



MEETING OF THE

Audit and Finance Subcommittee

Date:

March 14, 2019

Starting Time

12:00 p.m.

Location:

Valley Metro

Lake Mead Conference Room (10B)

101 N. 1st Avenue, 10th Floor

Phoenix

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



Agenda

March 7, 2019

Audit and Finance Subcommittee

Thursday, March 14, 2019

10th Floor, Lake Mead Conference Room (10B)

101 N. 1st Avenue, 10th Floor

12:00 p.m.

Action Recommended

1. Public Comment

1. For information

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

2. Minutes

2. For action

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

3. Credit Card Transactions Audit

3. For action

Mary Modelski, Director, Internal Audit, will present the results of the Credit Card Transactions Audit for acceptance.

4. Internal Audit Exceptions Update

4. For information

The Internal Audit Exceptions log is presented for information.



5. Refunding Bond Issuance Authorization – Fourth Supplemental Resolution

5. For action

Paul Hodgins, Chief Financial Officer, will recommend that the Audit and Finance Subcommittee adopt the Fourth Supplemental Resolution authorizing the issuance of tax-exempt, senior lien bonds in FY 2019 in an amount sufficient to refund certain maturities of the Series 2009B bonds and to pay costs of issuing the bonds.

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

6. For information

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

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

7. For information

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

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

8. For information

Paul Hodgins, Chief Financial Officer, will provide an update on upcoming intergovernmental agreements, contract awards, amendments and change orders.



9. Future Agenda Items

9. For information

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

10. Next Meeting

10. For information

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

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



Information Summary

DATE

March 7, 2019

AGENDA ITEM 1**SUBJECT**

Public Comment

PURPOSE

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

BACKGROUND | DISCUSSION | CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

This item presented for information only.

CONTACT

Paul Hodgins
Chief Financial Officer
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ATTACHMENT

None



Minutes

March 7, 2019

AGENDA ITEM 2

Audit and Finance Subcommittee
Thursday, January 10, 2019
Lake Mead Conference Room
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Meeting Participants

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

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

1. Public Comment

None.

2. Minutes

Minutes from the December 6, 2018, Audit and Finance Subcommittee meeting presented for approval.

IT WAS MOVED BY COUNCILMEMBER ARREDONDO-SAVAGE, SECONDED BY COUNCILMEMBER PETERSON AND UNANIMOUSLY CARRIED TO APPROVE THE DECEMBER 6, 2018 AFS MINUTES.

3. Travel and Entertainment Expense Audit

Mary Modelski, Director, Internal Audit presented the results of the Travel and Entertainment Expense Audit to the AFS for acceptance.

Ms. Modelski said there were six findings related to travel with 11 components related to findings and that she is tracking items that have not been remediated.

- Finding 1 – Travel Policy Compliance – Due date: March 29, 2019
 - Form Submission
 - Form Approvals
 - Credit Card Utilization
 - Travel Administrators



- Finding 2 – Incomplete Travel Reporting – Due date: December 31, 2018
- Finding 3 – Travel Policy Clarification – Due date: March 31, 2019

Ms. Modelski reported that management concurred with all finding recommendations with a remediation date of March 2019.

There was discussion of two in-state travel authorization forms for the CEO that had not been approved by the RPTA and VMR Board Chairs. Mr. Smith said that the policy would be changed to address that the RPTA and VMR Board Chairs signatures are not required for any in-state travel by CEO.

Vice Chair Williams ask that the audit report name be changed to omit the word “Entertainment” since there isn’t any entertainment items involved in the audit.

Councilmember Arredondo-Savage asked for a breakdown of the professional development related to all travel.

Prior to posting, it was discussed that Ms. Modelski would add an addendum for clarification to address spouse or significant travel.

IT WAS MOVED BY MAYOR WILLIAMS, SECONDED BY COUNCILMEMBER ARREDONDO-SAVAGE AND UNANIMOUSLY CARRIED TO ACCEPT THE TRAVEL AND ENTERTAINMENT EXPENSE AUDIT.

4. Internal Audit Update

Mary Modelski, Director, Internal Audit, provided an update on actions taken in Internal Audit and discussed the following policy and work in progress updates.

Policies

- Procurement Policy – revised policy was submitted to Leadership on 01/02/19. Training on modifications has begun internally to advise the user community of upcoming changes.
- Ethics Policy – first quarterly report (10/1-12/31/18) sent to the CEO on 01/4/19.

Work in Progress

- Travel and Entertainment Audit – issued 12/17/18 and presented for acceptance.
- Credit card audit – Management is reviewing the draft report with an exit meeting scheduled for week of 01/14.



- Non-contract procurement audit – testing complete with discussions with management regarding anomalies.
- Contract Management audit – planning underway.
- Audit exceptions – current status of deficiencies under a separate attachment.
- Human Resources – phone interviews conducted with second round of candidates.

This item presented for information only.

5. Internal Audit Exceptions Update

Mary Modelski, Director, Internal Audit, provided an update on the progress of audit exceptions.

Mayor Williams requested an amendment to travel policy of RPTA/VMR approval for CEO in-state travel.

Mr. Smith mentioned that there will be further discussion of consolidating RPTA/VMR policies in approving contract dollar amounts of each entity.

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

Paul Hodgins, Chief Financial Officer provided an update on upcoming intergovernmental agreements, contract awards, amendments, and change orders. The following items will be presented to the Boards of Directors for approval:

- Facility Maintenance Services Contract Award
- Workers' Compensation and Employer's Liability Insurance Coverage Renewal
- Solar Bus Canopy Installation and Maintenance Agreement
- West Valley Fixed Route Bus Service Contract Award
- Uniform Rental and Laundry Service Contract Award
- Northwest Phase II Light Rail Extension: Phoenix Water Services Department Agreement for Moon Valley Pump Station
- Light Rail Vehicle (LRV) Bumper Overhaul Program Contract Awards
- South Central/Downtown Hub Light Rail Extension Utility Relocation Letters of Authorization
- Operations and Maintenance Center Expansion Design/Build Contract Award



7. February Board Study Session

Paul Hodgins, Chief Financial Officer, presented the following discussion points for the Audit and Finance Subcommittee to review and provide input to ensure a productive Board discussion at the February Board Study Session.

Joint Items

- Revenue Forecasts: An overview of the forecast process for Public Transportation Funds and Regional Area Road Funds
- Staffing: An overview of the staffing process, including how new positions are requested and how staffing effort is allocated and funded across the two agencies

RPTA Budget

- Fixed Route: An overview of the key drivers that impact costs and member city funding, including contract rates, revenue miles and fare revenues
- Paratransit: An overview of the key drivers that impact costs and member city funding, including the volatility of demand and the complexity of administering the program
- Planning: An overview of planning activities and significant studies
- Capital projects: An overview of capital projects and funding sources

VMR Budget

- Rail operations: An overview of the key drivers that impact costs and member city funding, including contractor costs, maintenance and fare revenue forecasting
- State of Good Repair: A review of state of good repair maintenance costs, how they are related to the transit asset management plan and how to budget and fund these costs as the system ages
- Safety and Security: An overview of the key drivers of safety and security, including fare enforcement and Respect the Ride
- Agency operating: An overview of the costs that are included in agency operating
- Planning and Project Development: An overview of planning activities and significant planning studies
- Capital projects: An overview of the capital projects and funding sources

8. Future Agenda Items

None.



9. Next Meeting

The next meeting of the Audit and Finance Subcommittee is February 14, 2019 at 12:00 p.m.

With no further discussion, the meeting adjourned at 1:16 p.m.



Information Summary

DATE

March 7, 2019

AGENDA ITEM 3**SUBJECT**

Credit Card Transactions Audit

PURPOSE

Present the results of the Credit Card Transactions Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

BACKGROUND/DISCUSSION/CONSIDERATION

The Fiscal Year 2018/2019 Internal Audit Plan approved by the AFS on June 14, 2018, included a review of Credit Card Transactions. The objective of the audit was to determine if credit card transactions adhere to the documented policy.

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

Staff recommends the Audit and Finance Subcommittee accept the Credit Card Transactions Audit.

CONTACT

Mary Modelski
Internal Audit Manager
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602-262-7433

ATTACHMENT

Credit Card Transactions

Credit Card Transactions Audit

February 2019



Audit Report

Internal Audit

Distribution

Audit and Finance Subcommittee
Scott Smith, Chief Executive Officer
Paul Hodgins, Chief Financial Officer

To Scott Smith, Chief Executive Officer:

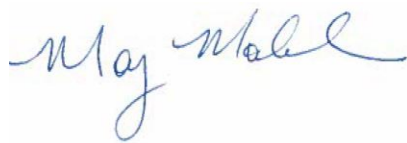
The purpose of this report is to communicate the results of the Credit Card Transactions Audit. The audit was part of Valley Metro's Fiscal Year 18/19 Internal Audit Plan.

The report includes the following sections: Objective, Scope, Methodology, Prior Audit Recommendations, Background and Audit Results.

Valley Metro's *Credit Card and Acceptable Use policy* identified the credit card issuance process, and supporting approval documentation to submit to Finance. Management updated the *Credit Card and Acceptable Use policy* (v. 10/10/18) and provided documentation of cardholder trainings. Most of the Agency's credit card transactions conducted by its 25 cardholders adhered to the policy as written. Maintaining documentation for follow-up actions taken for policy noncompliance would improve internal controls. Although, two audit findings from the City of Phoenix's Procurement Audit remain "In-Progress," Internal Audit successfully tested five of the audit recommendations from the City of Phoenix's Purchasing Card Audit and found them remediated.

During the course of this audit, individuals assisted by providing information and supplied evidence for testing on varying processes regarding Valley Metro's credit card activities: card issuance/approval, trainings, cardholders' monthly reconciliations, Finance's varying reviews and payment to Wells Fargo. Internal Audit appreciates their assistance.

For questions or further clarification, please contact me at 602-322-4453.



Mary Modelski
Internal Audit
February 21, 2019

Objective

Determine if Valley Metro's Wells Fargo credit card activities adhered to applicable policies and if management has addressed prior audit recommendations.

Scope

The timeframe of the credit card activities under review was from July 1, 2017 through June 30, 2018. Activities that were incurred prior to or carried over from this timeframe and that assisted with the audit objective were included within the review.

Items reviewed included: approval of transaction limits (single and monthly), documentation of policy training, all credit card transactions, monthly reconciliations, applicable general ledger postings and Valley Metro policies.

Methodology

Internal Audit reviewed all Wells Fargo credit cards transactions. Due to the sensitive nature of this area of review, Internal Audit tested for 100% compliance. Internal Audit reported all exceptions to allow management to improve controls surrounding the process.

Internal Audit focused on the following areas:

- Credit card issuance and cardholder training
- Cardholder transactions for:
 - Compliance with Valley Metro policies
 - Completeness of documentation supports monthly reconciliations
 - Accurate general ledger postings
- Documented reviews by Division Heads, Credit Card Administrator and Finance for appropriateness and authorization
- Policies align with current processes

To achieve our audit objectives, Internal Audit performed the following audit procedures:

- Obtained the Wells Fargo User Profile Report and compared to the cardholder listing maintained by the Credit Card Administrator. The *Agency Credit Cardholder Agreement, Request & Change* forms, were reviewed to determine if Finance maintained adequate approval documentation for all cardholders' single/monthly limits, return of cards and training acknowledgements.
- Obtained from Wells Fargo the transaction reports for Regional Public Transit Authority and Valley Metro Rail for Fiscal Year (FY) 17/18, prepared a combined transaction listing and reviewed transactions for compliance with applicable Valley Metro policies to determine if:

- Information Technology charges were appropriately documented for approval
 - Travel transactions were supported by an approved Travel Authorization form
 - Local Dining forms were attached to the reconciliation packet for food and beverage purchases
 - Purchases were not split between multiple days/individuals to bypass authority levels
- Obtained Finance's *Posted General Ledger Transactions* report for FY 17/18 and compared it to Wells Fargo transaction reports to determine if Finance posted all transactions.
- Reviewed the monthly credit card folders maintained by Finance and prepared a summary spreadsheet for the year to determine compliance with applicable Valley Metro policies related to:
 - Division Head signature review and approval was obtained for the monthly reconciliation packet
 - Monthly charge limit was not exceeded
- Internal Audit reviewed the applicable Valley Metro policies to determine if policies accurately reflected current practices. Additionally, if they provided Agency employees with clear direction for appropriateness of charges, reconciliations requirements and monthly processing of statements.

Prior Audit Recommendations

Although, responsibility for determining final status of the recommendations lies with the City of Phoenix, by reviewing relevant items, Internal Audit is able to report on the status of remediation on the recommendations.

City of Phoenix's Purchasing Card Audit, issued June 2018. Five recommendations were included in this report:

Rec. 2.1: Policy acknowledgment forms - Remediated

Finance updated the *Credit Card, Acceptable Use policy* (v. 10/10/18) and trained the 21 active cardholders the week of October 17, 2018. Internal Audit reviewed the signed *Agency Credit Cardholder Agreement, Request & Change* forms for all 21 cardholders maintained by the Credit Card Administrator on October 30, 2018 and determined 21 cardholders had signed the acknowledgement form.

Rec. 2.2: Single purchase and monthly spending limits - Remediated

Reviewed the *Agency Credit Cardholder Agreement, Request & Change* forms for 23 cardholders active as of September 5, 2018; all cardholders had signed forms, all indicated single purchase and monthly spending limits and all forms were signed by the cardholder, Division Head, Chief Financial Officer (CFO), and Chief Executive Officer (CEO).

Rec. 2.3: Documented approvals for credit card changes - Remediated

Reviewed the *Agency Credit Cardholder Agreement, Request & Change* forms for 25 cardholders active during audit scope; signed forms were present for limit changes, card replacements and card returns. Verified Wells Fargo acknowledged the deactivation of returned cards.

Rec. 3.1: Canceling returned credit cards - Remediated

Internal Audit reviewed supporting documentation for three returned credit cards, which included the timely notification of deactivation to Wells Fargo.

Rec. 4.1: Maintaining records of transaction details and approvals - Remediated

Reviewed the credit card reconciliation paperwork and supporting documents for the month of October 2018. Noted cardholder reconciliation packets contained detailed receipts and documented approvals for technology purchases. The Procurement Manager and a Finance Accounting Technician verified the Credit Card Administrator's review of sample transactions.

City of Phoenix's Procurement Audit, issued August 2017. Although the report contained six recommendations, the July 2018 submission of the *Internal Procurement Manual* (v. 6/25/18) remediated four of the recommendations. The two recommendations still open are:

Rec. 3.2: Personal Service Contracts and Sole Source Purchases – In Progress

The Chief Procurement Officer confirmed Valley Metro no longer used personal services contracts. Internal Audit reviewed sign-in documentation of procurement staff training but awaits the release of the *Internal Procurement Manual* to validate a documented process exists for staff reference.

Rec. 3.3: Review Procedures for Aggregate Small Dollar Purchases – In Progress

Internal Audit reviewed sign-in documentation of procurement staff, managers and administrative support staff training on procedures relative to inventory and parts purchases. Internal Audit awaits the release of the *Internal Procurement Manual* to validate a documented process exists for staff reference.

Background

Valley Metro's FY 18/19 Internal Audit Plan included the Credit Card Transactions Audit. The Audit and Finance Subcommittee approved the Internal Audit Plan on June 14, 2018. The following policies were the basis for our review of evidence to determine compliance with Valley Metro policies:

- *Credit Card, Acceptable Use policy* (v. 7/28/16)
- *VMR Procurement Policy and Procedure Manual* (v. 4/25/11)
- *RPTA Procurement policy* (v. 6/16/11)
- *Travel policy* (v. 7/28/16)
- *Agency Local Dining policy* (v. 9/01/16)

- *Agency Local Dining and Refreshments policy* (v. 9/30/17)

The *Credit Card, Acceptable Use policy* Section III Policy Statement indicated that the Agency:

- Allowed credit card purchases for the purchasing of any goods and/or services in a manner that complied with the Agency's Procurement Policy and Purchasing Procedures regulating micro (less than \$3,000) purchases.
- Designed Agency credit cards to streamline the Agency's public purchasing and accounts payable process. Therefore, reduced staff time and related paperwork generated in small dollar, high volume transactions thus eliminated the need for purchase orders and facilitated quick payment to vendors and contractors.
- Issued Agency credit cards only to CEO approved permanent Agency employees with single transaction limits no greater than \$1,000, and monthly transaction limits no greater than \$5,000. The CFO, Division Head and Credit Card Administrator recommended any increases above these limits to the CEO for approval.
- Prohibited credit card purchases included:
 - Transaction amounts greater than Cardholder's transaction single purchase and monthly purchase limits
 - Any single purchase exceeding \$1,000 (\$3,000, if Cardholder is approved by CFO and CEO) without Division Head and Contracts and Procurement written approvals
 - Personal expenditures
 - Cash advances or refunds
 - Business meals which are not pre-approved in writing by the responsible Division Head
 - Technology purchases, such as computers, peripherals, cell phones, etc. unless approved by the Chief Technology Officer
 - Purchases under existing Agency contracts, unless an emergency exception is granted by the Division Head and the Contracts and Procurement Department
 - Separate, sequential, and component purchases or transactions made with the intent to circumvent Agency procurement policy
 - Purchases that are split to stay within Agency Credit Card transaction limits
 - Other purchases specifically excluded in other Agency policies or by law

Valley Metro established the *Credit Card, Acceptable Use policy* to set credit card requirements for purchasing goods and/or services using an Agency Credit Card issued by Wells Fargo and approved by the CFO, Contracts and Procurement Department and the CEO. Additionally, the *Credit Card, Acceptable Use policy* provided the establishment of Agency Credit Card limits, functions and guidelines; identified allowed and prohibited purchase transactions; and outlined policy guidelines for Agency credit card behavior and reporting.

One Credit Card Administrator, who reported through Procurement to Finance, administered the credit card program for both Regional Public Transit Authority and Valley Metro Rail cardholders with Wells Fargo Bank.

Although the procurement and credit card policies documented different Micro Purchase Limits, Internal Audit verified and used the Micro Purchase Limit as \$3,000 for the audit scope.

Policy Name	Policy Version Date	Micro Purchase Limit
<i>VMR Procurement Policy and Procedure Manual</i>	v. 4/25/11	\$ 2,500
<i>RPTA Purchasing/Procurement</i>	v. 6/16/11	\$ 2,500
<i>Credit Card, Acceptable Use</i>	v. 7/28/16	\$ 3,000
<i>Internal Procurement Manual</i>	v. 6/25/18	\$ 3,500
<i>Credit Card, Acceptable Use</i>	v. 7/20/18	**

** The policy does not have a dollar value stated, but rather states "under the current Agency Procurement Manual micro purchase amount in total value."

As cardholders utilized their Valley Metro issued credit card for travel expenses, Internal Audit included the *Travel policy* requirements for review. The *Travel policy* states, "The Travel Administrators will pay airfare, lodging and/or registration fees, including conference-sponsored meals, directly to the vendor."

Since cardholders utilized their Valley Metro issued credit card for food and beverage purchases, Internal Audit included the *Agency Local Dining policy* requirements for review. Both *Agency Local Dining* policies (v. 9/01/16 and v. 9/30/17) required the following documentation:

- Original detailed/itemized receipt from establishment/vendor
- Credit card charge slip, with any gratuity included
- Listing of individuals (employee and non-employee) in attendance
- Stated business purpose and high level summary of agenda items
- Authorized Pre-Approval – Local Dining and Refreshments form

Cardholder Limit Approvals and Training

Valley Metro utilized Wells Fargo Bank to facilitate credit card purchases for a 25 cardholders. Internal Audit verified the Credit Card Administrator maintained *Agency Credit Cardholder Agreement, Request & Change* forms approved by Division Heads, the CFO and CEO, with single and monthly transaction limits established, for all cardholders. Cardholders' approved single transaction limits ranged between \$1,000 up to \$7,500 and monthly limits ranged between \$5,000 up to \$20,000. Noting the CFO and CEO granted the higher limits to the Agency's Travel Administrators to facilitate travel and training expense payments.

The *Credit Card, Acceptable Use policy* required cardholders to sign the *Agency Credit Cardholder Agreement, Request & Change form* for policy changes, form updates, and as an annual

acknowledgement of the current policy. The Agency's *Agency Credit Cardholder Agreement, Request & Change form* (v. 3/23/18) included, a Cardholder Agreement Statement in which the cardholder acknowledged compliance with the *Credit Card, Acceptable Use policy* and listed prohibited transactions. The forms continued to required cardholder, Division Head, CFO and CEO signatures. Internal Audit reviewed documentation evidencing that: in March 2018, all active cardholders signed the updated form, and in September 2018, all active cardholders signed the FY 18/19 annual policy acknowledgement form.

Cardholder Spend Summary and Potential Liability

Management authorized Wells Fargo to provide Internal Audit with Valley Metro's transactions reports for posting dates of July 1, 2017 through June 30, 2018. Internal Audit determined that Valley Metro's cardholders had a net credit card spend for FY 17/18 of \$882,497, which represents approximately 0.3% of total Valley Metro non-capital expenditures during the year. The following table provides a breakdown by assigned Division of cardholder spend for FY 17/18, number of cardholders and total monthly limits for the Division's cardholder(s).

Exhibit 1: Division Breakdown

Cardholder Assigned Division	FY 17/18 Annual Spend	% of Total	# of Cardholders	Total Division Monthly Limits
Operations and Maintenance	\$ 242,157	27.44%	5	\$ 45,000
Finance	\$ 211,194	23.93%	2	\$ 40,000
Agency Business, Technology and Services	\$ 184,849	20.96%	5	\$ 55,000
Communications and Strategic Initiatives	\$ 95,156	10.78%	1	\$ 10,000
Executive (to include CEO)	\$ 76,141	8.63%	3	\$ 30,000
Human Resources	\$ 35,926	4.07%	1	\$ 10,000
Capital and Service Development	\$ 33,306	3.77%	2	\$ 30,000
Safety, Security and Quality Assurance	\$ 2,778	0.31%	1	\$ 5,000
Legal	\$ 990	0.11%	1	\$ 5,000
Totals	\$ 882,497	100.00%	21	\$ 230,000

Internal Audit noted reductions in the number of cardholders and a reduction in cardholder limits from FY 17/18 to the time of this report. These reductions were due to two cardholders that left Valley Metro's employment and changes to reduce/remove cardholder limits. Management made recommendations for limit changes based on their periodic review of cardholders' monthly spending limits and purchasing behaviors.

Credit Card Transactions - Vendors

Valley Metro's cardholders conducted 2,737 transactions with 632 vendors for a net credit card spend of \$882,497 for FY 17/18. Tables on the following page provide a vendor spend summary and identify the top vendors utilized by amount purchased.

Exhibit 2: Vendor Spend Summary

Annual Vendor Spend	# of Vendors	# of Transactions	Amount	% of Spend by Amount
Up to \$3,000	573	1,394	\$ 330,427	37%
\$3,000-\$10,000	45	506	\$ 238,204	27%
\$10,000 - \$50,000	14	837	\$ 313,866	36%
Totals	632	2,737	\$ 882,497	100%

Of the 618 vendors that had annual purchases totaling less than \$10,000 (representing 64% of the annual spend amount), cardholders conducted between 1-12 transactions each with 591 vendors and between 13-62 transactions each with the remaining 27 vendors. Cardholders conducted the remaining 36% of the annual spend with the fourteen vendors as summarized on the following table.

Exhibit 3: Top Vendors by Dollars Spent

Vendor	# of Transactions	Amount	Category
American Airlines	152	\$ 44,891	Travel
Dmi Dell K-12/Govt	54	\$ 42,735	Technology
Hyatt Hotels	44	\$ 34,677	Travel
APTA ¹	59	\$ 32,456	Travel/Training
Amazon	199	\$ 27,769	Electronics, Supplies & Meeting Supplies
CDW Government	52	\$ 23,893	Technology
Marriott Hotels	37	\$ 16,326	Travel
Costco	84	\$ 15,658	Supplies & Meeting Supplies
Western Refining Sowe	24	\$ 13,910	Fuel
Graphic Ideals	25	\$ 13,528	Marketing ³
Southwest Airlines	46	\$ 13,108	Travel
Hilton Hotels	25	\$ 12,648	Travel
GFOA ²	29	\$ 11,484	Travel/Training
Idea Source, Inc.	7	\$ 10,781	Marketing ³
Totals	837	\$ 313,864	

¹American Public Transportation Authority

²Government Finance Officers Association

³Business Cards, Flyers & Event Supplies, Promotional Items

Valley Metro cardholders top vendors were for travel and training expense transactions totaling \$165,590, technology transactions totaling \$66,628 and marketing transactions totaling \$24,309. Management reviewed the credit card usage and explored contract possibilities for applicable top vendors. For example at the October 18, 2018 Joint Board meeting, Management requested and the Board granted, authorization for the CEO to execute a five-year contract with Dell, Inc. for standard computer equipment purchases in an amount of \$1,880,450 for the period of November 1, 2018 to October 30, 2023.

Credit Card Transactions - General Ledger Activities

Finance provided Internal Audit the *Posted General Ledger Transactions* report for July 1, 2017 through June 30, 2018 for Wells Fargo credit card entries. Internal Audit reconciled Wells Fargo transactions to Finance's general ledger and confirmed all transaction were present. Internal Audit then consolidated the general ledger entries to compile the following table showing activities with an annual spend greater than \$25,000.

Exhibit 4: Credit Card Spend by Activity

Activity Title	Amount
Travel Expenses	\$ 179,837
Computer Unit Cost under \$5k	\$ 93,437
Other Direct Expenditures	\$ 92,208
Training & Seminars	\$ 86,864
Office Expense	\$ 56,944
Printing	\$ 52,781
Local meetings & mileage	\$ 49,440
Facility building maintenance and repairs	\$ 30,179
HR/Employee Expense	\$ 29,595
Non-Revenue Vehicle Expenses	\$ 26,540
Total	\$ 697,825

Credit Card Transactions – Allowability

Internal Audit reviewed all transactions listed on the Wells Fargo transaction report for reasonableness and identified specific transactions for further allowability testing. Internal Audit then reviewed supporting documentation to determine if Finance maintained approval documentation/authorization for any transactions that exceeded the Micro Purchase Limit of \$3,000, for applicable travel, training and technology transactions and overall compliance with applicable Valley Metro policies.

The *Credit Card Acceptable Use policy* allowed single purchases to exceed the Micro Purchases Limit of \$3,000 with documented approvals from the Division Head, CFO and CEO. Internal Audit noted only three transactions that exceeded \$3,000. For these transactions, Internal Audit reviewed documented approved from the Division Head, CFO and CEO for Travel Administrators to process a \$3,500 travel transaction, a \$3,750 training transaction and a \$3,053 transaction to purchase food for the 2018 Safety Recognition Luncheon.

The *Travel policy* required an approved *Travel Authorization Form* to support travel transactions, an approved *Professional Development Request form* to support training transactions and for an authorized Travel Administrator to conduct these transactions. Although cardholders did not always maintain an approved copy of the *Travel Authorization Form* with their credit card

reconciliation packets, Finance maintained approved documentation with the *Travel Expense Reports* as a separate file. Additionally, general ledger postings to the 'Travel Expenses' and the 'Training and Seminar' activities totaled \$266,701. Internal Audit noted an authorized Travel Administrator incurred \$240,866 of these transactions. However, non-Travel Administrators incurred 64 transactions totaling \$25,835. As Internal Audit included this exception in the Travel and Entertainment Expenses Audit (Finding 1.3: Travel Policy Compliance-Credit Card Utilization) and received a Management Response for future follow-up; no action is required for this report.

General ledger postings to the 'Computer Unit Cost under \$5k' activity for technology transactions totaled \$93,437. Each technology transaction was under \$3,000 and Finance maintained documented approval from either the Informational Technology Manager or the Chief Operating Officer (Head of the Agency Business, Technology and Services Division), except for the five transactions cited in Finding 1.3.

Internal Audit identified 56 transactions in which six cardholders purchased various cash equivalents/gifts (value \$14,859) for events throughout the year. Specifically, cardholders purchased 535 gift cards (value \$14,040), 50 Harkins Theater Tickets (value \$400) and seven Kindle Fires (value \$419). Below is a table defining why and what was purchased under the cash equivalents/gift category.

Exhibit 5: Cash Equivalents/Gift Purchases

Event	# of Gift Cards	Other Items	Value
All Staff Meetings	136	6 Kindles	\$ 4,690
Share The Ride Promo	128	50 Movie Tickets	\$ 3,425
Safety Recognition Event	100	none	\$ 2,500
VMAC Activities	40	none	\$ 1,105
Vanpool Contests	30	none	\$ 975
3rd Grade Art Contest	68	none	\$ 915
2018 Service Awards	4	none	\$ 400
Commute Solutions	14	1 Kindle	\$ 374
2018 Rail Rodeo	6	none	\$ 350
Interns	3	none	\$ 75
Procurement Open House	6	none	\$ 50
Totals	535		\$ 14,859

Internal Audit noted applicable Division Heads reviewed/approved cardholder cash equivalent/gift purchase transactions; however, Valley Metro does not have a documented policy to govern the request, approval, budgeting, purchase, security, tracking or distribution of cash equivalents/gifts. As such, the Agency did not maintain consistent documentation and cardholders posted these transactions to varying general ledger activities.

Credit Card Monthly Reviews

The *Credit Card, Acceptable Use policy* required monthly reviews of the credit card transactions by cardholders, Division Heads, Credit Card Administrator and the Finance Division.

Cardholders' credit card reconciliation packets submitted to Finance included Wells Fargo's *Cover Sheet* and *Statement Expenses* report, itemized receipts, approval documents and Abila's *Unposted General Ledger Transactions* report. The *Unposted General Ledger Transaction report* contains the transaction descriptions and coding entered by the cardholder as part of their monthly reconciliation. Internal Audit noted that nine cardholders did not enter descriptions into the Wells Fargo System for 63 out of 2,737 transactions; however, cardholders did enter proper descriptions and coding into the general ledger for these transactions. Furthermore, Internal Audit noted Division Head signatures on credit card reconciliation packets evidenced their review/approval for transactions.

The Credit Card Administrator printed the *Wells Fargo Transaction* report and highlighted the sample of transactions reviewed. The report used by the Credit Card Administrator does not provide details as to items purchased and is limited to vendor name and dollar amount. The Contracts and Purchasing Manager signed the review attesting to its completion before forwarding to Finance. Internal Audit noted that during the timeframe under review, the Credit Card Administrator selected 574 of the 2,737 transactions and specifically, 38 of the 56 transactions that exceeded \$2,000 as part of the monthly sample review.

The Finance Division performed multiple reviews of the cardholders' credit card reconciliation packets to ensure packet totals reconciled to the Wells Fargo statements and cardholders entered a description and proper coding in the general ledger for all posted transactions. Additionally, Finance maintained support for the automated clearinghouse (ACH) payment to Wells Fargo.

Audit Results

Finding 1.1: Policy Compliance – Documented Division Head Approvals Not Maintained

Six cardholders did not have evidence of the Division Head's review/approval by means of a dated Division Head signature for 18 monthly credit card reconciliation packets.

- Four cardholders had sixteen credit card reconciliation packets that were not signed by the Division Head, but rather a Manager with no delegation of authority paperwork applicable
- One cardholder had one credit card reconciliation packet that did not have a Division Head signature. Although notations indicating the cardholder was no longer a Valley Metro employee, no Division Head review/approval signature was obtained
- One cardholder had one credit card reconciliation packet that did not have the required Audit and Finance Subcommittee (AFS) Chair signature

The *Credit Card, Acceptable Use* policy (v. 7/28/16) Section VI Responsibilities lists:

“Division Head(s)

- Monitor and approve purchases made by the Cardholder(s) in your Division, including:
 - Monthly statement review and approval of purchases
 - Confirming charges are within budget and account codes are accurate”

Additionally, the section lists:

“Chief Executive Officer

- Submit monthly, CEO and CFO activity and expenditures to Board Chairs and AFS Chair for review and approval where necessary”

Select employees had a lack of policy understanding (select cardholders, their managers and Finance personnel), as employees deemed the manager's signature on the packets sufficient. Additionally, the Credit Card Administrator nor Finance management contacted and requested the cardholders to submit evidence of the Division Head's approval.

Failure to ensure Agency employees understand, adhere to and are held accountable to the policy, specifically in regards to Division Head approval, may lead to further non-compliance and inconsistent enforcement of the policy.

Recommendations: 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.

Views of Responsible Officials: 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 return unapproved packets to the cardholder.

Responsible Party: Chief Financial Officer

Due Date: March 31, 2019

Finding 1.2: Policy Compliance – Insufficient/Incomplete Documents within Cardholder Reconciliation Packets

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 committee/employee meetings and events. Evidence of a completed form could not be located.

No Pre-Approved Local Dining Form Obtained		
Event/Meeting	# of transactions	Amount
Board of Directors	17	\$ 6,171
TMC/RMC	14	\$ 5,724
VMAC Employee Events	9	\$ 530
Intergov	6	\$ 1,287
AFS	4	\$ 1,088
FTA	3	\$ 1,022
RTAG	2	\$ 222
Federal Lobbyist	1	\$ 114
Managers	1	\$ 79
Totals	57	\$ 16,237

- Although six cardholders obtained *Pre-Approval Local Dining and Refreshments* forms for 16 credit card transactions, totaling \$1,861, were for committee/employee meetings and events, cardholders did not maintain the approval forms in their credit card reconciliation packets.

No Copy of Approved Local Dining Maintained		
Event/Meeting	# of transactions	Amount
VMAC Ice Cream Social ¹	5	\$ 222
All Staff ¹	4	\$ 851
AFS ²	3	\$ 533
VMAAG ²	2	\$ 32
Safety ²	1	\$ 187
Operators Appreciation ¹	1	\$ 36
Totals	16	\$ 1,861

¹ Approved forms for these events indicated multiple cardholders.

² Approved forms for reoccurring meetings not maintained.

The *Credit Card, Acceptable Use policy* (v. 7/28/16) Section III Policy Statement lists:

“Prohibited Credit Card Purchases

- Business meals which are not pre-approved in writing by the responsible Division Head”

Additionally, the *Agency Local Dining and Refreshments policy* (v. 9/30/17) Sections VI Responsibilities lists:

“Agency Staff, Contractor and/or any Staff Member

- Complete *Pre-Approved Local Dining and Refreshments* form and supporting documentation (e.g. list of attendees, agenda, etc.) and submit for approval to Division Head
- Submit required documentation per this policy after meeting and/or event”

Cardholders had a lack of policy understanding, as employees deemed meals and refreshments for reoccurring meetings exempt from policy requirements. Additionally, the Credit Card Administrator’s review did not include verification that cardholders submit the *Pre-Approved Local Dining and Refreshments* forms to support meal and refreshment purchase transactions.

Failure to ensure Agency employees understand, adhere to and are held accountable specifically in regards to obtaining and maintaining *Pre-Approved Local Dining and Refreshments* forms, may lead to further non-compliance and inconsistent enforcement of the policy.

Recommendations: 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.

Views of Responsible Officials: 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 meetings and inadvertently suggests that a local dining approval form is needed for those. Management will update the local dining policy to clarify that standing committee meetings are exempt from the requirements.

Responsible Party: Chief Financial Officer

Due Date: April 30, 2019

Finding 1.3: Policy Compliance – Supporting Documents Not Maintained within Cardholder Reconciliation Packets

Credit card reconciliation packets are being submitted and processed without all policy required signatures or documentation for technology and sequential purchases.

- Four cardholders did not maintain in their credit card reconciliation packets evidence of technology purchase approvals for five transactions, totaling \$7,913.

Transaction Date	Merchant Name	Amount	Description	Credit Card Admin. Reviewed
7/17/2017	CDW Govt #Jmj8969	\$ 435	CDW-G - Inv. 1BRM1TQ, 07-06-17 VMR Video card to test CCTV video issues	Not in Sample
5/18/2018	Extreme Integration LLC	\$ 2,719	75 inch monitor for OMC conference room	Not in Sample
6/22/2018	Enterprise Technology Service	\$ 2,523	Support renewal	Not in Sample
9/21/2017	Apple iTunes.Com/Bill	\$ 8	Microsoft Word, Office 365 Personal Wulf Grote	Yes
2/2/2018	Amazon Marketplace Payments	\$ 2,228	Translation equipment purchased for the Community Relations Department with permission from IT Department	Yes

- Although one cardholder maintained in their credit card reconciliation packet evidence of technology purchase approval, itemized receipts and packets slips for the purchase of four HP All-in-one computers, the packet lacked evidence supporting the business need for sequential transactions. Additionally, Hewlett Packard is on an Arizona State Contract. This state contract requires the issuance of a purchase order to acquire merchandise. The Credit Card Administrator should have made the determination a credit card was not the appropriate form of payment and noted such in their review notes.

Transaction Date	Merchant Name	Amount	Description	Credit Card Admin. Reviewed
6/5/2018	Hp Hp.Com Store	\$ 2,563	2 HP All-in-one computers for OMC	Yes
6/6/2018	Hp Hp.Com Store	\$ 2,553	2 HP All-in-one computers for OMC	Yes

*Cardholder purchased four identical computers (two each day); an additional \$10 discount accounts for the difference in pricing. Internal Audit noted the cardholder had a single transaction limit of \$3,000

The *Credit Card, Acceptable Use policy* (v. 7/28/16) Section III Policy Statement states:

“Prohibited Credit Card Purchases

- Technology purchases, such as computers, peripherals, cell phones, etc. unless approved by the Chief Technology Officer
- Separate, sequential, and component purchases or transactions made with the intent to circumvent Agency procurement policy”

Cardholders had a lack of policy understanding, as employees deemed “permission from IT department” notations in the general ledger as sufficient evidence of approval to meet policy requirements. Additionally for the transactions included the Credit Card Administrator’s review, the Credit Card Administrator did not obtain additional documentation of approval for technology purchase transactions or a business purpose to support sequential transactions.

Failure to ensure Agency employees understand, adhere to and are held accountable specifically in regards to obtaining and maintaining approval for technology purchases and proper documentation for sequential transactions, may lead to further non-compliance and inconsistent enforcement of the policy.

Recommendations: Management should provide training and/or policy changes that outline when it is acceptable to use an agency credit card and when it is not appropriate. Documentation and justification of exemptions to the policy need clarity and communication. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads when exception exists or when all policy-required documentation is lacking.

Views of Responsible Officials: Management concurs with the recommendation. Management will update the procedures for the Credit Card Administrator to include a review for potential sequential transactions, including additional follow-up with the Cardholder and Division Head. Additionally, cardholder training will include a review of the appropriateness of credit card use versus purchase orders.

Responsible Party: Chief Financial Officer

Due Date: March 31, 2019

Finding 2: Policy Clarifications – *Credit Card, Acceptable Use*

The *Credit Card, Acceptable Use policies* (v. 7/28/16 and v. 10/10/18) did not reflect current practices.

- Policies did not address the need for cardholder Division Heads to attend training and acknowledge responsibilities assigned in the policy.
- Policies did not identify the required approval documentation/signatures for travel, local dining and technology purchases, nor the need to maintain them within credit card reconciliation packets.
- Policies did not clarify that within the *Travel policy*, Management limited authorization to purchase travel and training related expenses to the Travel Administrators.

Additionally, the *Credit Card, Acceptable Use policy* (v. 10/10/18) did not provide a clear process for users to follow. The policy:

- Referenced obsolete forms:
 - *Credit Card Purchase Approval form* (page 5) should reference the *Agency Credit Cardholder Agreement, Request & Change form*
 - *Credit Card Purchase Approval form* (page 5) should reference the *Bank Transaction Detail Report*
- Required the Division Head to submit paperwork “to Finance within six (6) business days of monthly statement closing.” This is one business day prior to when the policy required cardholders to submit paperwork “each month to the Division Head for approval within seven (7) business days following closing date of monthly statement.”

The *Credit Card, Acceptable Use policy* provides the foundation for cardholders, Division Heads and Finance personnel to purchase, approve and process credit card transaction payments. Clear direction and instructions as to required documentation, authorized personnel to approve transactions, accurate forms to use and submission dates, alleviates confusion and provides a framework for acceptable credit card transactions.

The policy lacked clarification and consistency for the cardholders and responsibilities of all individuals. Failure to provide the Agency with a policy that specifically addresses approval documentation, authorized personnel, accurate form names and submission dates may lead to inconsistent enforcement of the policy and an increased risk of inappropriate transaction processing.

Recommendations: Management should align the *Credit Card, Acceptable Use policy* intent with associated forms and practices. In order to hold cardholders accountable for approved and timely submissions of their credit card transactions, the policy should clearly define the required approval documentation, the form names, submission deadlines and reference other Valley Metro policies.

Views of Responsible Officials: Management partially concurs with the recommendation. The credit card policy is not the appropriate place to define the required approval documentation for other policies. Those requirements all reside within the policies and responsibility for maintaining and reviewing the documentation is defined within those policies. Multiple copies of complete travel packets, for example, should not be required to be maintained in each credit card packet that has an associated charge. The credit card policy will refer to other relevant policies and note that credit card use must be consistent with and proper documentation maintained to support that transactions were properly approved pursuant to those policies.

Responsible Party: Chief Financial Officer

Due Date: March 31, 2019

Finding 3: Policy Non-Compliance not Identified or not Properly Escalated

Four cardholders had four transactions that did not comply with the *Credit Card, Acceptable Use policy*. The following two transactions did not fall within the Credit Card Administrators sample population:

- A transaction for \$300 in Diamondback tickets indicated eight tickets purchased, while supporting documents showed cardholder received ten tickets. A list of who was the recipient of these tickets was not present
- \$163 bagel purchase included an email that indicated another employee used the cardholder's credit card information on file to complete the transaction

Additionally, the Credit Card Administrator's review identified two transactions as non-compliant/questionable; however, escalation or follow-up did not occur.

- The Agency issued the cardholder's credit card on 9/20/17; however, the cardholder reported the charge posted on 10/29/17 for \$69.00 at Maya in Scottsdale as fraudulent. Wells Fargo denied reversal of such charge due to the card being present at the location to complete the transaction. Internal Audit confirmed Wells Fargo cancelled the card and reissued a new card; however, Finance maintained no documentation to evidence further action taken by Valley Metro to recover the \$69.
- Evidence to support CEO approval was not present to purchase \$2,757 in advertising for General Counsel's finalist award in the Business Journal on 11/6/17.

The *Credit Card, Acceptable Use* policy (v. 7/28/16) Section VI Responsibilities lists:

"Cardholder(s)

- Assume complete responsibility for all purchases made with your Agency Credit Card, adhering to this policy insuring no unauthorized purchases are made
- Obtain itemized receipts for all purchases
 - For over the phone or internet purchases, an email confirmation of the order should be printed and used as the receipt
- Submit the Bank *Transaction Detail Report* each month to the Division Head for approval within three (3) business days following closing date of monthly statement following:
 - Review detailed Agency Credit Card statements
 - Verify charges are accurate against purchase receipts
 - Determine charges are correctly assigned account codes for each purchase
 - Determine charges have proper description in *Transaction Detail Report*

Additionally, the section lists:

“Credit Card Administrator

- Coordinate and review the monthly *Transaction Detail Report* and approval process including but not limited to auditing transactions approved by Division Heads, Managers and Cardholder(s) along with verifying compliance of micro purchases procedures
- Immediately report any violations of this policy in writing to Cardholder’s Division Head and CFO”

The *Wells Fargo Transaction Detail Report* used by the Credit Card Administrator to identify sampled transactions did not include the description of items purchased. Additionally, the credit card transaction review process did not provide context for judgmental selection of items for the compliance review.

Failure to select items, of higher risk or those that have historically been a problem, to review may increase the risk of non-compliant transactions occurring undetected. Additionally, not escalating violations to the Division Head and CFO may lead to repeat policy violations.

Recommendations: Management should utilize a report such as, the *Wells Fargo Commercial Card Expense Report*, the *Abila Current Consolidated Unposted General Ledger Transactions* report or any other report, to provide transaction characteristics to facilitate the review. The review should focus upon fields such as description and/or specific transaction criteria that Management pre-established based on historical anomalies. Additionally, the Credit Card Administrator should document the method used to review the credit card transactions and follow-up actions taken.

Views of Responsible Officials: Management concurs with the recommendation. Management recognizes that sampling the transactions for compliance runs the risk of not reviewing potential violations. Simply enlarging the sample does not eliminate the risk. Management does not see value in enlarging the sample size, however management will review the criteria used to determine the sample to attempt to capture transactions that are at higher risk of policy violations.

Management will also develop a procedure to ensure that proper follow-up is conducted when the Credit Card Administrator identifies a potential violation.

Responsible Party: Chief Financial Officer

Due Date: March 31, 2019



Information Summary

DATE

March 7, 2019

AGENDA ITEM 4**SUBJECT**

Audit exceptions update

PURPOSE

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

BACKGROUND/DISCUSSION/CONSIDERATION

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

COST AND BUDGET

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

COMMITTEE PROCESS

None

RECOMMENDATION

Item presented for information only.

CONTACT

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ATTACHMENT

Audit exceptions log

Valley Metro - Internal Audit
 Audit Finding Follow-Up
 March 2019

Finding Title	Department	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
Small Dollar Purchases-Monitoring Procedures (Personal Services Contracts & Sole Source Procurements)	Finance/Procurement	<p>Two personal services contracts were not monitored to ensure appropriate CEO or Board approvals. The personal services contracts were initially created for short periods and small dollar values; however, through change orders these contracts were extended for several years with increased values.</p> <p>In our test sample, we identified two vendors which were engaged with Valley Metro as independent contractors under personal services contract. One personal services contract for videography was created on November 23, 2013, for services occurring from December 1, 2013 through June 30, 2014, and at a sum not to exceed \$20,000. This personal services contract was amended five times extending services through June 30, 2017 and increasing the total value to \$142,130. This contract was not competitively bid and CEO approval was not obtained as required by VMR policy for a contract of this dollar amount. Of the FY16 payment to this vendor, \$5,200 was identified as FTA funds.</p> <p>Another personal services contract for graphic design consulting services was procured by RPTA for the period of September 23, 2013 through November 29, 2013, and at a sum not to exceed \$9,200. Through several change orders this contract was extended through June 30, 2016, with an increased contract value to \$89,200.</p> <p>Two sole source procurements for consulting services performed by the same vendor did not provide the required analysis that the vendor's costs were fair and reasonable.</p> <p>Accounting records reflected payments to a vendor totaling \$89,500 for consulting services rendered from February through September 2016, split equally (\$44,750) between VMR and RPTA.</p>	Work with Valley Metro to develop monitoring procedures for personal service contracts and sole source procurements to ensure compliance with policies and procedures.	Public Transit will work with Valley Metro to ensure development of procedures that include monitoring of personal service contracts and sole source procurements to ensure compliance with all applicable policies and procedures.	08/17/17	01/31/18	Chief Financial Officer	3/1/19: The CPO indicated the manual has been approved. It will be published next week after final signatures are obtained.
		<p>On April 15, 2016, a purchase order and sole source justification memo to pay the vendor were completed after the vendor already started providing services to Valley Metro. Section 2 of the sole source justification memo requested, "...a detailed explanation as to how the anticipated costs to Valley Metro are fair and reasonable and the steps taken to make the determination." The memo indicated that the dollar amount of services by the vendor to Valley Metro was not to exceed \$50,000 and six months. On July 7, 2016, an additional purchase order and sole source memo were submitted to pay the vendor for services. The sole source justification reflected that services were not to exceed \$50,000 or six months. Neither of the sole source justification memorandums provided analysis or comparison of the vendor's anticipated costs with that of similar consulting services to determine reasonableness of the costs.</p>						

Valley Metro - Internal Audit
Audit Finding Follow-Up
March 2019

Finding Title	Department	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
Small Dollar Purchases-Review Aggregate Purchases Procedures	Finance/Procurement	<p>VMR procurements at OMC employed reasonable competition, were transparent, and well documented. We did note that there was no procedure in place that required the consistent review of aggregate vendor purchases to determine if contracts were needed.</p> <p>We tested ten vendors with transactions totaling over \$400,000. Competition was used in 38% (\$156,188), no competition in 45% (\$185,642), and micro purchases, which did not require competition, made up the remaining 17% (\$68,321). Several of the sole source procurements were required due to the manufacturer's warranty on the LRV, that necessitated the use of original equipment manufacturer parts.</p> <p>In interviews with OMC staff, we learned that there is no policy requiring the review of aggregate vendor purchases to determine if contracts are necessary or would be beneficial to the organization. Staff indicated that in November 2016, they implemented their own internal annual review of vendor purchases. A review of Ellipse purchases reflected that there were several made to the same vendor that in aggregate were over \$50,000; while competition was employed, contracts were not obtained. Contracts may provide Valley Metro with enhanced competitive pricing and purchase protection.</p>	Work with Valley Metro OMC to develop procedures to the consistent review of inventory purchases to determine when contracts should be obtained.	Public Transit will work with Valley Metro to ensure development of procedures for the consistent review of inventory purchases to determine when contracts should be obtained.	08/17/17	01/31/18	Chief Financial Officer	3/1/19: The CPO indicated the manual has been approved. It will be published next week after final signatures are obtained.
Outdated policies and procedures over Information Technology (IT)	IT	<p>Valley Metro did not have current policies and procedures in place to address necessary areas of risk related to hardware and/or software. The current version of policies and procedures provided by IT management was dated 2013. This version of the policies and procedures lacked sufficient direction and instruction on the following areas including, but not limited to;</p> <ul style="list-style-type: none"> • Remote access to the system • Approved and appropriate use of personal devices on the network • Naming convention • Patch implementation, testing and oversight • Process for ensuring new software and hardware populates correctly and completely in Lansweeper, etc. and • Acquisition of hardware and software <p>IT management and staff have changed significantly since 2013. These changes have resulted in undocumented directives and philosophies as to how to manage and lead IT. Insufficient direction and instruction allowed for inconsistent processes and practices within the environment. Best practices would be to have a documented consistent process in place in order to mitigate risk and ensure strategies are carried out.</p>	<p>Management should define a process by which on an annual basis policies and procedures are reviewed and updated as needed and appropriate. Updates should be communicated and appropriate training provided to necessary individual in order for such individuals to execute their duties or provide backup support of other team members.</p> <p>The user community should also be educated on updates made to applicable policies and procedures to allow for consistent enforcement.</p>	We intend to revise all policies and procedures to ensure that our policies and procedures comply with the strictest requirements/best practices.	02/07/18	03/31/18	Manager, Information Technology & Executive Leadership Team	<p>3/01/19: The Change Management and Incident Response policies are awaiting General Counsel approval.</p> <p>2/25/19: For the Asset Management policy, the IT Manager is "working with the team responsible for the tool implementation to make sure that the correct processes are incorporated."</p>

Valley Metro - Internal Audit
Audit Finding Follow-Up
March 2019

Finding Title	Department	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes								
Travel Policy Clarification	Finance	<p>The Travel policy:</p> <ul style="list-style-type: none">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 \$35 to over \$100 per night above the allowed GSA rate. Total spending on lodging for travel during fiscal year 2017 was \$59,551, of which a total of \$2,539 was spent in excess of GSA lodging limits (4.26%). Additionally, the Travel Authorization form states "Hotel expenses are reimbursable up to the maximum GSA hotel rate". Also, “the traveler is responsible for the difference in the rates." Evidence of reimbursement by the traveler of the amount in excess of the GSA rate did not exist.Defines: “Agency Travel, Conference and Out-of-County Training form – The Valley Metro (Agency) form used to process all authorized and budgeted Agency travel. This form requires Division Head, Chief Financial Officer (CFO) and Chief Executive Officer (CEO) signature approval”. Of the 93 forms completed, two Division Head signatures were found not to be present.Identifies one of the responsibilities of the traveler is to “submit actual post-travel expenses with itemized receipts and the Agency Travel, Conference and Out-of-County Training form to Travel Administrator with five (5) working days after competing travel”. Of the 93 forms submitted, we found 45 forms were not submitted within five working days, based <p>Below is a table outlining the number of days, after travel was completed, the Expense form was dated:</p> <table><tr><td>2-5 Days</td><td>6-9 Days</td><td>11-15 Days</td><td>Over 18 Days</td></tr><tr><td>22 forms</td><td>11 forms</td><td>5 forms</td><td>7 forms</td></tr></table> <ul style="list-style-type: none">States: “The Traveler will adjust the Per Diem amount for meals provided by business host or conference when applicable. If hotel has full breakfast included it will be deducted from per diem; continental breakfasts provided will not be deducted”. We found six occasion where a traveler requested per diem when food was to be provided by the host. The policy is silent on situation where the traveler may not be able to take part in others meals provided, due to dietary restitutions or timing of the meal coincides with business requirements. <p>The Travel policy provides the foundation by which travelers and administrators are to operate. Clear direction and instructions as to what is expected, allowed and un-allowed expenses alleviates confusion and incurring of expense which may be declined.</p> <p>The Travel policy continues to mature and expand as travelers encounter situations which brings forth the need for further clarity to address situations not previously considered or addressed within the policy. As travelers are held accountable to the provisions within the Travel policy, areas not previously addressed have come to light.</p>	2-5 Days	6-9 Days	11-15 Days	Over 18 Days	22 forms	11 forms	5 forms	7 forms	<p>Management should align the Travel policy intent with associated forms and practices. If circumstances warrant travel to be completed in less than 21-day of the submission the Agency Travel, Conference and Out-of-County Training form, the policy should reflect such verbiage. The Travel Authorization form should be revised to include identification if the user is staying at the host hotel and the rate exceeds the GSA rate. Otherwise, revisions to verbiage related to “hotel expense are reimbursed up the to the maximum GSA hotel rate; and a traveler is responsible for the difference in the rates” should be considered. Further clarity should be added to the Travel policy advising the traveler if they are taking part in the meal provided by the host, the per diem amount should reflect accordingly. Travelers should be held accountable for submission of their Expense form within the five-days after travel has been completed.</p> <p>Finally, management should ensure appropriate signatures are gained prior to booking or reconciling final travel expenses.</p>	<p>Management concurs with the recommendation. Additional clarity is being added to the Travel Policy and procedures will be updated to ensure that documentation is proper and complete.</p>	04/06/18	05/31/18	Chief Financial Officer	11/29/18: Internal Audit was provided a training sign-in sheet for the six Agency employees in attendance at the Nov 29th training.
2-5 Days	6-9 Days	11-15 Days	Over 18 Days													
22 forms	11 forms	5 forms	7 forms													

Valley Metro - Internal Audit
 Audit Finding Follow-Up
 March 2019

Finding Title	Department	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
Travel Policy Exceptions	Finance	<p>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:</p> <ul style="list-style-type: none"> • One traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost comparison nor explanation was not included. Therefore evidence to verify the saving was not present. • One traveler used a more expensive vehicle option for transportation for a San Francisco hotel to the Oakland airport at the end of the conference. The cost was \$96. An explanation as to why this vehicle was selected did not exist within the travel file. • One traveler utilized the terminal parking at Phoenix Sky Harbor airport for two days. Resulting in a reimbursed expense of \$50.00 (\$25 a day) verses \$22 (\$11 a day). The Travel policy states: "economy parking should always be used". This was the travelers' first trip for Valley Metro and was unaware of the Travel policy parking requirements. • One traveler purchased the CEO a \$150 ticket for the Rail Rodeo Awards Banquet and submitted the expense. The traveler did obtain the CEO approval on her Expense form; but additional approval was not obtained from the CFO nor Board of Directors on the expense for the CEO. • On two occasions airfare was purchased at four and six days prior to departure resulting in fares of \$1,052.00 (Savannah GA) and \$1,285.20 (San Francisco). The Travel policy states: traveler(s) are to "submit the Agency Travel, Conference and Out-of-County Training Form at least 21-days in advance to travel so that the Travel Administrators can purchase travel at least 14-days prior to departure". <p>The travel was approved, but the reasons why these purchases were made less than 14-days prior to departure was not documented within the travel file.</p> <p>The Travel policy states: "Extenuating circumstances may arise during travel which may require unanticipated expenses. Whenever possible, approval should be received from the CEO and CFO prior to incurring the expense". Evidence to demonstrate follow-up on unusual expenses was not maintained with Expense forms. This is resulting in expenses being Travel policy exceptions.</p>	<p>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.</p>	<p>Management concurs with the recommendation. Annual refresher training will be provided to ensure compliance with the Travel Policy.</p>	04/06/18	05/31/18	Chief Financial Officer	11/29/18: Internal Audit was provided a training sign-in sheet for the six Agency employees in attendance at the Nov 29th training.



Information Summary

DATE

March 7, 2019

AGENDA ITEM 5**SUBJECT**

Refunding Bond Issuance Authorization – Fourth Supplemental Resolution

PURPOSE

To request authorization for the issuance of tax-exempt, senior lien refunding bonds in Fiscal Year 2019. This authorization action is the Fourth Supplemental Resolution in accordance with Master Resolution adopted by the Board in 2009.

BACKGROUND | DISCUSSION | CONSIDERATION

RPTA has the statutory authority to issue revenue bonds to support the capital projects in the Transit Life Cycle Program (TLCP). RPTA has previously issued bonds in 2009, 2014 and 2016.

The 2009 series bonds were issued in two series: 2009A tax-exempt and 2009B taxable Build America Bonds (BAB). Both series are callable on July 1, 2019. The Series 2009A bonds were advance refunded in 2016. The Series 2009B were not refunded at that time due to concern about how the IRS might treat the BAB tax credit.

This Fourth Supplemental Resolution authorizes the refunding of the Series 2009B BABs. The bonds authorized through this Fourth Supplemental Resolution are in accordance with the Board adopted Master Resolution. This Fourth Supplemental Resolution was developed by the agency's Bond Counsel, Squire Patton Boggs (US) LLP, in association with the agency's Financial Advisor, RBC Capital Markets.

The Fourth Supplemental Resolution authorizes the issuance of Senior Lien Bonds in an amount necessary to refund the Series 2009B taxable Build America Bonds, currently estimated to be \$24,215,000 par value. The par value of the issuance may change based on market conditions at the time of sale and will be in an amount sufficient to refund the Series 2009B bonds identified.

The bond issuance is currently envisioned to have coupon rates of 5 percent; and sold at a premium, with the True Interest Cost (TIC) currently estimated to be around 2.36%. The estimated savings based on the current market conditions is \$2.0 million. The agency is rated by Standard & Poor at AA+ and by Fitch at AA.



Following are the highlights of the Fourth Supplemental Resolution:

- Authorizes the issuance of the 2019 Refunding Bonds and delegates to the CEO and CFO of RPTA the authority to negotiate the sale of the 2019 Refunding Bonds, for not less than 99 percent of par value, to a group of underwriters to be selected by the RPTA's CEO and CFO from among the pool of underwriters which has previously been qualified by the State of Arizona for its financings.
- Specifies limits or parameters on the financial terms of the 2019 Refunding Bonds, including; aggregate principal in an amount necessary to refund the Series 2009B Bonds; yields not to exceed six percent as computed for arbitrage purposes; and final maturity date not to exceed July 1, 2025
- Refunding Series 2009B bonds will be conducted through an escrow agent.
- RPTA's CEO and CFO are also authorized to:
 - Prepare a Preliminary Official Statement and a Final Official Statement describing the 2019 Refunding Bonds and their security for distribution by the Underwriters to prospective purchasers of the 2019 Refunding Bonds;
 - Negotiate the form of a Bond Purchase Agreement with the Underwriters;
 - Designate a Bond Registrar and Paying Agent for the 2019 Refunding Bonds; and
 - Enter into other customary financing documents
- Contains covenants of RPTA to take all actions necessary to maintain the tax-exempt status of the 2019 Refunding Bonds including entering into a Tax Certificate and Agreement prepared by Bond Counsel
- Authorizes RPTA to spend proceeds of 2019 Refunding Bonds for the sole purpose of refunding the 2009B series maturities listed
- Authorizes RPTA to take all actions necessary to comply with Bond Resolutions and other bond documents

The underwriters will be selected from the pool of underwriters on the state contract. The Financial Advisor (RBC Capital) may conduct a bid process for all qualified underwriters and invite them to describe why they should manage the sale of the agency's bonds, what their marketing strategies will be and to identify their key contacts. RPTA, along with the Financial Advisor, will select the underwriters that best fit the agency's needs. The underwriters are compensated based on the price per \$1,000 bond, and the compensation will be paid by the Trustee from bond proceeds.



Given potential uncertainties in the bond markets due to quickly-changing fixed income and equity investment pricing, selecting a collection of qualified underwriters and working closely with them to determine the preferred timing and structure for the issue to maximize investor interest is our preferred approach. Accordingly, RPTA is proposing to sell the bonds through a negotiated sale primarily for market timing flexibility in seeking the best possible price. This strategy is preferred over a competitive sale arrangement which would be less flexible concerning timing and structuring issues.

COST AND BUDGET

The strong market conditions that continue allow the opportunity to refund the Series 2009B bonds, which was not anticipated in the FY19 Operating and Capital Budget. The resulting debt service will reduce the debt service amounts listed in the FY19 budget and FY19-23 Five Year Forecast and will be incorporated into the FY20 budget and FY20-24 Five Year Forecast.

Included in the cost of issuing the bonds will be the fees paid from the bond proceeds at closing to:

- agency's financial advisor
- bond counsel
- trustee
- ratings agencies
- underwriters

It is estimated that these costs will not exceed \$400,000. Many of these costs are calculated per \$1,000 par value, so the final costs will be calculated when the final par value of the issuance is determined before pricing and closing.

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: February 19, 2019 for information

TMC: March 6, 2019 for action

AFS: March 14, 2019 for action

Board of Directors: March 21, 2019 for action

**RECOMMENDATION**

Staff recommends that the Board of Directors adopt the Fourth Supplemental Resolution authorizing the issuance of tax-exempt, senior lien bonds in FY 2019 in an amount sufficient to refund certain maturities of the Series 2009B bonds and to pay costs of issuing the bonds.

CONTACT

Paul Hodgins
Chief Financial Officer
602-262-7433
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ATTACHMENT

None

Fourth Supplemental Resolution is available upon request.



Information Summary

DATE

March 7, 2019

AGENDA ITEM 6**SUBJECT**

Valley Metro RPTA Fiscal Year 2020 (FY20) Preliminary Operating and Capital Budget and Five-Year Operating Forecast and Capital Program (FY20 thru FY24)

PURPOSE

To provide an overview of the FY20 Preliminary Operating and Capital Budget and the Five-Year Operating Forecast and Capital Program (FY20 thru FY24).

BACKGROUND/DISCUSSION/CONSIDERATION

The Valley Metro Regional Public Transportation Authority (RPTA) FY20 combined operating and capital budget (the budget) is \$332.4 million (M) and includes \$114.5M of expenses for light rail/high capacity transit capital.

The preliminary FY20 budget has been prepared with the goal of delivering a fiscally prudent, balanced budget using carry forwards and reserves when needed. The budget was developed in compliance with Board of Directors' adopted budget, financial and Transit Life Cycle Program (TLCP) policies.

The annual budget is prepared on an accrual basis and adopted by the Board of Directors each fiscal year. The legal level of budgetary control is the total annual appropriated budget. With respect to Capital Budgets, project contingency accounting is used to control expenditures within available project funding limits. With respect to Operating Budgets, encumbrance accounting is not used and all appropriations lapse at the end of the year. Prior to final adoption, a proposed budget is presented to the Board of Directors for review and public comment is received. Final adoption of the budget must be on or before June 30 of each year.

The RPTA budget includes a significant level of expenditures on behalf of Valley Metro Rail (VMR). RPTA is the official employer for all Valley Metro employees therefore all employee related expenses for VMR are included in the RPTA budget. VMR reimburses RPTA for its share of employee expenses. RPTA is also the recipient of all public transportation funds received from Proposition 400. Revenues to support the rail program are passed through to VMR on a reimbursement basis.

The total operating budget of \$202.6M represents a \$11.6M (6%) increase from the previous year's operating budget of \$191.0M. The total capital budget of \$129.8M represents a \$2.7M (2%) increase from the previous year's capital budget of \$127.1M.



The RPTA and Valley Metro Rail (VMR) budgets are developed with a unified staff plan, with department managers planning the level of effort required to meet the bus and rail activities. Salary and overhead charges to bus and rail projects are based on actual time worked on each project. For FY20 there are 429 employees budgeted in the integrated agency, with 155 FTE's budgeted to RPTA activities and 274 budgeted to VMR activities. Compensation budget based on 3.0% increase. For staff salary changes, merit increases are evaluated based on employee performance; division level control to manage total costs within budget.

STRATEGIC PLAN ALIGNMENT

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

- Goal 2: Advance performance based operation
 - Tactic C: Deliver projects and services on-time/on-budget.
 - Tactic E: Maintain strong fiscal controls to support Valley Metro's long-term sustainability.

COMMITTEE PROCESS

Preliminary Budget Review:

Financial Working Group: February 19, 2019 for information

RTAG: February 19, 2019 for information

TMC: March 6, 2019 for information

AFS: March 14, 2019 for information

Board of Directors: March 21, 2019 for information

Proposed Budget Adoption:

TMC: May 1, 2019 for approval

AFS: May 8, 2019 for action

Board of Directors: May 16, 2019 for action

RECOMMENDATION

This item is presented for information.

CONTACT

Paul Hodgins

Chief Financial Officer

602-523-6043

phodgins@valleymetro.org

ATTACHMENT

None

RPTA

FY20 Preliminary Budget Overview

March 2019



Baseline: RPTA Operations

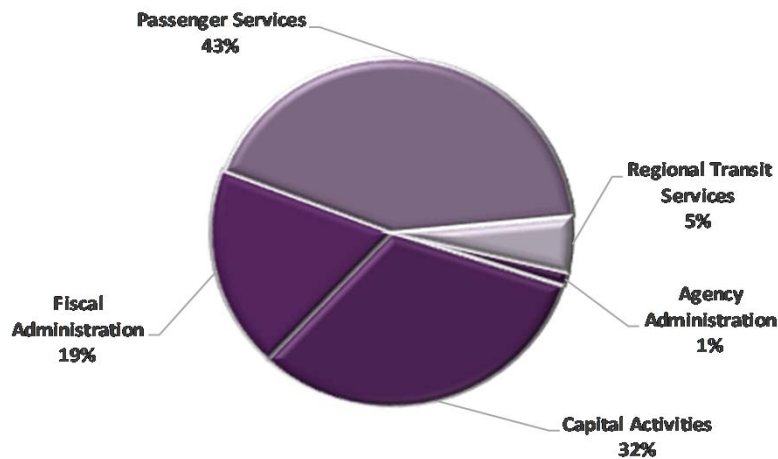


Fixed Route Bus	Passengers	Revenue miles	Operating Costs	Fare Revenues
FY19 (Forecast)	14,136,000	12,878,000	\$84,763,000	\$9,999,000
FY20	14,163,000	13,085,000	\$88,722,000	\$9,258,000
Change	0%	2%	5%	-7%
Demand Services	Trips	*Cost per Trip	Operating Costs	Fare Revenues
FY19 (Forecast)	538,000	\$44.13	\$23,742,000	\$2,081,000
FY20	545,000	\$46.90	\$25,563,000	\$2,051,000
Change	1%	6%	8%	-1%
VanPool	Passengers	Revenue miles	Operating Costs	Fare Revenues
FY19 Budget	1,252,000	6,735,000	\$952,000	\$1,122,000
FY20	1,252,000	6,735,000	\$894,000	\$1,122,000
Change	0%	0%	-6%	0%

* Paratransit cost per trip combines paratransit and RideChoice and is net of fare revenues.



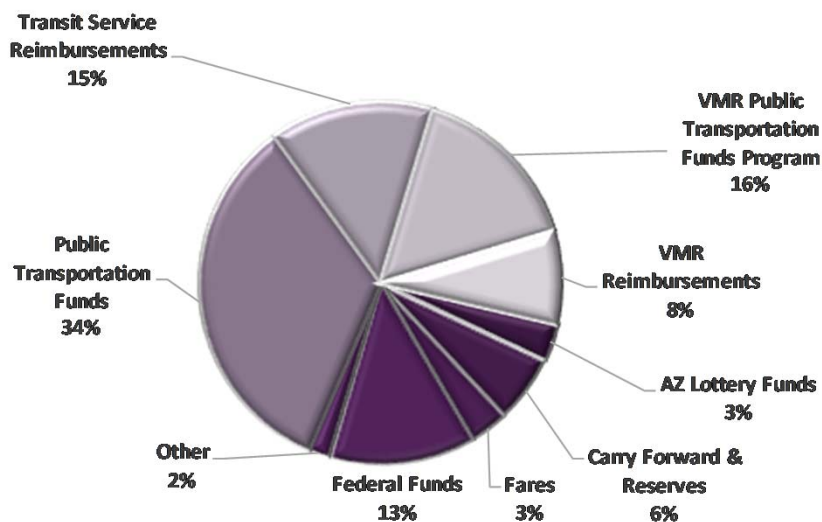
Uses of Funds: Operating & Capital



3



Sources of Funds: Operating & Capital



4

Sources of Funds: Operating (\$,000,000)



Source of Funds	FY19	FY20	Change \$	Change %
Public Transportation Funds	\$81.2	\$87.0	\$5.8	7%
Regional Area Road Funds	5.0	5.1	0.1	3%
Transit Service Agreements	42.0	48.5	6.5	15%
MAG Funds	0.5	0.5	0.0	0%
AZ Lottery Funds	0.0	0.2	0.2	0%
Federal Grants	9.9	8.8	(1.0)	-10%
Fare Revenues	13.0	11.6	(1.4)	-11%
Other Revenues	0.3	0.6	0.3	88%
Carry forward and Reserves	4.8	1.6	(3.2)	-66%
Sub-Total RPTA Operating	\$156.7	\$163.9	\$7.3	5%
VMR Reimbursements	\$23.1	\$27.5	\$4.3	19%
AZ Lottery Funds	\$11.2	\$11.2	0.0	0%
Sub-Total Pass-Through Funds	\$34.3	\$38.7	\$4.3	13%
Total Operating Revenues	\$191.0	\$202.6	\$11.6	6%

5

Uses of Funds: Operating (\$,000,000)



Uses of Funds	FY19	FY20	Change \$	Change %
Fixed Route Operations	\$94.9	\$99.3	\$4.4	5%
Demand Service Operations	39.1	41.0	1.9	5%
Vanpool Operations	1.0	0.9	(0.1)	-6%
Planning	3.9	2.4	(1.5)	-39%
Commute Solutions	1.3	1.3	0.1	6%
Administration and Finance	4.2	4.8	0.6	15%
Regional Services	12.1	13.9	1.9	15%
Sub-Total RPTA Operating	\$156.3	\$163.6	\$7.3	5%
VMR Personnel Costs	\$23.0	\$27.3	\$4.3	19%
VMR RARF Disbursements	0.5	0.5	0.0	0%
AZ Lottery Funds Disbursements	11.2	11.2	0.0	0%
Sub-Total Pass-Through Funds	\$34.7	\$39.0	\$4.3	12%
Total Operating Uses	\$191.0	\$202.6	\$11.6	6%

6

Sources of Funds: Capital (\$,000,000)



Sources of Funds	FY19	FY20	Change \$	Change %
Public Transportation Funds	\$23.8	\$24.6	\$0.9	4%
Federal Grants	37.3	34.4	(\$2.9)	-8%
Other Revenues	0.2	0.3	\$0.1	54%
Carry forward and Reserves	18.8	18.3	(\$0.5)	-2%
Sub-Total RPTA Capital	\$80.0	\$77.6	(\$2.4)	-3%
PTF Rail Program	\$47.1	\$52.2	\$5.1	11%
PTF Bond Proceeds	0.0	0.0	0.0	0%
Carry forward and Reserves	0.0	0.0	0.0	0%
Sub-Total VMR Capital	\$47.1	\$52.2	\$5.1	11%
Total Capital Sources	\$127.1	\$129.8	\$2.7	2%

7

Uses of Funds: Capital (\$,000,000)



Uses of Funds	FY19	FY20	Change \$	Change %
Regional Fleet	\$40.8	\$39.3	(\$1.5)	-4%
Regional Facilities	7.3	8.6	1.3	18%
Other Regional Projects	1.5	1.0	(0.5)	-35%
Member Agency Disbursements	7.1	5.4	(1.6)	-23%
Debt Service	23.4	23.3	(0.0)	0%
Sub-Total RPTA Capital	\$80.0	\$77.6	(\$2.4)	-3%
Rail Program Disbursements	\$29.9	\$88.2	\$58.3	195%
Reserved for Future Use	17.2	(35.9)	(53.1)	-309%
Sub-Total VMR Capital	\$47.1	\$52.2	\$5.1	11%
Total Capital Uses	\$127.1	\$129.8	\$2.7	2%

8



Staff Changes from FY19 to FY20

	FY19 Budget	Mid-Year Additions	FY20 Additions	FY20 Budget
Positions by Division				
Agency Business, Technology and Services	49		2	51
Capital and Service Development	56	1	1	58
Communication and Strategic Initiatives	10	6		16
Executive Office	5			5
Finance and Procurement	34	1	2	37
Human Resources	10		2	12
Internal Audit Services	2	1		3
Legal	2			2
Operations and Maintenance - RPTA	66			66
Operations and Maintenance - VMR	132		38	170
Safety, Security and Quality Assurance	10			10
Total Positions by Division	376	9	45	430
<i>RPTA</i>	<i>151</i>	<i>2</i>	<i>2</i>	<i>155</i>
<i>VMR</i>	<i>225</i>	<i>7</i>	<i>43</i>	<i>275</i>

9

Upcoming Budget Schedule FY20



- March 14** Budget presented for information to AFS
- March 21** Budget presented to Board of Directors for information
- April 15** Member City Comments due
- May** Committee Cycle for Budget Adoption

10



Information Summary

DATE

March 7, 2019

AGENDA ITEM 7**SUBJECT**

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

PURPOSE

To provide an overview of the FY20 Preliminary Operating and Capital Budget and the Five-Year Operating Forecast and Capital Program (FY20 thru FY24).

BACKGROUND | DISCUSSION | CONSIDERATION

The Valley Metro Rail, Inc. (VMR) FY20 combined operating and capital budget (the budget) is \$482.6 million (M) and includes \$88.2M in projects funded with Proposition 400 Public Transportation Fund (PTF) revenues for light rail/high capacity transit capital.

The preliminary FY20 budget has been prepared with the goal of delivering a fiscally prudent, balanced budget using carry forwards, reserves and bond proceeds. The budget was developed in compliance with Board of Directors' adopted budget, financial and Transit Life Cycle Program (TLCP) policies.

The annual budget is prepared on a modified accrual basis and adopted by the Board of Directors each fiscal year. The legal level of budgetary control is the total annual appropriated budget. With respect to Capital Budgets, project contingency accounting is used to control expenditures within available project funding limits. With respect to Operating Budgets, encumbrance accounting is not used and all appropriations lapse at the end of the year. Prior to final adoption, a proposed budget is presented to the Board of Directors for review and public comment is received. Final adoption of the budget must be on or before June 30 of each year.

The total operating budget of \$72.3M represents a \$3.6M (5%) increase from the previous year's operating budget of \$68.7M. The total capital budget of \$410.3M represents a \$170.9M (71%) increase from the previous year's capital budget of \$239.5M.

The RPTA and Valley Metro Rail (VMR) budgets are developed with a unified staff plan, with department managers planning the level of effort required to meet the bus and rail activities. Salary and overhead charges to bus and rail projects are based on actual time worked on each project. For FY20 there are 429 employees budgeted in the integrated agency, with 155 FTE's budgeted to RPTA activities and 274 budgeted to VMR activities. Compensation budget based on 3.0% increase. For staff salary



changes, merit increases are evaluated based on employee performance; division level control to manage total costs within budget.

STRATEGIC PLAN ALIGNMENT

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

- Goal 2: Advance performance based operation
 - Tactic C: Deliver projects and services on-time/on-budget.
 - Tactic E: Maintain strong fiscal controls to support Valley Metro's long-term sustainability.

COMMITTEE PROCESS

Preliminary Budget Review:

Financial Working Group: February 19, 2019 for information

RTAG: February 19, 2019 for information

RMC: March 6, 2019 for information

AFS: March 14, 2019 for information

Board of Directors: March 21, 2019 for information

Proposed Budget Adoption:

RMC: May 1, 2019 for approval

AFS: May 8, 2019 for action

Board of Directors: May 16, 2019 for action

RECOMMENDATION

This item is presented for information.

CONTACT

Paul Hodgins

Chief Financial Officer

602-523-6043

phodgins@valleymetro.org

ATTACHMENT

None

Valley Metro Rail

FY20 Preliminary Budget Overview

March 2019

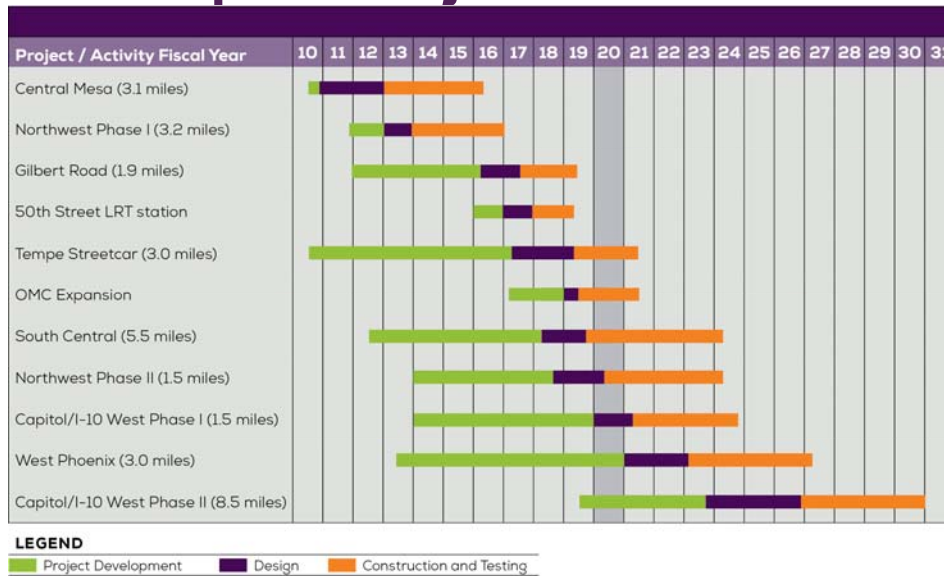


Baseline: Light Rail Operations



	FY19	FY20	Change
Passenger Boardings	16,874,000	15,827,000	-6%
Vehicle Revenue miles delivered	3,376,000	3,593,000	6%
Boardings per Revenue Mile	5.00	4.40	-12%
Operating cost per passenger	\$3.08	\$3.58	16%
Operating Costs	\$52,041,000	\$56,727,000	9%
Fare Revenues	\$14,343,000	\$11,713,000	-18%
Fare Recovery	28%	21%	
Avg Fare	\$0.85	\$0.74	-13%

LRT Capital Project Schedule



3

Uses of Funds: Project Development

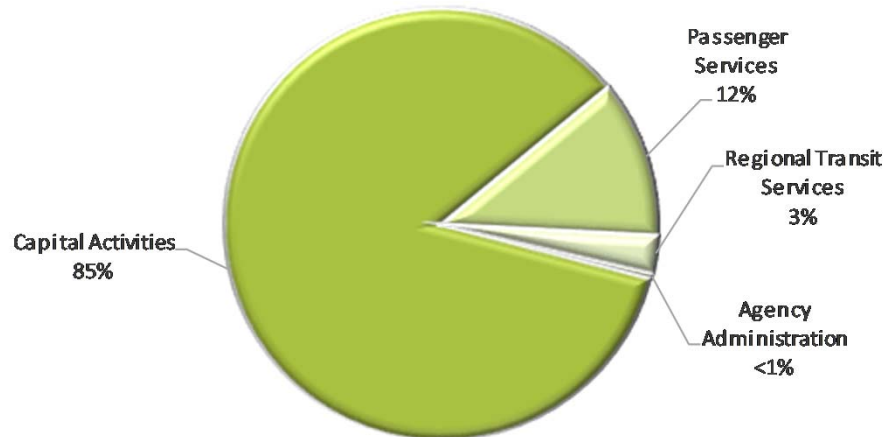
(\$,000)



Uses of Funds	FY20
Capitol/I-10 West Phase I	\$1,254
West Phoenix	84
I-10/I-17 Bus Ramp Design (FTA)	50
Fiesta District Corridor Study	462
Downtown Chandler/Arizona Ave AA	441
Tempe/Mesa Streetcar System Study	359
Systems Planning & Project Development	9,126
Capital Project Development Administration	1,691
Total Uses	\$13,467

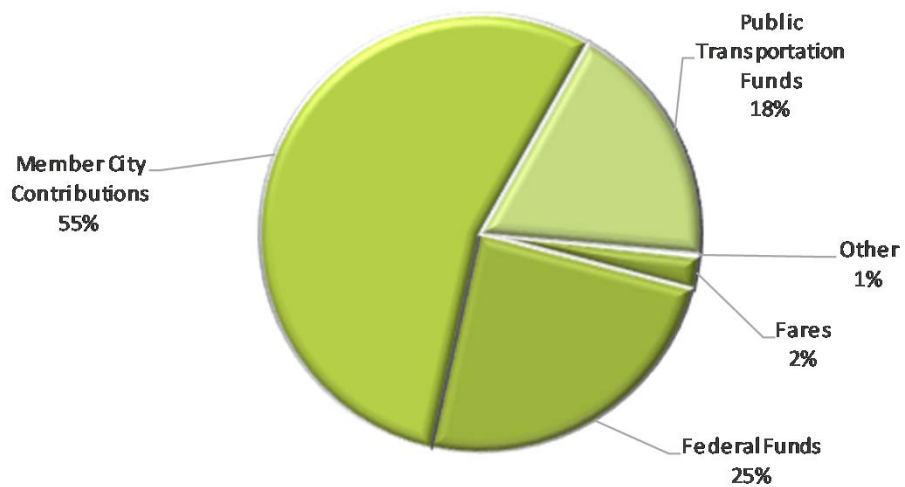
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Uses of Funds: Operating & Capital



5

Sources of Funds: Operating & Capital



6

Uses of Funds: Operating (\$,000,000)



Uses of Funds	FY19	FY20	Change \$	Change %
Rail Operations & Maintenance	\$44.3M	\$47.3M	\$3.1	7%
Security	\$7.8M	\$9.4M	1.6	21%
Future Project Development	\$14.9M	\$13.5M	(1.4)	-10%
Agency Operating	\$1.7M	\$2.1M	0.4	21%
Total Operating Uses	\$68.7	\$72.3	\$3.6	5%

7

Sources of Funds: Operating (\$,000,000)



Sources of Funds	FY19	FY20	Change \$	Change %
Advertising	\$1.1	\$1.7	\$0.6	50%
Fares	14.3	11.7	(2.6)	-18%
Federal Funds	2.7	2.6	(0.1)	-4%
Member City Contributions	38.2	44.6	6.4	17%
Regional Planning Funds	1.0	1.0	0.0	0%
Public Transportation Funds	11.4	10.8	(0.6)	-5%
Total Operating Sources	\$68.7	\$72.3	\$3.6	5%

8

Uses of Funds: Capital (\$,000,000)



Uses of Funds	FY19	FY20	Change \$	Change %
Tempe Streetcar	\$48.1	\$85.7	\$37.6	78%
South Central	\$62.4	\$223.5	\$161.1	258%
Northwest Phase II	21.7	39.7	17.9	82%
OMC Expansion	7.1	32.1	25.0	351%
Gilbert Road Extension	65.9	4.5	(61.4)	-93%
50th Street Station	8.8	1.2	(7.5)	-86%
Central Mesa Extension	0.2	0.3	0.1	49%
Systemwide Improvements	25.3	10.7	(14.6)	-58%
State of Good Repair	0.0	12.6	12.6	-
Total Capital Uses	\$239.5	\$410.3	\$170.9	71%

9

Sources of Funds: Capital (\$,000,000)



Sources of Funds	FY19	FY20	Change \$	Change %
Federal Funds	\$164.3	\$115.5	(\$48.8)	-30%
Member City Contributions	33.7	218.9	185.3	550%
Public Transportation Funds	18.5	77.4	58.8	318%
City of Mesa Financing	23.0	(1.5)	(24.5)	-106%
Total Capital Sources	\$239.5	\$410.3	\$170.9	71%

10

Staff Changes from FY19 to FY20



	FY19 Budget	Mid-Year Additions	FY20 Additions	FY20 Budget
Positions by Division				
Agency Business, Technology and Services	49		2	51
Capital and Service Development	56	1	1	58
Communication and Strategic Initiatives	10	6		16
Executive Office	5	-1		4
Finance and Procurement	34	1	2	37
Human Resources	10		2	12
Internal Audit Services	2	1		3
Legal	2			2
Operations and Maintenance - RPTA	66			66
Operations and Maintenance - VMR	132		38	170
Safety, Security and Quality Assurance	10			10
Total Positions by Division	376	8	45	429
<i>RPTA</i>	<i>151</i>	<i>2</i>	<i>2</i>	<i>155</i>
<i>VMR</i>	<i>225</i>	<i>6</i>	<i>43</i>	<i>274</i>

11

Upcoming Budget Schedule FY20



- March 14** **Budget presented for information to AFS**
- March 21** **Budget presented to Board of Directors for information**
- April 15** **Member City Comments due**
- May** **Committee cycle for Budget Adoption**

12



Information Summary

DATE

March 7, 2019

AGENDA ITEM 8**SUBJECT**

Intergovernmental Agreements, Contract Change Orders, Amendments and Awards

PURPOSE

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

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

A. Mobility Center Office Space Reconfiguration

Execute a contract for a general contractor and vendors to buildout and furnish our current leased space at a project cost not to exceed \$110,910.

B. Purchase of Aerial Device/Bucket Trucks

Execute a contract with Altec Industries, Inc. for the purchase of two aerial device/bucket trucks for an amount not to exceed \$223,106.

C. Light Rail Vehicle (LRV) Communication and Video System Upgrade Contract Award

Execute a contract with Siemens Mobility, Inc. for an amount not to exceed \$14,554,000 to upgrade the communication and video system on the light rail vehicles.

RECOMMENDATION

For information only.

CONTACT

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ATTACHMENT

Information Summaries for items listed above



Information Summary

DATE

March 7, 2019

AGENDA ITEM 8A**SUBJECT**

Mobility Center Office Space Reconfiguration

PURPOSE

To request authorization for the Chief Executive Officer (CEO) to execute a contract for a general contractor and vendors to buildout and furnish our current leased space at a project cost not to exceed \$110,910.

BACKGROUND | DISCUSSION | CONSIDERATION

The Mobility Center is located at 4600 E. Washington and houses Customer Service and Paratransit Services staff. The lease for this office expires in January 2026. In July of 2018, Valley Metro implemented a new contract for eligibility certification and travel training services. In addition to requiring our new contractor to provide assessments for the increasing number of individuals applying for ADA paratransit, we included a contractual requirement for expanded travel training services for individuals who may be able to use accessible bus and light rail rather than more costly paratransit.

Further, we included a requirement for the contractor to take on more of the customer service and clerical aspects of the eligibility certification program, thereby freeing Valley Metro staff to focus on the day-to-day management of our growing paratransit and RideChoice programs. These new contractual requirements necessitated a larger workforce for the new contract.

The Mobility Center reconfiguration will create additional work spaces for the larger workforce at the Mobility Center, and it will provide a new small conference room where Mobility Center staff can meet with customers, a capability we do not currently have. In order to meet the need for additional space, staff worked with an architect to maximize the use of the existing space.

Knight Management, the building management company, reserves the right to approve any contractors who work in their Building. Valley Metro sent the plans to three building-management approved contractors and one bid was received from SDB who is also on the Mojave Cooperative Contract. In addition to general contractor work, some expenses for permitting fees, cabling, camera relocation and equipment may be required.



COST AND BUDGET

The cost for these improvements are summarized in the following table:

Firm	Services	Cost
SDB	Construction	\$69,733
Goodman's Furniture	Furniture and installation	\$15,896
Other expenses	Permit fees, cabling, security camera moves, audio/visual, etc.	\$20,000
Contingency (5%)		\$5,281
Project Total		\$110,910

The project is an RPTA project and the overall total is funded within the Adopted FY19 Annual Operating and Capital Budgets.

STRATEGIC PLAN ALIGNMENT

This item relates to the following goal and strategy in the Five-Year Strategic Plan, FY 2016 – 2020.

- Goal 1: Increase Customer Focus

COMMITTEE PROCESS

RTAG: February 19, 2019 for information

TMC: March 6, 2019 for action

Board: March 21, 2019 for action

RECOMMENDATION

Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute a contract for a general contractor and vendors to buildout and furnish our current leased space at a project cost not to exceed \$110,910.

CONTACT

Rob Antoniak

Chief Operating Officer

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ATTACHMENT

None



Information Summary

DATE

March 7, 2019

AGENDA ITEM 8B**SUBJECT**

Purchase of Aerial Device/Bucket Trucks

PURPOSE

To request authorization for the Chief Executive Officer (CEO) to execute a contract with Altec Industries, Inc. for the purchase of two (2) aerial device/bucket trucks for an amount not to exceed \$223,106.

BACKGROUND | DISCUSSION | CONSIDERATION

Valley Metro Rail's 26-mile light rail line is primarily street running and includes 40 passenger stations, 22 sub-stations, and park and ride lots. The light rail will be expanding another 2 miles to include the Gibert Road Extension that includes additional passenger stations, sub-stations, and a park and ride lot. An additional station is being added to the system at 50th St and Washington. The aerial device/bucket trucks will be used for maintenance and support of system operations that includes major repairs of the overhead catenary systems and unforeseen downed power lines. The trucks will provide for efficient use of resources to perform maintenance tasks on the rail line. One truck will be a replacement and the second truck is for expansion needs. The expansion truck is needed because of additional staff and additional maintenance needs due to the rail extension. The other truck is to replace a truck that is over 8 years old and has over 135,000 miles on it.

In December 2018, Valley Metro issued an Invitation for Bid (IFB) for the purchase of two aerial device/bucket trucks. Bidders were also asked to include the cost of an extended warranty. The procurement was advertised in accordance with Valley Metro's public notice procedures.

One bid was received at the bid opening. A price analysis was completed as required by Valley Metro policies and price was deemed to be fair and reasonable. The award recommendation is to Altec Industries, Inc. as the responsive, and responsible bidder.

COST AND BUDGET

The purchase of the two aerial device/bucket trucks will be awarded for a not to exceed amount of \$223,106. The cost includes an extended warranty and sales taxes. The vehicles will be manufactured and delivered in FY 2020. The cost for the purchase of the two aerial device/bucket trucks will be included in the Valley Metro Rail Proposed FY2020 Operating and Capital Budget.



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: December 18, 2018 for information

RMC: March 6, 2019 for action

Board of Directors: March 21, 2019 for action

RECOMMENDATION

Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a contract with Altec Industries, Inc. for the purchase of two aerial device/bucket trucks for an amount not to exceed \$223,106.

CONTACT

Ray Abraham

Chief Operations Officer

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ATTACHMENT

None



Information Summary

DATE

March 7, 2019

AGENDA ITEM 8C**SUBJECT**

Light Rail Vehicle (LRV) Communication and Video System Upgrade Contract Award

PURPOSE

To request authorization for the Chief Executive Officer (CEO) to execute a contract with Siemens Mobility, Inc. to upgrade the communication and video system on the light rail vehicles for an amount not to exceed \$13,854,000 plus a contingency of \$700,000, for a total of \$14,554,000.

BACKGROUND | DISCUSSION | CONSIDERATION

Valley Metro has a fleet of 50 Kinkisharyo (KI) Light Rail Vehicles (LRVs). The current age of the light rail vehicles is 10 years in revenue service. The communication system in the KI LRVs is suffering from obsolescence and has performance issues. Valley Metro has determined that the current system has completed its life cycle and value and needs to replace it with a new and more reliable, user-friendly communication system. The on-board communication system includes:

- Public-address system (PA)
- Intercom system including cab-to-cab intercom and passenger-to-operator intercom (POIC)
- Passenger information system (PIS)
- Video surveillance (CCTV)
- Vehicle position system, GPS receiver, train to train communication, vehicle wireless communication to wayside, event recorder and the monitoring and diagnostic system (MDS).

The communication system will require integration and interfacing with existing vehicle systems. It will be the contractor's responsibility to acquire necessary system characteristics and functionality by test, measurement, or other means.

Valley Metro attempted to utilize an existing City of Phoenix contract with Clever Devices. However, due to the extensive scope requirements for the LRV communication system and to offer public competition, Valley Metro issued a Request for Proposal solicitation.

In August 2018, Valley Metro issued a federally compliant Request for Proposal (RFP) for the LRV Communication and Video System Upgrade. The contractor will provide all



necessary equipment and labor to complete the communications and video upgrade for 50 LRVs.

A total of five firms submitted proposals as follows:

1. Clever Devices Ltd.
2. ISC Applied Systems Corporation
3. Nokia of America Corporation
4. Siemens Mobility, Inc.
5. Woojin IS America, Inc.

A selection committee, comprised of staff from Valley Metro and City of Phoenix, evaluated technical proposals. Three firms (Clever Devices, Siemens, and Woojin IS) were shortlisted for interviews. The selection committee finalized its evaluations of each firm's technical proposal and price proposal. Best and Final Offers were submitted by the three short-listed firms. The Selection Committee arrived at its award recommendation using a "Best Value" process which allows for a contract award based on a combination of technical and cost factors. Based on this process, the selection committee has selected Siemens Mobility, Inc. as the firm whose proposal offers the "best value" to the agency.

Proposers in Ranked Order	
Siemens Mobility, Inc.	Ranked #1
Woojin IS America, Inc.	Ranked #2
Clever Devices Ltd.	Ranked #3

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.

COST AND BUDGET

The cost to upgrade the communication and video system on the light rail vehicles is an amount not to exceed \$14,554,000 which includes a \$700,000 contingency for any unforeseen integration issues or any other obstacles during installation. The cost for the upgrade is included in the Valley Metro Rail Adopted FY 2019 Operating and Capital Budget. Contract obligations beyond FY2019 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2019 thru FY2023).

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: February 19, 2019 for information

RMC: March 6, 2019 for action

Board of Directors: March 21, 2019 for action

RECOMMENDATION

Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a contract with Siemens Mobility, Inc. for an amount not to exceed \$14,554,000 to upgrade the communication and video system on the light rail vehicles.

CONTACT

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ATTACHMENT

None



Information Summary

DATE

March 7, 2019

AGENDA ITEM 9**SUBJECT**

Future Agenda Items Request and Report on Current Events

PURPOSE

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

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

This item presented for information only.

CONTACT

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ATTACHMENT

None.

Pending Items Request

Item Requested	Date Requested	Planned Follow-up Date