amendment

Execute a contract amendment with Siemens Mobility, Inc. to purchase 14 S70 LRVs to expand the LRV fleet in conjunction with the SCE/DH project for an amount not to exceed $78,509,911.

RECOMMENDATION
For information only.

CONTACT
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phodgins@valleymetro.org
602-262-7433

ATTACHMENT
Information Summaries for items listed above.
Information Summary

DATE  AGENDA ITEM 12A
August 6, 2020

SUBJECT
DMS Facility Services Contract Change Order

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a change order to the DMS Facility Services cleaning service contract to add cleaning and disinfecting fogging of Valley Metro facilities to reduce the risk of COVID-19 through December 31, 2020 at a cost not to exceed $203,827.

COST AND BUDGET
The projected cost of these enhanced cleaning services through December 2020 will not exceed $78,455 for RPTA and $125,372 Valley Metro Rail. The funding for these services is included in Valley Metro’s adopted FY 2021 operating budget. Should changes in the pandemic impact the need for these services, they can be reduced or eliminated at any time.

RECOMMENDATION
Staff recommends the TMC/RMC forward to the Boards of Directors authorization for the CEO to execute a change order to the DMS Facility Services cleaning service contract to add cleaning and disinfecting fogging of Valley Metro facilities to reduce the risk of COVID-19 through December 31, 2020 at a cost not to exceed $203,827.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro has a current, competitively procured, contract for Operations Cleaning Services with DMS Facility Services. This contract expires at the end of December 2020 and a Request for Proposals for its replacement is in process. With the outbreak of COVID-19, Valley Metro has asked DMS to expand its services to include the disinfecting fogging of Valley Metro facilities and non-revenue vehicles, and to provide additional custodial services to Valley Metro facilities.

As recommended by Centers for Disease Control (CDC) guidelines, Valley Metro has increased the cleaning of its vehicles and facilities to prevent the spread of COVID-19. This change order allows DMS to continue two components of this cleaning for the remaining five months of its contract:
Disinfectant Fogging
Each month, 53 non-revenue vehicles, Valley Metro’s Operations & Maintenance Center, 101 North First Avenue office, Greenfield administrative office, and Mobility Center are fogged using a two-step process. It starts with a disinfecting fogging of all surfaces. Next, a durable microbiostatic is applied to non-porous, high touch areas (e.g. bathrooms, conference tables, etc) which continues to kill germs transmitted to the surface via touch for weeks after application. Both treatments are approved by the CDC for viruses (including the SARS and MERS coronaviruses) and registered with the Environmental Protection Agency. The total cost of this service for five months is $118,058.

Enhanced Cleaning Services
While the service above provides lasting protection for large, non-porous, high touch surfaces, it is not practical for all surfaces. As a result, Valley Metro has also contracted for additional custodial services at Operations & Maintenance Center, 101 North First Avenue office, Greenfield Administrative Office, and Mobility Center to provide on-going cleaning of other surfaces. The custodians work five days per week, eight hours per day, at administrative facilities and seven days a week, ten hours per day, at the Operations & Maintenance Center. They focus on doors, door handles, chair arms, reception areas, etc to reduce the risk of COVID-19 transmission. This service complements the normal cleaning and dusting conducted by building management in leased spaces and is project to have a total cost for five months of $85,769.

STRATEGIC PLAN ALIGNMENT
This item relates to the Phased Return and Full Return with Precautions phases of Valley Metro’s COVID-19 Recovery Plan.

COMMITTEE ACTION
RTAG: July 21, 2019 for information
TMC/RMC: August 5, 2020 for action
Boards of Directors: August 27, 2020 for action

CONTACT
Jim Hillyard
Chief Administrative Officer
602-495-8234
Jhillyard@valleymetro.org

ATTACHMENT
None
DATE
August 6, 2020

SUBJECT
Bus Inspection Services Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a five-year contract and two option years with Vehicle Technical Consultants, Inc. to provide bus inspection services in an amount not to exceed $2,314,300 for the period November 1, 2020 through October 31, 2027.

COST AND BUDGET
The bus inspection services contract for approval has a base term of five years with two option years. For the total term of the contract, the award cost is $2,314,300. The contract and the exercise of option years will be completely conditioned on an available source of funds. Valley Metro reserves the right to cancel the contract at any time and for any reason as solely determined by Valley Metro. Cost for the first year of the contract is $346,000 and is included in the RPTA Adopted FY21 Operating and Capital Budget. Contract obligations beyond FY21 are incorporated into the RPTA Adopted Five-Year Operating Forecast and Capital Program (FY2021 thru FY2025). This contract will be funded with fare revenues, Public Transportation Funds, member city contributions, and Federal Section 5307.

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute a five-year contract and two option years with Vehicle Technical Consultants, Inc. to provide bus inspection services in an amount not to exceed $2,314,300 for the period November 1, 2020 through October 31, 2027.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro uses a third-party contractor for its vehicle inspection services for ongoing bus inspections at four operations and maintenance facilities, new bus factory inspections, and Buy America compliance reviews. These contracted services ensure Valley Metro meets or exceeds all Federal Transit Administration (FTA) maintenance and procurement oversight requirements.

In November 2019, the Board authorized Valley Metro to issue a Request for Proposals (RFP) for a five-year contract and two option years. Proposals were to be evaluated on the following criteria: (1) Firm Qualifications & Experience, (2) Personnel Qualifications & Experience, (3) Understanding / Approach to the Scope of Services and (4) Price.
The scope of work in the RFP included the following inspection services:

- Post preventive maintenance inspections (PMI) – after the contractor completes a PMI inspection, a sample of vehicles are inspected to ensure all defects are identified, repaired and documented.
- Re-inspection of the contractors’ repairs (sample basis) to ensure that all defects have been repaired in a timely manner.
- Vehicle inspections to investigate mechanical-related complaints from customers, vehicle cleanliness inspections, vehicle transfer inspections, and vehicle disposal inspections.
- Return to service vehicle inspections to ensure all accident repairs are completed and the vehicle is safe to return to service.
- Review bus purchases for Buy America parts and component documents per FTA guidelines.
- New vehicle inspections performed at the factory to ensure all Valley Metro vehicles are built to specifications.
- New vehicle acceptance inspections to include both bus and vanpool vehicles to ensure all new vehicles are mechanically sound and ready for service before final payment.

On May 11, 2020, a single responsive proposal was received from the incumbent contractor, Vehicle Technical Consultants, Inc. An independent cost estimate was developed prior to the RFP. As a result of the single proposal received, a cost and price analysis were completed. The result of the cost and price analysis was that Vehicle Technical Consultants, Inc. price was fair and reasonable.

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

- Goal 1: Advance performance-based operations

**COMMITTEE PROCESS**
RTAG: July 21, 2020 for information
TMC: August 5, 2020 for action
Board of Directors: August 27, 2020 for action

**CONTACT**
Ray Abraham
Chief Operations Officer
rabraham@valleymetro.org

**ATTACHMENT**
None
Information Summary

DATE
August 6, 2020

AGENDA ITEM 12C

SUBJECT
Bus Operator Protective Barriers for Fixed Route Bus Fleet Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract with Complete Coach Works for an amount not to exceed $1,883,276 plus a 5% contingency of $94,163 for a total of $1,977,439 for the purchase and installation of Bus Operator Protective Barriers for the fixed route bus fleet.

COST AND BUDGET
This project is expected to be completed in FY21 and will require a mid-year budget adjustment since this need was not anticipated during the FY21 budget development process. A breakdown of these costs is listed below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Equipment and installation for 288 buses</td>
<td>$1,738,944</td>
</tr>
<tr>
<td>2</td>
<td>Estimated Tax (8.3%)</td>
<td>$144,332</td>
</tr>
<tr>
<td>3</td>
<td>Total Cost</td>
<td>$1,883,276</td>
</tr>
<tr>
<td>4</td>
<td>Contingency (5%)</td>
<td>$94,163</td>
</tr>
<tr>
<td></td>
<td>TOTAL PROJECT COSTS (Sum of items 1-4)</td>
<td>$1,977,439</td>
</tr>
</tbody>
</table>

Sources of funding include Federal CARES Act and Prop 400. A 5% project contingency of $94,163 is included for any unforeseen issues or obstacles during installation, which brings the total not to exceed amount to $1,977,439.

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute a contract with Complete Coach Works for an amount not to exceed $1,977,439 for the purchase and installation of Bus Operator Protective Barriers for the fixed route bus fleet.

BACKGROUND | DISCUSSION | CONSIDERATION
The Covid-19 health pandemic has created many challenges for public transit systems throughout the world. The most pressing and important aspect of operating fixed route transit in times like this is to protect the health and safety of bus operators and other front-line workers. Valley Metro, in partnership with the member cities have taken a host of measures to protect our front-line heroes. Some of these measures, which includes...
passengers boarding from the rear door, has impacted our ability to collect fares and has slowed down the boarding and alighting process. In addition, the number of security incidents on board buses has increased and several operators have been physically assaulted.

Prior to, and since the onset of the Covid-19 health crisis, staff from Valley Metro and the City of Phoenix have conducted extensive research to improve the long-term health and safety of our operators. Collectively, both agencies believe the most prudent and effective option is to retrofit the regional bus fleet with commercially available operator protective barriers. An overview of this type of barrier includes the following:

- Solid lower door panel and optimum glass coverage that provides a safety barrier for operators. The barrier is designed to protect the operator from physical assaults by passengers including thrown objects, spitting, punching, or other forms of physical altercations.
- Rugged door design, which includes a large safety glass shield that can be raised or lowered for maximum visibility and interaction with passengers. This safety glass also helps to protect the operator from airborne contaminants, such as Covid-19.
- Heavy-duty latch mechanism, which can be locked from inside the operator cockpit, preventing entry from unwanted persons.

On May 20, 2020, the City of Phoenix Public Transit Department (CITY) and the Regional Public Transportation Authority (RPTA) released a Request for Proposals (RFP) for the manufacture and installation of Bus Operator Protective Barriers for the regional fixed route bus fleet. This RFP was a competitive negotiated procurement to award a Firm, Fixed-Price (FFP) contract, pending approval from the Board and Phoenix City Council.

This solicitation represents a joint procurement by the CITY, on behalf of itself and RPTA. Each purchasing agency shall enter into its own contract(s) with the successful proposer and each is solely responsible for meeting FTA requirements and for their own performance under their respective contract(s), and neither shall be responsible or liable for the contract(s) of another.

Two proposals were received from the following offerors:

- Complete Coach Works
- NFI Parts

Final evaluations resulted in the following scores and recommendation:
The bid received by NFI Parts was deemed non-responsive for failing to submit the proper information on their pricing proposal. The proposal submitted by Complete Coach Works met or exceeded all of the technical requirements outlined in the RFP, and their pricing was very competitive to the price submitted by NFI Parts. Based on the results of this process, the selection committee has selected Complete Coach Works as the firm whose proposal offers the “best value” to the agency.

An independent cost estimate including a cost comparison and price analysis have been completed. The proposed price has been deemed fair and reasonable based on the price analysis.

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

**COMMITTEE PROCESS**
RTAG: July 21, 2020 for information
TMC: August 5, 2020 for action
Board: August 27, 2020 for action

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

**ATTACHMENT**
None
Information Summary

DATE
August 6, 2020

AGENDA ITEM 12D

SUBJECT
Light Rail Vehicle (LRV) Steel Tires Contract Change Order

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract change order with Penn Machine Company for additional LRV steel tires and tire block kits in an amount not to exceed $316,994 for the final three years of the contract.

COST AND BUDGET
The cost of the change order to the LRV steel tires contract with Penn Machine Company over the remaining three years of the contract is an amount not to exceed $316,994 and is included in the Valley Metro Rail Adopted FY 2021 Operating and Capital Budget. Contract obligations beyond FY2021 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2021 thru FY2025).

The source of funding is from Public Transportation Funds (PTF).

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a contract change order with Penn Machine Company for additional LRV steel tires and tire block kits in an amount not to exceed $316,994 for the final three years of the contract.

BACKGROUND | DISCUSSION | CONSIDERATION
In October 2018, the Board of Directors authorized the CEO to execute a contract with Penn Machine Company for the supply of 96 LRV steel tires and tire block kits per year over the 5-year contract period. For the total term of the contract, the award amount was $1,173,515. In order to maintain a state of good repair and to maintain safe and reliable operation of the LRV fleet, Valley Metro is needing an additional 128 LRV steel tires and tire block kits over the remaining 3-years of the contract. This is consistent with the approved Transit Asset Management (TAM) Plan.

An independent cost estimate including a cost comparison and price analysis have been completed. The proposed price has been deemed fair and reasonable based on the price analysis.
STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:

- Goal 2: Advance performance-based operation

COMMITTEE PROCESS
RTAG: July 21, 2020 for information
RMC: August 5, 2020 for action
Board of Directors: August 27, 2020 for action

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

ATTACHMENTS
None
DATE
August 6, 2020

SUBJECT
Light Rail Vehicle (LRV) Door Control Unit Upgrade Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract with IFE North America to complete an LRV fleet door control unit (DCU) upgrade in an amount not to exceed $933,202 plus a contingency of $46,660, for a total of $979,862.

COST AND BUDGET
The cost for the LRV fleet DCU upgrade with IFE North America is $979,862 which includes a $46,660 contingency for any unanticipated costs that may occur during the upgrade project. The cost for the upgrade project is included in the Valley Metro Rail Adopted FY 2021 Operating and Capital Budget. Contract obligations beyond FY2021 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2021 thru FY2025).

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a contract with IFE North America to complete an LRV fleet door control unit (DCU) upgrade in an amount not to exceed $979,862.

BACKGROUND | DISCUSSION | CONSIDERATION
The current age of the light rail vehicles is 12 years in revenue service with an average mileage of each vehicle being approximately 670,000 miles. There are currently 50 light rail vehicles (LRVs) in the total fleet. The Door Control Unit (DCU) is used to read out all operating elements (push buttons, light barrier, sensitive edge) of the respective entry, as well as for driving the door motor and all the signalling devices (warning buzzer, signal lamp) in the entry-area. Each LRV has eight (8) entrances with eight (8) separate DCU’s.

The current DCU’s on the LRV fleet are obsolete and it is difficult to obtain parts to maintain properly. This upgrade will eliminate obsolescence, achieve recommended maintenance schedules, and upgrade multiple portions of the door system, all of which will allow the fleet to run at peak performance with minimum door related delays. The DCU Upgrade will replace the existing obsolete DCU with a state of the art, Modular Door Control Unit (MDCU) style DCU.
This upgrade project only includes 25 LRVs out of the total fleet of 50 vehicles. In order to provide cost saving measures, Valley Metro will use the obsolete spare DCU’s and parts removed during the replacement to prolong the maintainability of the other 25 vehicles. IFE North America onsite support will be responsible for the removal of existing DCU and reinstallation of the upgraded MDCU on the first LRV only and provide onsite supervision for the 2nd LRV upgrade. Valley Metro’s maintenance staff will be responsible for removing remaining LRV sets of existing equipment and the reinstallation of the upgraded MDCU on the remaining 25 vehicles.

The recommended award of the contract to IFE North America is a non-competitive procurement due to the company being the original equipment manufacturer (OEM). IFE North America is the only source known for parts and components for this specially designed system.

An independent cost estimate including a cost comparison and price analysis have been completed. The proposed price has been deemed fair and reasonable based on the price analysis.

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

- Goal 2: Advance performance-based operation

**COMMITTEE PROCESS**  
RTAG: July 21, 2020 for information  
RMC: August 5, 2020 for action  
Board of Directors: August 27, 2020 for action

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

**ATTACHMENTS**  
None
Information Summary

DATE
August 6, 2020

AGENDA ITEM 12F

SUBJECT
Asset Management & Vehicle Maintenance Ticketing System Upgrade

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to purchase server equipment, professional services, and training to upgrade the asset management and vehicle maintenance work order system to prevent interruption to rail operations when the current system reaches end-of-life in December for an amount not to exceed $331,000.

COST AND BUDGET
The total cost for server equipment and professional services for the upgrade is $331,000 and will require a mid-year adjustment to the VMR Adopted FY 2021 Operating and Capital Budget.

The server equipment will be procured from Dell through an Arizona State Procurement Office cooperative contract, while the professional services will be procured from ASEA Brown Boveri (ABB) through value-added reseller SHI International Corp. under a National Association of State Procurement Officers (NASPO) cooperative contract to ensure a competitively negotiated price and leverage the better volume discounts available through the contract.

<table>
<thead>
<tr>
<th>Item</th>
<th>Contract #</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Server Hardware</td>
<td>ADSPO16-098163</td>
<td>$30,000</td>
</tr>
<tr>
<td>Professional Services, Upgrade</td>
<td>NASPO #2018011-02</td>
<td>$277,000</td>
</tr>
<tr>
<td>Training</td>
<td>NASPO #2018011-02</td>
<td>$24,000</td>
</tr>
<tr>
<td></td>
<td><strong>Grand Total:</strong></td>
<td><strong>$331,000</strong></td>
</tr>
</tbody>
</table>

RECOMMENDATION
Staff recommends the RMC forward to the Board of Directors authorization for the CEO to purchase server equipment, professional services, and training not to exceed $331,000.

BACKGROUND | DISCUSSION | CONSIDERATION
The tracking and maintenance activities for Valley Metro’s light rail rolling stock rely on a complex enterprise asset management and vehicle maintenance ticketing system, ABB’s Ellipse. Valley Metro is currently running version 8 of the Ellipse application,
which uses Adobe's Flash products. On April 1, 2020, Valley Metro received an end-of-life notice from our account representative at ABB. The announcement indicated that with Adobe discontinuing its Flash product at the end of 2020, ABB is declaring Ellipse v8 end-of-life on December 31, 2020. At that time, all browser platforms supported by Ellipse v8, including Chrome, Firefox, and Edge, will begin to actively disallow the use of Adobe Flash as a security risk. Therefore, the next time browser security updates are applied after December 31, our current version of Ellipse will cease to function. While the FY2021 budget was built on the intent to utilize the v8 Ellipse system until the new Enterprise Asset Management (EAM) system comes online in the latter part of calendar year 2022, that plan is no longer feasible.

The current version of Ellipse, v9, uses the open HTML5 standard in place of Adobe Flash. Due to the underlying architecture change between v8 and v9, this change is a full conversion rather than a simple in-place upgrade. Authorization for the expenditure of funds requested in this memo will allow Valley Metro to engage ABB's professional services to guide staff through the transition before the December 31 deadline. The expenditure also includes training for the end-users on the updates in the user interface. This upgrade will allow Valley Metro to continue Rail Operations uninterrupted over the next two years. At that point, the new Trapeze EAM system authorized by the Board will come online and replace Ellipse.

COMMITTEE ACTION
RTAG: July 21, 2020 for information
TMC/RMC: August 5, 2020 for action
Board of Directors: August 27, 2020 for action

CONTACT
Phil “Oz” Ozlin
Manager, Information Technology
(602)495-8253
pozlin@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
August 6, 2020

AGENDA ITEM 12G

SUBJECT
South Central Extension/Downtown Hub Project: Amended Funding Agreement

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to amend the City of Phoenix funding agreement for the South Central Extension/Downtown Hub for Phoenix to provide up to an additional $350 million to Valley Metro.

COST AND BUDGET
The estimated Phoenix funds needed for remaining project activities is $350 million. $20 million of this represents the remaining Phoenix T2050 local funding commitment for construction. The remaining $330 million of these funds are an advance to be reimbursed by federal funds in increments subsequent to award of a Full Funding Grant Agreement (FFGA) from the FTA.

At present, the FTA has allocated $200 million of the $530 million anticipated FTA grant funds, but federal funding is not available to the project until an FFGA has been executed. The FFGA is anticipated in early 2021. Even after the grant is awarded, federal funds are provided to Valley Metro on a reimbursement basis. Therefore, it is typical that local/regional funds are utilized until federal funds are reimbursed. FTA grant funds may lag one to three years behind the time costs are incurred for the project.

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

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to amend the existing funding agreement with the City of Phoenix for the South Central Extension/Downtown Hub Project for Phoenix to provide an additional $350 million to Valley Metro.

This action is pending City of Phoenix Council action.
BACKGROUND/DISCUSSION/CONSIDERATION
The South Central Extension/Downtown Hub adds approximately 5.5 miles to Valley Metro’s light rail system, and includes construction within Downtown Phoenix and extends south along Central Avenue to Baseline Road. Funding for this project will be through the Federal Transit Administration’s Capital Investment Grant (CIG) program and will include local match participation by Phoenix and Valley Metro.

In December 2014, Valley Metro entered into an agreement with Phoenix for them to provide funding to initiate project planning. Since then, there have been three amendments to complete planning and design, pre-construction services, provide business assistance activities, and to construct the project. The following table summarizes Phoenix funding to date:

<table>
<thead>
<tr>
<th>Date</th>
<th>Purpose</th>
<th>Phoenix Funding Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2014</td>
<td>Planning (non-Capital)</td>
<td>$3.2 million</td>
</tr>
<tr>
<td>November 2015</td>
<td>Planning (non-Capital)</td>
<td>$1.5 million</td>
</tr>
<tr>
<td>February 2017</td>
<td>Design/Pre-Construction</td>
<td>$50.0 million</td>
</tr>
<tr>
<td>October 2019</td>
<td>Design/Administrative/Construction</td>
<td>$159.0 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$213.7 million</strong></td>
</tr>
</tbody>
</table>

The South Central Extension/Downtown Hub project design was finalized in late 2019. Construction of utility relocations started in October 2019 and full construction will continue in 2020. To keep the project moving, additional funds are needed from Phoenix in advance of receiving FTA funds.

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

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

- Goal 2: Advance performance based operation
- Goal 3: Grow transit ridership

COMMITTEE PROCESS
RTAG: May 19, 2020 for information
RMC: June 3, 2020 for action
Board of Directors: June 18, 2020 for action
CONTACT
Wulf Grote, P.E.
Director, Capital and Service Development
602-322-4420
wgrote@valleymetro.org

ATTACHMENT
None

Draft amended agreement available upon request.
Siemens Mobility, Inc. Light Rail Vehicles Contract Amendment

To request authorization for the Chief Executive Officer (CEO) to execute a contract amendment with Siemens Mobility, Inc. (Siemens) to purchase 14 additional S70 light rail vehicles (LRVs) in conjunction with the South Central Extension/Downtown Hub (SCE/DH) project for an amount not to exceed $78,509,911.

In 2017 Valley Metro Rail entered into a contract with Siemens Industry, Inc. to purchase 11 S70 LRVs, spare parts and training, with future options to purchase additional vehicles. In a 2018 merger, Siemens Industry, Inc. became Siemens Mobility, Inc. Cost information for the initial order of vehicles is summarized in the table below.

<table>
<thead>
<tr>
<th>Siemens Industry, Inc. Current Contract Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Date</strong></td>
</tr>
<tr>
<td>May 2017</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

The 14 additional LRVs for the SCE/DH will cost up to $78,509,911 including the following elements:

<table>
<thead>
<tr>
<th>14 LRVs</th>
<th><strong>$71,084,061</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent Guarantee Bond Credit</td>
<td>$ (343,000)</td>
</tr>
<tr>
<td>Spare parts</td>
<td>$ 4,001,949</td>
</tr>
<tr>
<td>Training</td>
<td>$ 212,698</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$74,955,708</td>
</tr>
<tr>
<td>5% Contingency for 14 LRVs</td>
<td>$ 3,554,203</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td><strong>$78,509,911</strong></td>
</tr>
</tbody>
</table>
Funding for this purchase is included within the SCE/DH project and comes from federal Congestion Mitigation & Air Quality (CMAQ) funds and regional Public Transportation Funds (PTF). Project funds are included in the Valley Metro Rail FY21 Operating and Capital Budget. Contract obligations beyond FY21 are incorporated into the Five-Year Operating Forecast and Capital Program (FY21 thru FY25).

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a contract amendment with Siemens Mobility, Inc. to purchase 14 S70 LRVs to expand the LRV fleet in conjunction with the SCE/DH project for an amount not to exceed $78,509,911.

BACKGROUND | DISCUSSION | CONSIDERATION
In order to maintain 12-minute peak operating frequency for the entire light rail system, it will be necessary to purchase 14 additional light rail vehicles in conjunction with the SCE/DH. The total light rail fleet will then include 75 vehicles. This includes the 50 LRVs currently in operation, the 11 Siemens LRVs being delivered in 2020 and the 14 LRVs needed for the SCE/DH. No additional fleet will be needed for the Northwest Extension Phase II.

In 2017 Valley Metro Rail entered into a contract with Siemens to purchase 11 light rail vehicles. Three of those vehicles were part of the Gilbert Road Light Rail Extension and eight were purchased to add passenger carrying capacity to the existing light rail system. The Siemens contract also includes purchase options for up to an additional 67 LRVs over a seven-year term as follows:

<table>
<thead>
<tr>
<th>Option</th>
<th># of LRVs</th>
<th>Latest Date to Exercise Option</th>
<th>Un-escalated Cost Per Vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18 to 53</td>
<td>June 2021</td>
<td>$4,221,279</td>
</tr>
<tr>
<td>2</td>
<td>10 to 14</td>
<td>June 2024</td>
<td>$4,392,469</td>
</tr>
</tbody>
</table>

Recognizing that only 14 LRVs will be purchased now, Siemens agreed to flip options 1 and 2. However, the per vehicle cost for the new option 1, for 10 to 14 LRVs, will be at the higher cost identified in the table above ($4,392,469 plus escalation cost). This cost is justified because there will be greater fixed manufacturing costs per vehicle for the smaller quantity of LRVs being purchased now. If Option 2 is exercised later, the cost per LRV will be $4,221,279 plus escalation costs.

Given that it generally takes 36 to 48 months for LRV delivery from notice to proceed, it is necessary to purchase the additional 14 vehicles now. This will ensure that the entire fleet of 75 LRVs will be available prior to construction completion of the SCE/DH.

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

- Goal 2: Advance performance based operation
- Goal 3: Grow transit ridership

COMMITTEE PROCESS
RTAG: July 21, 2020 for information
RMC: August 5, 2020 for action
Board of Directors: August 27, 2020 for action

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

ATTACHMENT
None
DATE
August 6, 2020

SUBJECT
Future Agenda Items Request and Report on Current Events

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

Future Items

<table>
<thead>
<tr>
<th>Item</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Audits:</td>
<td></td>
</tr>
<tr>
<td>o City of Phoenix Contract Management Risk Assessment</td>
<td>August 2020</td>
</tr>
<tr>
<td>Contract Management (Specific) Paratransit</td>
<td>August 2020</td>
</tr>
<tr>
<td>Proposed Audit Plan for FY21</td>
<td>August 2020</td>
</tr>
<tr>
<td>Update on Reduced Fare program</td>
<td>August 2020</td>
</tr>
<tr>
<td>Professional Development Audit – Follow-up discussion</td>
<td>September 2020</td>
</tr>
<tr>
<td>Agency Credit card Audit</td>
<td>Moved to next year’s audit plan</td>
</tr>
<tr>
<td>Travel Audit</td>
<td>Moved to next year’s audit plan</td>
</tr>
<tr>
<td>Budget – Position Justifications</td>
<td>TBD</td>
</tr>
<tr>
<td>TLCP Update – Bus</td>
<td>TBD</td>
</tr>
<tr>
<td>TLCP Update – Rail</td>
<td>TBD</td>
</tr>
<tr>
<td>Travel Data</td>
<td>TBD</td>
</tr>
</tbody>
</table>

CONTACT
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Chief Financial Officer
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