MEETING OF THE

Audit and Finance Subcommittee

Date:
March 12, 2020

Starting Time
12:00 p.m.

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

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Audit and Finance Subcommittee
Thursday, March 12, 2020
Lake Powell Conference Room
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Action Recommended

1. Public Comment (yellow card)	1. For Information

The public will be provided with an opportunity at this time to address the committees on **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 February 13, 2020 Audit and Finance Subcommittee meeting are presented for approval.

3. Performance Management Audit	3. For action

Vickie Murphy, Interim Director, Internal Audit, will present the results of the Performance Management Audit to the Audit and Finance Subcommittee (AFS) for acceptance.

4. Hardware and Software Management Audit	4. For action

Vickie Murphy, Interim Director, Internal Audit, will introduce Jessica Bundy, REDW, who will present the results of the Hardware and Software Management Audit to the Audit and Finance Subcommittee (AFS). Ms. Murphy will request AFS acceptance of the Hardware and Software Audit.

5. Internal Audit Update and Revision of Fiscal Year 2019-2020 (FY20) Audit Plan	5. For action

Vickie Murphy, Interim Director, Internal Audit, will provide an update on the actions taken in Internal Audit and request a revision to the Fiscal Year 2019-2020 (FY20) Audit Plan.

6. Internal Audit Exceptions Update	6.	For information

The Internal Audit Exceptions log is presented for information.

7. Valley Metro RPTA Fiscal Year 2021 (FY21) Preliminary Operating and Capital Budget	7.	For information

Paul Hodgins, Chief Financial Officer, will provide an overview of the FY21 Preliminary Operating and Capital Budget.

8. Valley Metro Rail, Inc. Fiscal Year 2021 (FY21) Preliminary Operating and Capital Budget	8.	For information

Paul Hodgins, Chief Financial Officer, will provide an overview of the FY21 Preliminary Operating and Capital Budget.

9. Intergovernmental Agreements, Contract Change Orders, Amendments and Awards	9.	For information

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

10. Future Agenda Items	12.	For information

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

The next meeting of the Audit and Finance Subcommittee is scheduled for **Thursday, April 2, 2020 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 5, 2020

SUBJECT
Public Comment

PURPOSE
The public will be provided with an opportunity at this time to address the committees on **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
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ATTACHMENT
None

Minutes

March 5, 2020

AGENDA ITEM 2

Audit and Finance Subcommittee
Thursday, February 13, 2020
Lake Powell Conference Room
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Meeting Participants

Councilmember Robin Arredondo-Savage, City of Tempe, Chair
Councilmember Lauren Tolmachoff, City of Glendale
Mayor Kate Gallego, City of Phoenix
Vice Mayor Bill Stipp, City of Goodyear
Councilmember Francisco Heredia, City of Mesa

Chair Arredondo-Savage called the meeting to order at 12:17 p.m.

Chair Arredondo-Savage said welcome. Thank you all so very much for your patience. Much appreciated. So we are going to go ahead and get started. I don't see any yellow cards or public comment at this time.

1.   Public Comment

None.

2.   Minutes

Chair Arredondo-Savage said hopefully everyone had an opportunity to read through the minutes from our last meeting of November. As you remember, we didn't meet in December. Any questions, changes? Do I have a motion for approval?

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER TOLMACHOFF AND UNANIMOUSLY CARRIED TO APPROVE THE FEBRUARY 13, 2020 AFS MEETING MINUTES.

3.   Internal Audit Update

Chair Arredondo-Savage said we'll move on to the Internal Audit Update. I think Mary is here with Christina, right, to talk a little bit about the Phoenix audit, so thank you very much for that. I'll go ahead and turn it over to you.

Ms. Modelski said thank you. So this is going to be a short update. in front of you is an actual copy of where we stand in terms of our audit plan.

Fiscal Year 19/20 Audit Plan

Process	Status
Credit card transactions	Not started - April
Travel expenses	Not started - April
Professional Development	In progress
Full-Time Employee Additions	Complete
Contract Management (specific)	Not started – April/June
Paratransit Contract Management	In progress
OMC Non-Capitalized Rail Parts and Tools Inventory	Complete
Hardware/Software Management	March
Performance Evaluation	Delayed
Internal Safety and Security Audit Review	Not started – February/March
CSD Invoice Processing	Not started - March
HR Information Management System (HRMIS) Implementation	Not started - April
ERP Implementation	Monitoring
External Audits – anticipated:	
Maricopa Co. – Paratransit	Complete
City of Phoenix - Fare Revenue	Complete
City of Phoenix – Contract Risk Assessment	Report March
ADOT – Rail Safety Audit	Report March

Ms. Modelski said just to give you a high-level overview, the professional development audit and the paratransit contract audit, we've kicked both of those off as of January 29.

The performance management audit we have sent out for management responses. We're hoping to close that at the end of February. We're going through that with management actually to answer some additional questions that they may have.

On the bottom portion of the green, those items have not been started or are being monitored.

The Maricopa County paratransit audit, (with Mr. McGee, who was here last month) inside your packet you will see a letter explaining why the audit was done and then management's response as to that audit from information purposes and then a copy of the audit also for you.

In addition, you'll see City of Phoenix Public Transit Department light rail fare compliance. These are for information only. Once again, a memo explaining to you about why the audit was conducted. And then an audit memo from Mr. Hodgins as to our response to this in terms of how we'll follow up on that and react to that.

The other two audit reports are listed from an external perspective have not been released yet. We anticipate seeing those in March and we'll bring those to you also for information purposes at the stage. At this point if you have any questions for Christina, Christina is the deputy city auditor who oversaw the fare revenue compliance audit, so if you have any questions she's here to answer that. Otherwise, I just pose those to you for an information perspective. Any questions?

Chair Arredondo-Savage said just give us aquick update of what the findings were on the audit

Ms. Preciado said so we had one of our auditors look at the fare inspections and what Valley Metro does to ensure that riders are paying their fair share when they ride, so Karen, one of our auditors did this project. It was a review of the contractor. It was putting our plan as part of our annual audit planning. We looked and Karen rode along with the inspectors. They did 238 inspections. There were five exceptions that the fare inspectors caught at that time. One thing she noted was that they were not checking to see if the discounted fare was valid, so that was the recommendation is to work with Valley Metro -- for the contractor to work with Valley Metro to ensure that those fares are inspected.

Chair Arredondo-Savage said so I'll just make a couple of comments here because this is kind of one thing I think that we, as an organization, need to confirm, which is one of the things I think that you mentioned is the eligibility in regards to the reduced fares because we've had a lot of conversations about reduced fares and some of our struggles to make sure that they are valid. And maybe it's not necessarily a question for you Christina, but more as an organization what is our definition of a valid fare, first and foremost.

And then I know, Paul, you had put a little response in here in regard to the response from Valley Metro about focusing on what's going to happen when we have a new fare system. My belief is that's not happening right now. Obviously we need to continue to work on, what that criteria is and how we are checking eligibility for people that are buying reduced fares and who really even has the authority to check it when people are riding. I don't know. Is it security? Is it our CECs? Who's actually asking not only do you have a valid fare, but are you eligible, are you that person? Is there an answer?

Mr. Hodgins said one of the things we have done in the last year is to require the retailers to check for eligibility at the point of sale. We're about a year into that, so

we've collected some data. We don't have the results of the effectiveness. Short of implementing the new fare collection system, there have been some things that we've been doing. Fare challenges are probably the single biggest cause of altercations with particularly bus operators. I don't know about fare enforcement officers on light rail. It's one of the biggest challenges we have. So we do not – I don't know that we require fare inspectors to check eligibility. I mean, I think they can, but they typically wouldn't unless they're accompanied by a police officer or someone with some authority.

Mr. Smith said it's the number one challenge we have in, I would say, altercations. And it's also we recognize that -- and when I say we, us and the City of Phoenix, who have been working on the system diligently, recognize that the way that we sell fares really opens up not only the potential but the reality of wide abuse.

There are very little few controls over someone's ability to buy a fare. And frankly, we have chosen not to be aggressively checking for those fares because on a bus it does create altercations. On a train you're in a very tight space and we've shied away from those kinds of altercations understanding that we basically have set our inspectors up by having a, frankly, a defective system.

So, working with Phoenix Transit, our approach so far has been to fix the underlying system, the retail sale of tickets. And then we will follow with more aggressive compliance because at that time we will control who gets it. There will be photo IDs. We have a lot of people who don't even realize they're being sold a reduced fare frankly. We found that out at some of our retail outlets. We have over 800 retail outlets that sell, and it's hard to control all of those. So it's difficult. So, it was not surprising that they did not find aggressive or active reduced fare. We're pushing more regular fare to make sure they have a fare and that's actually been a conscious decision.

Chair Arredondo-Savage said I will just say, too, we had a question that safety and security and Adrian gave us a really great response in regard to some of the concerns about confronting people and trying to validate while they're actually riding and that hasn't seemed to be a positive step, so I guess it just re-ensures how important it is when it comes to that point of sale that it's accurate that we are actually checking IDs, even though I know we sent the letters, trying to hopefully encourage more people to actually do that. I don't know if we're actually checking who's selling these to see if they're actually doing what we've asked them to. She said so, I guess because it's been an issue that we've talked about for so long and we know one of the things that we're losing a lot of money on, I just didn't want it to just fly under the radar.

Mr. Smith said no, it has not flown under the radar. We're very well aware of the situation. It is frustrating for us. And we're as anxious as anyone else to get the capabilities with this new system. It can't happen fast enough. But we recognize that for the next little while that's a cost we're going to have. We actually talked about putting in an aggressive auditing system and we just simply don't have the spare

personnel right now to allocate to what we think it would take to create a new system -- a system of checks and balances.

We do question some of the bigger outlets who buy their tickets in bulk. They're still buying a disproportionate number of reduced fares, which means that's what they're selling. We've had discussions with them. We tried to raise it, but it's just awfully hard to police 800 different vendors. And in our own TVMs it's real easy to buy a reduced fare. We looked into reprogramming the cost to reprogram for a system that hopefully we're going to replace in the next two or three years was really high. So, we're frustrated too.

Chair Arredondo-Savage said I just want us all to be frustrated together, that's all. So, I appreciate it.

Mr. Smith said there is something good on the horizon. There is something really good on the horizon and working hand in hand with the City of Phoenix who has run the procurement of the new system. This has been at the forefront.

Chair Arredondo-Savage said okay. Thank you very much. All right. Question?

Vice-Mayor Stipp said just to follow up then, if this is a point of frustration in where we go, we've got in the recommendations a target date of April 15 of implementing a process to check for reduced fare eligibility is that really realistic? Should we even put a date on it?

Ms. Modelski said that recommendation was actually put together in that response was from the City of Phoenix. So that was their response, so that would be held to the City of Phoenix Public Transit Department from that perspective.

Mr. Smith said and we talked to them about that response. And I think what you're going to see is much more polished response than what I just gave -- about some of the things we're trying to do to sort of plug the gaps, but the recognition that true -- our ability to truly monitor this will not happen until we get the new fare system in. That's just our reality for right now.

Vice Mayor Stipp said I think that it's an honest answer, not that any answer before that was not, but.

Mr. Smith said well, it's hard to talk about, because it is frustrating. And in many ways you say why can't you do this. And it's one of those things that the cost of doing it would be greater than the benefit we would get out of really upping our enforcement. And I know there's people who would want to do that, but we've already had issues with how we do enforcement on our trains and on our buses. And this would just sort of be throwing gas on the fire, so to speak, because it would create more situations where

confrontation would happen and so we really looked at that and decided that until we fix our own house, putting that complete burden onto the rider is not, in our view, a really fair way of doing it and it also creates unnecessary confrontation, which actually lessens the safety and security of our passengers.

Vice Mayor Stipp said so is it fair to say that even if you were to say to the retailers, look, we're just not going to let you sell any more. If I'm that person who's going to take a reduced fare ticket, even though I'm not eligible for it that if I just walk up to the machine, I can get it there.

Mr. Smith said yes.

Vice Mayor Stipp said so it doesn't matter and I think including that very common sense into this answer, we all may not be happy that it's happened in that fashion, but at least we've acknowledged all of the realities that going after the eight hundred retailers isn't an option because those tickets are available via a machine so that, you know, I think I agree with Robin at least we're all frustrated by it. He said but from the Valley Metro side if the polished response is the what we're going to do by April 15 to stick to our deadlines and that's as good a response as we're going to get.

Mr. Smith said, and I can't speak for the city how the City of Phoenix Public Transit Department is going to answer. We've had discussions with them about this issue and how they would respond to it. So, it's up to them to figure out how exactly how to do that, but, you know, we're not just giving up. We're looking at ways we can tighten this up with our retailers. We're trying to look at ways that, you know, if we see a disproportionate number of reduced fare, then we'll follow up, but we're really limited as -- we're not thinking we can make a huge difference at the present time.

Vice Mayor Stipp said thanks.

Chair Arredondo-Savage said Councilmember Heredia.

Councilmember Heredia said just one question, do we have a timeline? I don't remember the timeline as far as the new system coming in.

Mr. Hodgins said we're looking at two to three years to completely implement, but it will be implemented in phases. We'll have a mobile ticketing solution. And then we'll start rolling out our reduced fare ID. It will be just a flash pass at that point along with reduced fare, but at some point when we roll out the full smart card solution that reduced fare ID will also be their fare, so we'll be able to control who has the reduced fare ID through kind of that certification their eligibility process because they wouldn't have the ID or have a card that's coded as reduced fare unless they go through our process.

So, it's two to three years. I know we're working -- Phoenix is looking to award that contract, I think, next month with city council, so once that happens, we can start getting into more details with the vendor about specific timeline, but two to three years for completion.

Mr. Smith said just to say how that will work is that once we implement and go to a pure smart card, you'll go to those eight hundred vendors. They will not be able to sell reduced fare from scratch. They will be able to add to a card and load a card, so I can go and I can buy the reduced fare, but it will only be to add to the smart card. We won't sell paper ticket. That's the plan. So that's how we get the ultimate control of that.

Councilmember Heredia said and one other question, Paul, you mentioned as far as data on the vendors, is the timeline on that as far as how vendors are operating or is that ongoing basis that you're getting that information?

Mr. Hodgins said I think the City of Phoenix gets all of that information. They actually sell the fare media we're talking about, maybe next month to have some data.

Mr. Kessler said next week.

Mr. Hodgins said next week, okay. So, we should have something for the next AFS if you would like to have a discussion about kind of the results of that first year.

Councilmember Heredia said sure.

Chair Arredondo-Savage said that's a good idea.

Mr. Smith said and just to add something, you will still, if you're an out-of-towner or whatever, we may still sell reduced fare but only at limited locations, so you can get one if you don't have an ID, but it will greatly reduce the abuse, which we see now, where anyone can buy one anywhere, and they do, it will be restricted. It won't totally shut off, so we'll still have people who want to pay cash or whatever, but it will be more controllable at that time.

Councilmember Tolmachoff said thank you. That's what I was going to ask. As it stands right now are we mandated to offer the reduced fare at every retail outlet?

Mr. Smith said mandated?

Councilmember Tolmachoff said well, I mean, is it like a compliance issue?

Mr. Smith said I'm not a Title VI expert. We've raised this question. I think the challenge is if you limit it, you offer all tickets except for reduced fare in all places, you do run into probably Title VI issues which is our equal access federal law that we follow.

So, like I said, I'm not an expert, but it's my understanding that if we were to restrict it, we would be certainly coming close to the line if not crossing it on that, so we haven't pursued that. If someone has a better knowledge than that, that's -- Paul, that's been my understanding.

Mr. Hodgins said yes, because we've been offering them pretty much at all of the retailers to pull back just one piece of it just the reduced fare could potentially be an issue.

Councilmember Tolmachoff said can we limit -- well, because, I mean, I don't know how we distribute. If we distribute based on averages or something how many regular fares or reduced fares we send to, you know, Circle K or places like that and we reduce the number based on usage are we able to tell what the percentages should be and not give them too many reduced fares to sell is, I guess, what I'm saying.

Mr. Smith said yes, and that's something we've also talked about. Once again, they buy what they sell. We've talked to them about it. And it's real touchy when you start rolling back availability. And as long as we have these retail outlets that offer the full gamut for them to say I don't have a fare to sell you because -- they literally buy the physical fare cards. For them to say no, Valley Metro wouldn't sell that to me and, therefore, I have limited, it also runs into the fact that you'll be perceived as pulling back accessibility.

Councilmember Tolmachoff said right. But we could restock it. We could make them request it, though, and then if it's another step for them to do, then maybe it might -- I don't know.

Mr. Smith said and there are things that we've looked at. For right now we've for a variety of reason we frankly have focused on the future and decided that this is a situation that without a massive redo of the system we just haven't found any of these steps that taken themselves are worth the cost it would take to implement them.

Councilmember Tolmachoff said I understand. Just the two to three year timeline is a long time. It's a lot of lost revenue.

Chair Arredondo-Savage said I guess that's my thought, too, is with Councilmember Heredia's request to get the update, I think it would be good for us to really understand what we can and can't do. I mean, I think we're going by what you think in regards to what we have to sell. I think if we are already selling I get how that goes, but let's find out legally if that's really true, because maybe that is part of this interim short, you know, we're talking long game, but the short term is really costing us a lot of money, too, and to just wash our hands of it doesn't seem very responsible. So if there are things that we can identify that might be low hanging fruit to really help us kind of hone things in, I don't know why we wouldn't at least explore it and get the facts. So that's all I was saying.

Mr. Smith said we'll come back with that update and we'll report to you.

Councilmember Tolmachoff said but I'm not suggesting that we deny fares. Just to not have them on hand may make them a little more stringent in how they do it and so no. When you run out, we'll get you more, but.

Mr. Smith said I know. It's worth the discussion. And we'll come back to you.
Just so you know we work very closely with City of Phoenix. They obviously sell a lot of tickets and they actually manage the fare collection system. And so when I say that we, I'm talking about discussions we've had with City of Phoenix, their attorneys, our attorneys. And we've looked at these things very deeply. We'll come back and we'll share with you some of the ideas we've had and like the ideas that you're talking about, we'll tell you what the response is and where we think the pros and cons are to pursuing that.

Vice Mayor Stipp said I think just kind of the last piece of that, I understand the concern about , reducing the availability and kind of drawing back, but I think if you look at many of the larger member cities that have started to draw back some of their services and I look, to Mesa in reducing the Dial-a-Ride program and we're all going through that, so I don't know that it would hurt us as an organization Valley Metro wide except for the legal piece.

Mr. Smith said yeah, and I appreciate that. In areas where we've drawn back so far, those are ancillary services that are provided beyond the legal requirement. And so you can draw that back without running afoul of federal law because as long as you're offering that basic service. He said what we did frankly, this is one thing that it was well intentioned. Several years ago, many years ago, the policy was let's expand our retail network to as broad a base as we can so that people have accessibility to the tickets. That was the philosophy. I think if you'll remember several months ago we had a study session where we showed a comparison of the number of retail outlets we have and we are the most in the nation. It was very well intentioned. This is one of those no-good deed goes unpunished things, because once you now offer that you've sort of set the bar -- it's a little different than your services and that's what we're running into. Now when you diminished that availability it's it's a different analysis than what the service is.

Vice Mayor Stipp said right, but I think there's a similar comparison – that we shouldn't be hesitant to do that from that perspective. I hate the idea of just giving up until we get the new system and I think I even expressed that the day when we talked about the new fare system. And I don't even want to guess at what that number is, but if I remember correctly, it's pretty large annually.

Mr. Smith said I totally agree with you. Oh, yeah. No, it's in the millions.

Vice Mayor Stipp said yeah. Okay. I didn't want to say it.

Mr. Smith said like you said, we're not hiding anything.

Vice Mayor Stipp said it's a big number.

Mr. Smith said it's a big number.

Vice Mayor Stipp said so if we're I think we should try to be a little bit more aggressive, and, believe me, I'm more sensitive to the let's try to be as available and whatnot, but if you need to access the Dial-a-Ride program, for example, you have to go through the certification process. If as an individual that's that's a tall order to jump through that hoop to finally get that where now I'm eligible for this. Reduced fare is, I think, a component of that, so maybe not in the same regard that you have to jump through this gigantic hoop to make it happen, but even if we lean in that direction until the final solution comes through, I'd just like to see us do that.

Mr. Smith said I think it's good for a revisit of that, so we'll prepare in an upcoming meeting to give you an update as to where we are and what we've done to look at certain actions we could take. We'll do that.

Mayor Gallego said I think we should also keep in mind that a significant portion of our riders are eligible for reduced fare. And at least on the Phoenix side I think we are not eager for large altercations on the trains. She said but I do think retailer education. I am guessing most retailers when they're prioritizing how they train their staff who is eligible for reduced fare is not.

Mr. Smith said yeah, I don't want altercations. Well, it's almost unfair for us to have them bear that complete burden. And we've realized -- we realize we have a system that isn't functioning and there's a lot of breaks in that system so much so that you can't point a finger one way or another. It's just a system that needs to be revamped. We do have plans to revamp it. We will revamp it. And until then it's going to be troublesome to what we do.

Chair Arredondo-Savage said anything else? All right. I think we beat that one up. All right. We look forward to the information moving forward. I think that's good. I think it's important and a priority in some of the things that we need to stay focused on, so I appreciate that. Christina, thank you. We really appreciate you coming and being here. Valuable information. Okay, Mary. Go ahead.

Ms. Modelski said finally, and the last portion of the update is the annual risk assessment is starting to take place right now in terms of we're moving individuals from

the different city partners, starting to schedule times with management. Inside your packet you have some questions, so as part of the annual risk assessment I ask you to assist us in terms of giving us suggestions, areas of concern for you. And these are questions for you to hopefully drive some of the what are some of the areas of concern you have, what have you -- do you have any process areas that you have concerns with.

I'll be coming back to you in March and asking you for input related to this. I've started meeting with many of your staff to say what are some of their areas of concern.
So March I'll ask for your input. April what we'll do is present to you a draft audit plan very similar to what's up here very similar to what we've done historically. And then June I'll actually bring to you the audit plan for the next fiscal year. So as you start to come through with suggestions for next year's audit plan hopefully this will help drive some of your questions in some of the areas to consider for that. And that's all I have for my update.

This item was presented for information only.

4.   Internal Audit Exceptions Update

Ms. Modelski said and then the next thing is the Audit Exceptions log. I do apologize. For the December meeting we had prepared for you our normal lovely color schemes from this perspective. We did not include the -- and since we canceled December, we did not carry that forward into January, so there were. six Bus Service Contract audit specific recommendations that were due in December. They have been reported as remediated by management, so I apologize. I'm going to jump for just a second. So the December report we will send to you as an after fact so you have a copy of that. This will be the December report that shows those six items from the bus service contract had been remediated. We've moved those over to remediated. Therefore, this report does not show them coming due nor does it show them as past due because they were done for December. So I apologize for that. We put the report together, but we never launched it, so we apologize for that.

This is our current list that we're working on. So these are the current ones that are coming through. The IT policy revisions of course we've got those. We're still holding out because it's part of the Hardware/Software audit that you'll be getting in May, so we'll keep this one on the overdue until we actually get to that March timeframe. So with that to actually come forward from that. But these are the other ones that are coming through for follow up on that. And then what's coming up –

Vice Mayor Stipp said can you go back to that?

Ms. Modelski said yes, sir.

Vice Mayor Stipp said the last column is the estimated date -- the new estimated date; right?

Ms. Modelski said correct.

Vice Mayor Stipp said correct, I should say. Number 5 was due in November. Do we have?

Mr. Hodgins said as far as I'm concerned, we've completed that. I thought that's how we reported it.

Ms. Modelski said if we go back to our actual discrepancies for No. 5. and when we followed up on per the CFO the reviewing the contract file for completion and ensuring the contracts are being closed appropriately. So we're being told that it's been done, but we haven't been told that it's complete. We're just being told that it's in the process of reviewing. So if you've actually done, that's not the comments that we've received from them. So you're in the process.

Mr. Hodgins said we changed our procedures so that managers are now reviewing contracts and ensuring they're complete.

Ms. Modelski said okay.

Mr. Hodgins said I mean, that's what we said we would do is update our procedures. I can't say that they've reviewed hundred percent of every contract we have, but our procedures have changed to ensure that they're doing, you know, that they're reviewing all of those.

Ms. Modelski said so we'll hope to see in the February Exceptions Log an updated version of management's response.

Mr. Hodgins said I will clarify my response.

Ms. Modelski said thank you. So that you'll see that come forward so that's why we give you the detail in terms of what we receive specifically from management and that's why it carries through from that perspective.

Vice Mayor Stipp said okay. And then can we get an update on No. 6 as well?

Ms. Modelski said yes, sir.

Vice Mayor Stipp said I'm looking that's more for Paul.

Mr. Hodgins said, yes. So the credit card and the DBE, we hired a new Chief Procurement Officer last month. So I'm working with her. She's reviewing all of the audits. We're going through some of those. On the DBE we're working with the City of Phoenix on how to get the communications properly. We used to have a DBE person that had access to the city's system. We currently don't have access, so we're just trying to work through that with the City of Phoenix Public Transit Department. So our new CPO is helping to get those managed and I'm hoping that -- I don't know about the DBE one, but all the credit card ones should be resolved before next month.

Vice Mayor Stipp said okay. And then just an update on the DBE if it doesn't.

Mr. Hodgins said okay.

Vice Mayor Stipp said thanks.

Ms. Modelski said and then the upcoming items and this is all carrying through from what we receive from management's comments as to on a monthly basis what's happening with these. And then that's my report on the Exceptions Log.

Chair Arredondo-Savage said all right. Mary, thank you very much. And I just want to say I'm glad to see Paratransit on there. I think that's going to be really important that we move forward with that.

Ms. Modelski said and as we had mentioned previously as the county finished theirs, we wanted to see what they were looking at so we knew to focus on that. So we will go out there and start to focus on paratransit as a whole for the communities.

Chair Arredondo-Savage said thank you. Very nice. Thank you very much for that. Now we're going to go ahead and move on to Item No. 7. RPTA fiscal year mid-year budget adjustment. I will go ahead and turn it over to you.

This item was presented for information only.

5.   RPTA and Valley Metro Rail Fiscal Year 2021 (FY21) Budget Assumptions
      Changes

Paul Hodgins, Chief Financial Officer, provided a brief presentation of the RPTA and Valley Metro Rail Fiscal Year 2021 (FY21) Budget Assumptions Changes that included the following items:

- Budget Schedule
- Revenues Forecast
- PTF Forecast
- Base Service Levels

- Demand Service Levels
- Regional Planning
- Fare Collection System Replacement
- RPTA 5-Year Staffing
- Changes to Revenues Forecasts
- Streetcar Operations (no change)
- Rail Transportation
- Respect the Ride (no change)
- State of Good Repair
- Regional Planning Activities
- VMR 5-Year Staffing

Chair Arredondo-Savage said question? Yes.

Vice Mayor Stipp said now I understand better even though it was fast. But at the end of this we're basically $7.5 - $8million, $7.5 million that are just going to -- we're going to fund it through the PTF.

Mr. Hodgins said yes.

Vice Mayor Stipp said so from our side we hear about our funds et cetera and these carry overs and what not and we don't here at Valley Metro we don't talk about where the pots of money. Is there a substantial amount of PTF funding that we're not using that we can dip into for $7.5 million dollars?

Mr. Hodgins said all of the changes that affect the PTF here are already programmed in the TLCP. So it's been accounted for in the financial model. It's just because of the timing again, the operating budget – all of those were approved and so they're within the model for the TLCP.

Vice Mayor Stipp said, I get that. So, the TLCP if I can use this --

Mr. Hodgins said it kind of dived in the PTF over the 20 years of Prop 400. So all of this is programmed within the TLCP.

Vice Mayor Stipp said I get that.

Mr. Hodgins said I know I'm not answering your question.

Vice Mayor Stipp said right. So, you know, we talk about carry over from one year to another at the city level. We've got general fund moneys that were unexpended. We can't allocate for the next year. There are capital improvement project money that is multiyear that we carry over in fund balance but then reprogram.

Mr. Hodgins said right.

Vice Mayor Stipp said so we've got kind of that accounting for all of that. Is there a similar fashion that we've -- because it sounds like we're printing $7.5 million of new money. That's what I'm looking for. Where is it coming -- is it carry over money from prior years, fund balance money is that where it comes from.

Mr. Hodgins said so the money for the operating projects would be for practical purposes that come out of the fund balance or current revenues. Our revenues are a little higher than what we budgeted, so it will come out of current revenues. All of the capital projects -- I shouldn't say all. The facilities are being deferred, but all of the other ones except for the nine vanpool vans are carried over from a previous year, so that's not really new money. It's just a carry forward from the previous year where we didn't spend it.

Vice Mayor Stipp said that's the answer. Thank you. Thanks. I appreciate that.

Mr. Smith said if I could add something real quickly to further clarify, the Transit Life Cycle Plan is really a 20-year budget that goes to 2025. So when Paul says it's in the TLCP, every April, is it, Paul, I think we present to the board the TLCP and what you vote on is the plan through 2025. Then that overall plan is then subdivided into annual appropriations. But if you have a fund balance it's based on the long-term plan and what Paul's saying is that some of these changes, although they seem like they're new requirements of money, since they were anticipated in that longer term plan, they've already been accounted for. The money has already been identified. And part of the TLCP is to make sure that through the end of 2025 we have sufficient fund balance to fund the program.

Chair Arredondo-Savage said thanks, Scott. Did you guys get that? Okay. All right. Thank you, Paul. We're moving on. I guess we're going to stay right there with you for the contract change orders, amendments and awards.

This item was presented for information only.

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

Mr. Hodgins said yes. We have a few items coming to the board with some financial impact. The first one is the transit asset management consulting services contract award. This is to help us with our Transit Asset Management Plan. But also a part of it is to help us go through our asset not the spare parts inventory, but kind of our asset inventory out at the OMC to ensure that we know what we have, that it's properly accounted for, that we have condition reports and things of that nature, and that will also

with our transition to a new asset management system as we review all of that information. Anything you want to add to that, Ray?

Mr. Abraham said no, I think you pretty much covered it. We just have one employee working on our Transit Asset Management Plan, so we need some expert help to do assessments of all of our assets. We're going to need help with transitioning from our present system to a new system. Even our present system needs a lot of updating, so we need some skilled help.

Mr. Hodgins said the next one is.

Chair Arredondo-Savage said hold on one second.

Mr. Hodgins said I'm sorry.

Councilmember Tolmachoff said I do have a question. So this is being requested now of the board and not being rolled into the 2021 budget? Is that.

Mr. Abraham said it goes to the board in January.

Mr. Hodgins said it's going to the board for contract award. I believe it's already budgeted in the fiscal '20 budget.

Mr. Abraham said yes.

Mr. Hodgins said yes.

Chair Arredondo-Savage said it is. Okay. All right. Thank you. I think that's a good point maybe that's something that we can think about when we see this information. I think the more data you could give us in regard to where the funds are coming from would be helpful.

Mr. Hodgins said yes. We do identify in the cost and budget section that is in the adopted budget.

Vice Mayor Stipp said okay. I'm with you. And the executive summary is very helpful.

Councilmember Tolmachoff: Yeah, because it's not broken down by amount down here either.

Mr. Hodgins said if there's additional detail that you feel the board would like in the memo, we can discuss that and we could change the memo. It's really looking at the procurement process and awarding a contract and less about -- probably less about

where the funding's coming from, but if you think it would be helpful to add to more to the cost and budget section we could do that.

Chair Arredondo-Savage said okay. We can talk about that.

Vice Mayor Stipp said I'm looking at the information summary for this item, I would bet that this is the only piece of paper of all of the information that anyone is going to look at and just adding in there as approved in the 2020 budget we are requesting to execute the three-year contract blah, blah, blah. And that's it. And kind of talk about each one of those.

Mr. Hodgins said so up in like the purpose section?

Vice Mayor Stipp said under purpose and then item and then A.

Mr. Hodgins said okay.

Vice Mayor Stipp said just adding.

Chair Arredondo-Savage said I think he's just moving things around a little bit.

Vice Mayor Stipp said just adding where it -- just in a quick summary.

Mr. Hodgins said okay.

Vice Mayor Stipp said I think from a board perspective you're probably looking at people just looking at executive summaries.

Councilmember Tolmachoff said we have a lot of stuff to read.

Mr. Hodgins said understood.

Vice Mayor Stipp said not that the background isn't important because I think it's really important for those that do deep dives and for the public. But the quick decision maker it will probably speed that along.

Mr. Hodgins said we can do that.

The next one is a contract award for vanpool vans. It's a five-year contract with Creative Bus Sales for almost $16.6 million. As a note, vanpool vans are funded by hundred percent federal. We're able to use flex funds from highway programs at a hundred percent. The next one is pass-through grant agreements with the City of Phoenix. City of Phoenix is the designated grant recipient. They're the grantee to FTA. And so for us to receive funds we have to have an agreement with Phoenix. So this

item is for RPTA for all of the fiscal '19 grants. Later on is an item for all of Valley Metro Rail pass-through rants.

The one in between there rail transportation services, we have a need for additional supervisors and one trainer to support all of the work at the operations and maintenance center dealing with the expansion project and then all of the work downtown when we'll be single tracking for South Central and then rolling into the Tempe Streetcar, so these additional supervisors will provide a lot of work for us in supporting those projects. It's just over $2 million, but it is for almost a two-and-a-half-year period. That's a summary of what we feel are financial-related items that you'll see. And if you have any additional questions or need additional information please let us know.

Chair Arredondo-Savage said and maybe we'll just work on that executive summary presentation.

Mr. Hodgins said yes.

Chair Arredondo-Savage said make sure that we get that right information in there that we like. Okay. Great. Thank you very much. Anything else from you, Paul? Our next item is Executive Session.

This item was presented for information only.

7.   Executive Session

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

The agenda for Executive Session involves discussion and consultation regarding Valley Metro's internal audit and quality control process.

IT WAS MOVED BY MAYOR GALLEGO, SECONDED BY VICE MAYOR STIPP TO ADJOURN GENERAL SESSION AND COMMENCE EXECUTIVE SESSION.

The regular meeting adjourned at 1:20 p.m.

The regular meeting reconvened and was adjourned at 2:08 p.m.

8.   Executive Session Action Items

The Audit and Finance Subcommittee may take action related to items discussed as part of Agenda Item 7.

No action was taken on this item.

9.   Future Agenda Items

This item was presented for information only.

10.   Next Meeting

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

With no further discussion, the meeting adjourned at 2:08 p.m.

Information Summary

DATE   AGENDA ITEM 3
March 5, 2020

SUBJECT
Performance Management Audit

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

COST AND BUDGET
None

RECOMMENDATION
Staff recommends the Audit and Finance Subcommittee accept the Performance
Management Audit.

BACKGROUND/DISCUSSION/CONSIDERATION
The audit was requested September 12, 2019 during the Audit and Finance
Subcommittee (AFS) meeting to follow-up on salary increases to determine if they align
with performance evaluations.

COMMITTEE ACTION
AFS: March 12, 2020

CONTACT
Vickie Murphy
Interim Internal Audit Director
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602-322-4454

ATTACHMENT
Performance Management Audit

March 2020

Performance Management

AUDIT REPORT – INTERNAL AUDIT

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To: **Councilmember Robin Arredondo-Savage, Chair, Tempe**
          Mayor Kate Gallego, Phoenix
          Vice Mayor Bill Stipp, Goodyear
          Councilmember Lauren Tolmachoff, Glendale
          Councilmember Francisco Heredia, Mesa

The purpose of this report is to communicate the results of the Performance Management audit. The audit was requested September 12, 2019 during the Audit and Finance Subcommittee (AFS) meeting to follow-up on salary increases to determine if they align with performance evaluations.

Although Valley Metro does not have documented policies or procedures for the performance management process, there is a standard practice and a majority of staff received timely performance evaluations and merit increases. However, our review disclosed some discrepancies in the following areas:

- Performance evaluations were not performed for eight individuals in June 2018 and six individuals in June 2019.
- Performance evaluations were not documented for seven individuals in June 2019.
- Seven performance evaluations were missing dates on the signatures.
- Of 66 *Performance Evaluation* forms reviewed, eight of them had inconsistent ratings noted compared to the *Annual Salary Adjustment* forms.
- Seventeen of the *Annual Salary Adjustment* forms were approved by the Chief Executive Officer after the merit increase was already distributed.

Rather than citing each discrepancy as an issue, Internal Audit considered the discrepancies collectively to determine the root cause and the most beneficial next steps for the Divisions. Therefore, this report contains one recommendation to develop, document, and implement policies and necessary procedures for the performance management process.

The support and assistance received throughout the audit by Human Resources and Finance personnel, is greatly appreciated. For questions or further clarification, please contact me at 602-322-4454.

Vickie Murphy
March 4, 2020
Interim Audit Director

Performed by:
Vickie Murphy
Senior Internal Auditor

Distribution
Audit and Finance Subcommittee
Scott Smith, Chief Executive Officer
Paul Hodgins, Chief Financial Officer
Michael Minnaugh, General Counsel
Jim Hillyard, Chief Administrative Officer
Penny Lynch, Director Human Resource

Objective

Determine if salary increases were documented, approved by management within the guidelines approved by the Board of Directors, and are reflected in the employee's salary.

Scope

The review focused on evidence to support salary increases from January 1, 2018 through November 15, 2019. To eliminate any conflict of interest, Internal Audit staff were excluded from testing performed.

Methodology

Internal Audit obtained the *Annual Master Merit Sheet* from Human Resources (HR) for June 2018 and June 2019. We compared these increases to the increases recorded in the payroll system. We obtained a listing of pay rates for January 2018 to use as a baseline. We obtained a listing of pay rates on June 2018, June 2019 and November 2019 to compare with the rates used in the Human Resource (HR) *Annual Master Merit Sheet*. For a sample of employees, we compared the approved merit increases to the support documentation. We reviewed the support documentation for consistency and proper signature. We noted several market rate adjustments. For those adjustments, we reviewed the rates to other local government agencies and nationally then compared it to the market adjustments made to determine if the increases were reasonable.

Background

During the September 12, 2019 Audit and Finance Subcommittee (AFS) meeting, a request was made to follow-up on salary increases to determine if they align with performance evaluations.

Performance Management

Valley Metro does not have policies on performance management. Performance management typically includes succession planning, performance improvement plans, career development, job descriptions, pay rates/ranges, performance evaluations and performance incentives. We limited our review to cover:

- Job descriptions and pay ranges
- Performance plans and evaluations
- Performance incentives

Job Descriptions and Pay Ranges

Roles and responsibilities are usually defined in job descriptions. HR staff stated there is a process followed for job descriptions and establishment of pay ranges even though it is not documented. Each position should have a job description and a pay range; however, we identified two positions that had been reclassified and the new job descriptions had not yet been written.

When a new position is created or an employee's job duties change or expand the Supervisors notifies HR. HR works with the Supervisor and, if applicable, the employee to identify the new

job duties. Once the duties are finalized, the position is classified and a pay range is established. The job description is then created.

Valley Metro engaged The Segal Company to conduct a formal classification and compensation study in 2005. The initial classification and compensation structure was established in 2006. The 17 pay grades established in 2005 have remained unchanged. These pay grades and the corresponding pay ranges are included in the *Annual Budget Document* each year. To establish an individual position's pay grade, Valley Metro uses the pay rates of the cities and counties surrounding Phoenix. Based on the pay range for that type of position, the position is placed into a pay grade. The Light Rail Vehicle (LRV) positions are handled differently because the surrounding areas may not have comparable positions. HR stated that they initially check with other transit peer agencies (RTD, Utah, DART, TriMet) to see if they have similar positions. If they do not have comparable positions, HR will expand its search to other transportation agencies and make geographical adjustments, as appropriate. HR said they may also check local public and private markets for comparable skill sets, like electrical or mechanical skills.

An employee's pay rate cannot exceed the top of the pay range established for their position. According to HR, there were employees above the maximum pay ranges when the pay grades were established. These employees were maintained at the higher rate of pay until the range changed or the employee left the position. During our review, we identified one individual that is still paid in excess of the maximum pay range.

Performance Plans and Evaluations

Each May, HR sends the *Annual Performance Evaluation* form and instructions to the Directors and Managers. The instructions identify the merit increase percentage requested in the budget. It also explains how to complete the *Annual Performance Evaluation* form. Managers were directed to complete the evaluations for the prior period by June 15 for 2018 and 2019. As part of the *Annual Performance Evaluation* form, a Supervisor and employee establish the upcoming fiscal year performance and professional development goals.

The *Annual Performance Evaluation* form evaluates the employee's performance in the following areas:
- Core Values
- Key Areas (knowledge, safety, attendance, results, and leadership - if applicable)
- Established Goals

The *Annual Performance Evaluation* form has a section to summarize the overall performance of the employee. Based on feedback from Managers and Supervisors, HR changed the form between June 2018 and June 2019. The following page lists the overall performance categories:

June 2018 Form	June 2019 Form
Did Not Achieve Expected Results	Performance needs improvement
Partially Achieved Expected Results	Performance was very good
Fully Achieved Expected Results	
Achieved More Than Expected Results	Performance was exceptional

HR provided a list of the employees that received performance evaluations in June 2018 and June 2019. The chart below identifies the number of performance evaluations performed:

Performance Evaluations:	June 2018	June 2019
Completed	239	272
Per HR, Verbally Completed (no documentation available)	0	7
Not Completed	8	6
Total	247	285

We sampled 66 performance evaluations from 2018 and 2019 and noted one of them was missing the division director's signature. Five of them were missing the date on the top of the form, but dates were included with the approval signatures.

New employees

According to HR staff, Supervisors are encourage to complete a *Six-Month Performance Evaluation* form to identify expectations for new employees. The form has similar content as the *Annual Performance Evaluation* form. The *Six-Month Performance Evaluation* form would then be used at the end of the six-month period to evaluate the performance of the employees.

One-year from the hire date, Supervisors should complete the *Annual Performance Evaluation* form to determine whether the employee will be provided a merit-based increase at that time. Since Valley Metro is an "at will" employer, employees do not have an initial probationary period.

In June, following the employee's one-year evaluation, the employee is moved to the annual evaluation cycle. The employee will receive a pro-rated increase based on the number of months since their one-year evaluation. The pro-rated salary increase is calculated as follows:

$$\text{Salary} \times \text{Merit \%} \times \frac{\text{Days since one year review}}{365}$$

HR asks the Supervisor whether the employee should receive a pro-rated merit increase based on the one-year evaluation. The Supervisor has the option to perform a new evaluation of the employee or use the previously completed one-year evaluation. If a new evaluation is performed, the employee would receive the merit increase based on the new evaluation at a pro-rated amount.

The following chart identifies the number of employees that received pro-rated merit increases:

	July 2018	July 2019
Prorated merit increases	40	59

Note: These individuals are included in the total merit increase information later in the report

Performance Incentives

Valley Metro has the following processes that increases employee's pay:

- Promotion
- Reclassification
- In-range salary adjustments
- Market adjustment
- Merit increase

Promotions

Valley Metro has opportunities for employees to promote. Promotions are obtained through a competitive process. Internal Audit did not review the competitive process.

Reclassifications

If an employee's job duties change or are desired to change, the Supervisor or employee can request a reclassification. If HR determine a reclassification is warranted, the employee's classification, grade, and pay can be adjusted to fit the new role.

In-range Salary Adjustments

An "in-range salary adjustment" is a method used by HR to adjust pay for other reasons. HR completes a *Personnel Action Worksheet* to adjust the pay and explain why it occurs. There were four in-range salary adjustments between January 2018 and November 2019 with the following explanations:

Position	Increase	Explanation
MOW Supervisor	5%	Bring the employee in-line with other Supervisors
HR Technician	5%	Offset increased responsibilities
Resident Engineer	5%	Offset loss of take-home vehicle
Facility Maintenance Coordinator	$3,000	Promotion

Market Adjustments

HR may adjust market rates for a position or a class of positions. This can occur if a Supervisor identifies an employee that is not paid appropriately or if HR identifies a position(s) that are difficult to fill. HR did a market change for all Customer Support Agent positions and LRV positions during fiscal year 2017-18.

Customer Support Agents received an adjustment based on their difference from market salaries, the length of time of Valley Metro call center experience, and the position they held. The following chart identifies the market changes by position:

Title	Number of Employees	Old Rate per Hour	New Rate Per Hour	Percent Change
Customer Support Agent I	11	13.55	15.00	10.7%
	9	13.97 - 14.27	15.25	6.9% - 9.1%
	1	14.73	15.50	5.2%
	1	14.92	16.25	8.9%
Customer Support Agent II	1	15.42	17.50	13%
	3	16.18 - 16.93	18.00	6.3% - 11.2%
	1	16.74	19.50	16.5%
	3	20.02 - 20.32	21.00	3.3% - 4.8%
Lead Customer Support Agent	2	17.31 - 17.57	18.75	6.7% - 8.3%
	1	17.82	19.25	8.0%
	1	18.76	20.50	9.3%
	1	18.04	21.25	17.8%
	2	20.69 - 21.44	22.00	2.6% - 6.3%

LRV positions received $0.50 per hour increase. The number and positions that were increased included:

3 - Supervisors   2 - Store Clerks
3 - Lead/ Technician 2   1 - Yard Operator
12 - Technician 2   6 - Track Maintainers
14 - Technician 1   13 - Traction Power System Technicians
1 - Lead Inspector   6 - Signal/ Communications System Technicians
8 - Inspectors   8 - Signal/ Communications System Maintainers
2 - Car Cleaners   1 - Administrative Assistant III
1 - Cleaner   4 - Administrative Assistant II
1 - Vehicle Parts Coordinator   1 - MOW Parts Coordinator

Additionally, there were three other individual position that had market adjustments:

Position	Percent Change
Information Technology Manager *	14.0%
Planner I (grade VII to IX)	15.6%
GIS Coordinator (grade IX to X)	1.5%

* Amount was a merit increase and market adjustment combined

Internal Audit staff compared the market adjustments for the positions above to the *Arizona Republic - Public Employees* database to ensure the changes were reasonable. As discussed earlier, for LRV positions HR uses peer transit agencies to establish pay rates for those unique to transit. To determine the reasonableness of pay rates for LRV positions, Internal Audit staff reviewed information from the Bureau of Labor Statistics Standard Occupational Classification System for similar positions. All the positions' pay rates were at or below the national rates. Based on this, the rates used were reasonable.

The following chart shows the number of employees that received increases, other than merit based, by type of adjustment:

	January – June 2018	Fiscal Year 2018-19	Fiscal Year 2019-2020 through November 15
Promotion*	6	35	10
Reclassification	0	5	1
In-Range Adjustment	0	4	1
Market Adjustment	1	128	0

* Individuals that received increases in the other three categories were included in this count also as they had a promotion before or after the other changes.

Merit Based Increases

Merit increases take effect in July. The Managers were instructed to complete the *Annual Salary Adjustment* form to document the amount of merit increase that the employee should receive. The *Annual Salary Adjustment* form has the same categories as the overall ratings on the *Annual Performance Evaluation* form each year, but these two processes are separate. There is no requirement that these ratings agree.

We compared 66 *Performance Evaluation* forms to the *Annual Salary Adjustment* forms. Eight of the forms had different ratings between the two forms. One employee's *Annual Salary Adjustment* form stated that they were receiving more of an increase due to increased job duties. This was done in addition to a reclassification.

Valley Metro does not have documented instructions for determining the amount of increase to provide employees. The only guidance Supervisors, Managers and Directors are provided is the following statement noted on the *Annual Salary Adjustment* form under the categories of "Achieved More Than Expected Results" and "Performance was exceptional":

> *"Employees in this category may be eligible for merit increase above the standard 3%."*

The *Annual Salary Adjustment* form that contained "Achieved More Than Expected Results" or "Performance was exceptional" categories are sent to the Chief Executive Officer (CEO) for review and approval. This form does not have an explanation as to why the rating was selected.

Higher ratings are to be signed by the CEO. Seventeen were signed after the merit increase was already distributed with 16 signed in September 2019 and one signed in October 2019. We also identified one one-year evaluation with the higher rating that was not signed by the CEO.

The employee receives a pay increase up to the maximum pay rate allowed for the pay grade. Any portion of the merit increase that would cause the employee to exceed the maximum is paid to the employee in a lump sum payment.

The following chart identifies the number of employees that received a lump sum payment.

	July 2018	July 2019
Merit Payout	40	40

In June, the merit based salary adjustments are summarized by HR in the *Annual Master Merit Sheet*. We reviewed the *Annual Master Merit Sheet* for accuracy. One of the columns on the sheet is maximum pay rate for the grade. There were three instances where the amount entered in the maximum rate pay column was incorrect. The errors did not affect the merit increase calculations because those individuals were not near the maximum of their grade.

Budget

During the annual budget cycle, Finance identifies a percentage rate to use for merit increases. The budget is calculated by multiplying the existing staff salaries by the merit increase. Budget staff include the midpoint of the pay range for vacant or new positions that will be filled. With the Board of Directors' overall approval of the budget, the assumptions were a salary increase of 3% for fiscal year 2018-19 and 2019-20.

Compliance with the merit increase is not measured on a per person basis. It is measured by the total dollar increase to the budget. If one person receives 2%, another individual can receive 4%. Valley Metro salaries combined with other expenses and projects cannot exceed the overall budget the Board of Directors approved for the fiscal year.

HR stated the *Annual Master Merit Sheet* is reviewed to verify increases are reasonable and within budget. The *Annual Master Merit Sheet* is then provided to Payroll. Payroll processes the rate increases into the payroll system. Payroll also enters the lump sum payouts. The changes are usually included in the first pay-period in July. After all the adjustments are made, *Annual Master Merit Sheet* is signed to indicate the process was completed.

The *Annual Master Merit Sheet* provided to audit for testing was signed as follows:

	June 2018	June 2019
Controller	NA	7/16/2019
Chief Financial Officer	10/28/2019	9/18/2019
HR Director	10/28/2019	9/17/2019
CEO	10/28/2019	9/19/2019

The chart below identifies the number of staff that received increases by percent of increase:

Merit Increases

■ FY 2018   ■ FY 2019

Percent Increase	0%	1%	1.50%	1.75%	2%	2.50%	2.75%	3%	3.50%	4%	5%	8%
FY 2018	0	1	0	0	3	24	7	210	4	23	3	1
FY 2019	2	1	1	1	2	2	1	253	0	16	6	0
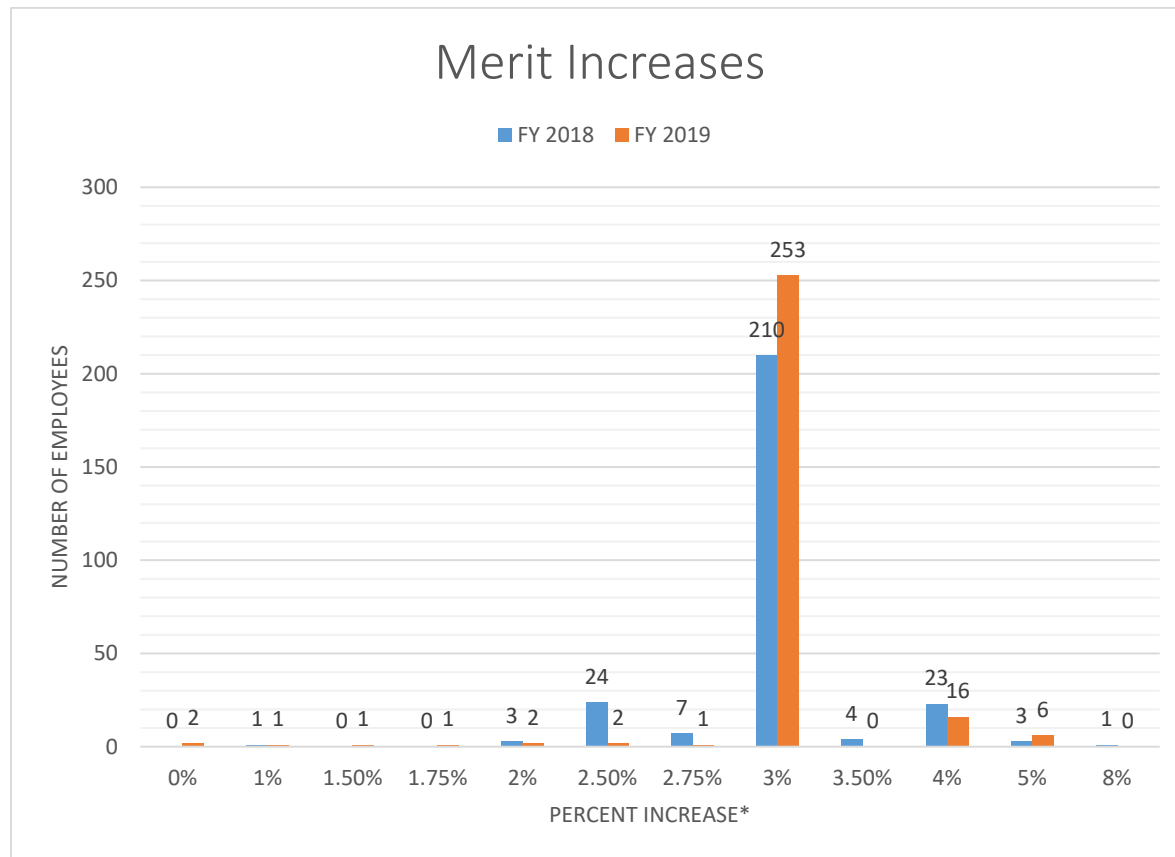
* For employees with prorated increases the amount recorded in this chart was based on their one-year increase.

Under a merit-based system, top performers get a larger raise, while the bottom performers get no raise. As the chart above indicates, 31 individuals in fiscal year 2018 and 22 individuals in fiscal year 2019 received more than 3% merit increases.

Internal Audit reviewed merit increase that were less than 3%. Two individuals received 0%, but those individuals had just received a market adjustment and an in-range salary adjustment. The individuals that received less than 3% had performance ratings of "partially meeting expectations" or "not meeting expectations".

Board Employees

Four employees do not receive merit increases as part of the previously defined process. The CEO, General Counsel, Chief Financial Officer and the Internal Audit Director are evaluated by the Board of Directors and the Audit and Finance Subcommittee. Salary increases they receive are signed by the HR Director.

The chart on the following page identifies the pay changes for these employees:

Position	Date	Percent	Rational
Chief Executive Officer	1/1/2018	7.4%	Board approved market adjustment
	7/2/2018	3%	Board approved merit increase
General Counsel	7/1/2018	3%	Merit increase (lump sum payout)
	12/3/2018	10.4%	Board approved market adjustment
	7/1/2019	3.5%	Board approved merit increase
Chief Financial Officer	7/2/2018	3%	AFS approved merit increase
	10/8/2018	5%	In-range salary adjustment (increased responsibilities)
Internal Audit Director	7/2/2018	3%	AFS approved merit increase

The Board of Directors and Audit and Finance Subcommittee's evaluations for fiscal year 2019-20 had occurred after November 15, 2019, which is outside our audit scope.

Audit Recommendation

Established Performance Management Policies and Procedures Do Not Exist

Valley Metro does not have documented policies or procedures regarding performance management to address:

- Job Descriptions
  - Creation
  - Minimum contents
  - Periodic reviews
  - Modifications
- Pay Ranges
  - Establishment
  - Evaluations and modifications
  - Guidance when an employee exceeds the range
- Performance Evaluations
  - Requirements to complete
  - Guidance for factors to consider
  - Timing
  - Documentation
- Performance Incentives
  - Reclassification
  - Market adjustments
  - Merit increases
  - Factors to consider
  - Necessary documentation

Policies and procedures promote consistency, impartiality and offers guidance for completing tasks timely.

Valley Metro has grown in maturity and size requiring formalization of processes and procedures.

Failure to document policies and procedures can lead to inconsistent application of performance management. Inconsistent application opens Valley Metro up to potential legal issues and impacts to employee morale within the organization.

Recommendation:

Develop, document and implement comprehensive performance management policies and procedures.

Views of Responsible Officials:

There are procedures and processes in place that are being followed for conducting performance evaluations and developing performance incentives. The HR Department agrees that elevating these to a written policy will ensure conformity and consistency. Given that job descriptions and pay ranges are largely or entirely the responsibility of the HR Department, written HR procedures are more applicable for these topics than agency policies.

In addition, HR Department acknowledges there are opportunities for improvement. For example, 100% of eligible Valley Metro staff should receive evaluations. While the current completion rate is good (277 of 285 or 97.9%), it can be improved. In addition, steps will be taken to prevent the clerical error that resulted 17 merit increase forms being signed after the merit's implementation.

It is important to note that the test work found no evidence that merit payments were made incorrectly or without approval. Where typographical errors were found, they had no impact on merit payments. In addition, following the completion of annual reviews, the CEO and Leadership team meet to discuss merit increases for employees rated as exceptional and those needing improvement to ensure the equity of merit increases. In handful of cases (five over two years), these discussions resulted in different merit payment than originally recommended by the supervisor's evaluation. These changes are a feature of Valley Metro's system, ensuring cross-division equity, not a bug.

Responsible Parties:

Human Resource Director

Due Date:

June 30, 2020

Information Summary

DATE   AGENDA ITEM 4
March 5, 2020

SUBJECT
Hardware and Software Management Audit

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

COST AND BUDGET
The cost of this audit was approximately $17,000 and was included within the Internal Audit Fiscal Year 2020 budget for consulting fees.

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

BACKGROUND/DISCUSSION/CONSIDERATION
The audit was added to the Valley Metro's Fiscal Year 2019/20 Internal Audit Plan by the Audit and Finance Subcommittee (AFS) approval on September 12, 2019. Internal Audit engaged REDW for their technical expertise to review the current hardware and software management processes and to validate if the remediation adequately addressed the prior issues from the 2017 Hardware and Software Management Audit.

COMMITTEE ACTION
AFS: March 12, 2020

CONTACT
Vickie Murphy
Interim Internal Audit Director
vmurphy@valleymetro.org
602-322-4454

ATTACHMENT
Hardware and Software Management Audit

February 2020

Hardware and Software Management

AUDIT REPORT – INTERNAL AUDIT

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To: **Councilmember Robin Arredondo-Savage, Chair, Tempe**
       Mayor Kate Gallego, Phoenix
       Vice Mayor Bill Stipp, Goodyear
       Councilmember Lauren Tolmachoff, Glendale
       Councilmember Francisco Heredia, Mesa

The purpose of this report is to communicate the results of the Hardware and Software Management Audit. The audit was added to the Valley Metro's Fiscal Year 2019/20 Internal Audit Plan by the Audit and Finance Subcommittee (AFS) approval on September 12, 2019. Internal Audit engaged REDW for their technical expertise to review the current hardware and software management processes and to validate if the remediation adequately addressed the prior issues from the 2017 Hardware and Software Management Audit.

Based on the review, this report contains five recommendations to improve the hardware and software management processes, of which, three are repeat issues.

To summarize:

- 25% of active computers are running Windows 7 Operating Systems.
- The process to track authorized device software and reconcile licenses is only done at an annual true-up.
- Software license testing discovered Windows 10 Enterprise software was installed on 334 machines but licensed for 180 machines.
- The Information Technology Asset Management Hardware Inventory Report was not accurate, partially because of a version compatibility issue that left inventory off the listing.
- Printer and copier inventories are managed by Laser Options, with minimal IT oversight for accuracy.
- Oversight of Laser Options billing requires improvement to ensure payment for current machines.
- Access Control and End User Acceptable Use policies to govern remote access were pending approval and communication to employees.

If you have any questions or would like further clarification, please contact Vickie Murphy, Interim Internal Audit Director at 602-322-4454.

REDW LLC

REDW LLC

Performed by, Jennifer Moreno
REDW, Senior Manager CyberHealth GRC

Assisted by, Jennifer Davis,
Valley Metro, Senior Internal Auditor

Distribution
Scott Smith, Chief Executive Officer
Paul Hodgins, Chief Financial Officer
Jim Hillyard, Chief Administrative Officer
Michael Minnaugh, General Counsel

Objective

Determined whether internal controls over hardware and software were adequate, if corrective action plans implemented addressed prior audit findings, checked for compliance with applicable policies and procedures, and if an appropriate hardware replacement strategy and patch management were in place, and any other matters that rose to the level of attention.

Scope

The timeframe of the items under review was from November 1, 2017 through October 31, 2019. Items incurred prior to or carried over from this timeframe and that fell into the scope timeframe or assisted with achieving the audit objectives, were included within the population.

Valley Metro used an Information Technology Asset Management (ITAM) System for hardware and software management and a previous ITAM system as a troubleshooting platform. Testing focused upon business related technology and encompassed samples selected from the ITAM hardware and software listings, the previous ITAM hardware listing, printers and copiers inventory listing, Windows Server Update Services patch listing and reports, and purchasing information from Procurement and Finance. Technology utilized for operations of bus, train, or third-party providers were out of scope.

Methodology

The review focused on the following areas:

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

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

- Interviewed key individuals in the Information Technology (IT) department to gain an understanding of the processes and existing internal controls.
- Obtained the November 22, 2019, ITAM hardware inventory listing from IT that indicated 497 "Active" hardware items. Selected a random sample of 51 hardware items (35 pre-selected and 16 during on-site) and tested for:
  - o Existence of preselected hardware items and accuracy of the location indicated on the ITAM report.
  - o Verified on-site hardware items traced to ITAM report and information was accurate.
  - o Using the serial/service tag numbers reviewed manufacture websites for warranty information.
  - o Compared the date of the most recent Microsoft Office patch on the machine update history to the Windows Server Update Services report to ensure patch installation.

- Obtained the Excel inventories provided to IT by the "manages as a service" vendor, Laser Options, as of November 19, 2019, that indicated 159 printers and copiers. Selected a random sample of 28 printers and copiers (17 pre-selected and 11 during on-site) and tested for:
    - Existence of preselected items and accuracy of the location indicated on the tracking sheet.
    - Verified on-site printer and copiers traced to the vendor provided tracking sheets and information was accurate.
- Obtained the November 19, 2019, ITAM software assets listings from IT that indicated 1,422 different types of software and/or versions of software. Selected a random sample of 12 software items that typically require licensing and tested if:
    - Licenses purchased were tracked for compliance,
    - The most recent software versions were used, and
    - Software purchase documentation reconciled to the count of licenses identified as actually installed.

Exceptions found were reported through Internal Audit to allow management to tighten controls surrounding the process.

Background

The audit was added to the Valley Metro's fiscal year 2019/20 Internal Audit Plan by the Audit and Finance Subcommittee (AFS) approval on September 12, 2019. The audit objective was to review the current hardware and software management processes. Management reported that six of the seven prior audit findings had been remediated. Therefore, to validate if the remediation adequately addressed the issues, Internal Audit engaged REDW for their technical expertise.

Prior Audit Recommendations

The December 2017 Hardware and Software Management Audit contained seven findings. During the audit, documentation and evidence was reviewed to determine the status of these prior recommendations.

- Finding 1: Outdated policies and procedures over Information Technology (IT) – Open
    - Three policies were approved and issued
    - Two additional policies were approved January 10, 2020, but not yet communicated to employees and contractors
- Finding 2: De-centralized IT environment – Closed
- Finding 3: Hardware tracking – Open
- Finding 4: Tracking of software – Closed – replaced with *Improvements needed for tracking device software installations*.
- Finding 5: Inconsistencies in tracking and monitoring of hardware purchases – Closed
- Finding 6: Oversight of patch management and testing – Closed
- Finding 7: Operating systems nearing or past the end of support – Open

Our testing found three of the seven recommendations remained open.

Staffing and Contractors

Valley Metro's Information Technology (IT) department operates under the Chief Administrative Officer. The IT department consists of the Manager, Administrative Specialist, 16 Valley Metro employees and 11 contractors. Contractors are provided to Valley Metro by:

- Enterprise Technology Services (ETS) – Senior System and Service Desk Engineers
- Mosaic 451 – Security Analyst
- nVision – Full Stack Developer (part-time)
- Acro Service Corporation – Business Analyst and Full Stack Developer (full-time)
- Knowledge Services – Business Analyst (full-time)

As noted on the organizational chart below, 27 positions fall under six areas within IT: Service Desk, IT Operations, Development, Project Management, Business Intelligence and Security.
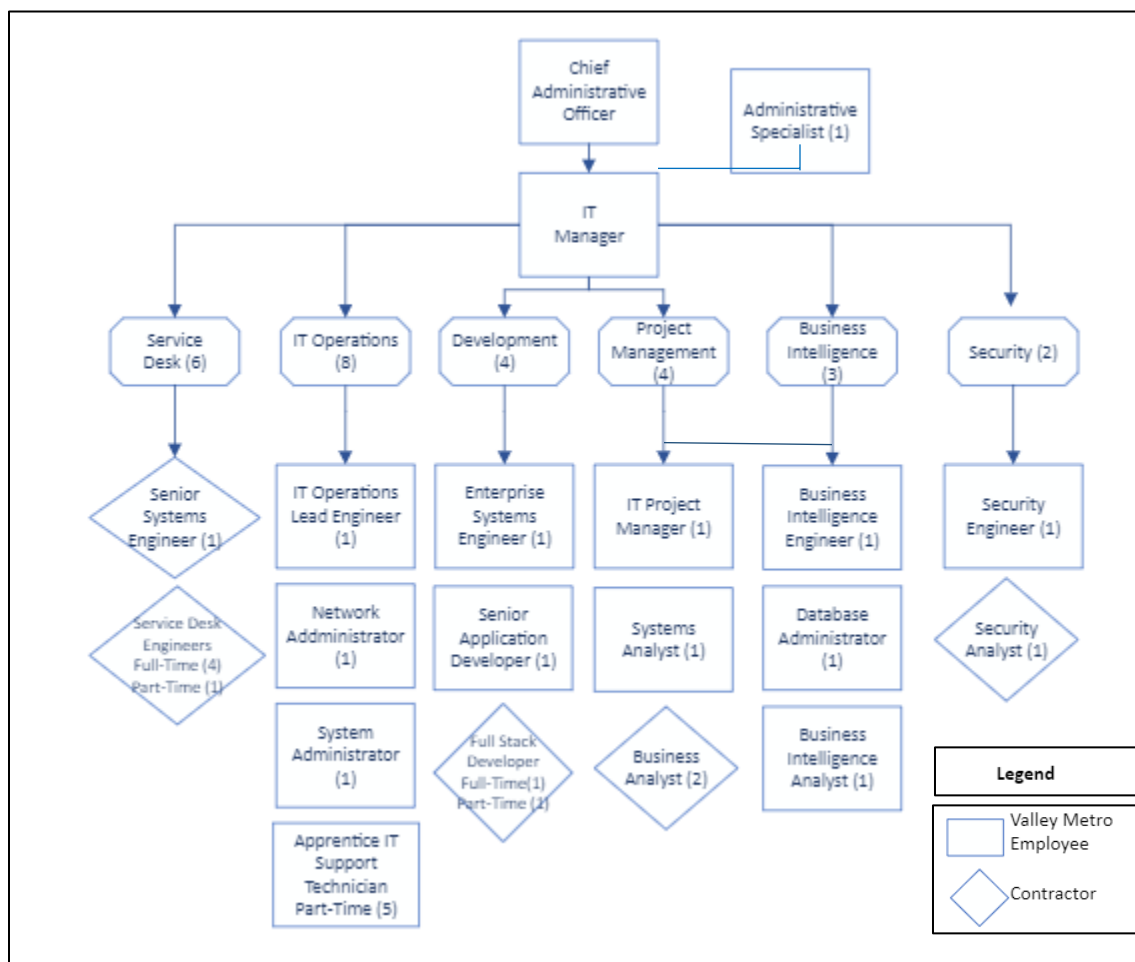
Knowledge Services/Enterprise Technology Services (ETS) Contract Payments and Change Orders

On November 10, 2016, the Board of Directors (Board) approved a five-year contract with ETS. The contract was effective January 1, 2017 through November 30, 2021, for an "information technology managed services provider," not to exceed $2,174,185. Through the cooperative agreement between the State of Arizona and Guidesoft Inc. (dba Knowledge Services), Knowledge Services subcontracted with ETS to provide Valley Metro's IT services on Contract #17008. The summary of payments to Knowledge Services under Contract #17008 for the audit scope are:

	07/01/17 - 06/30/18	07/01/18 - 06/30/19	07/01/19 - 10/31/19	Total Payments	Remaining as of 10/31 from Original Contract Authorization
Payments	$ 591,607	$816,762	$ 267,336	$ 1,675,705	$ 498,480

There have been four change orders to Contract #17008:

- Change order One was executed in September 2017, no Board approval, to:
  - Reflect the transition from the expiring State Contract (September 30, 2017) to the new five-year agreement under State Contract (effective October 1, 2017), and
  - Had no change in contract costs.
- Change order Two was executed in October 2017, no Board approval, to:
  - Increase equipment coverage from 360 to 440 desktops, and
  - Had a contract cost increase by $20,000.
- Change order Three was executed in August 2018, no Board approval, to:
  - Modify the milestones relating equipment coverage to include server cabinet infrastructure, and
  - Had scope of work project costs increase by $93,440, but no increase to original contract cost.
- Change order Four was executed in September 2019, with Board approval, to:
  - Increase staffing and account for additional costs of:
    - Increase support staff from 2 full-time equivalent (FTE) to 4.4 FTE,
    - Add 1.2 FTE for Windows administration,
    - Add $34,800 per year for data center hosting,
    - Account for a six percent fee increase,
    - Include a $91,000 contingency, and
  - The contract authorization increased by $1,651,000.

The original Contract #17008 and multiple change orders authority is summarized below:

Original Contract	Change Order One	Change Order Two	Change Order Three	Change Order Four	Total Contract Authorization	Remaining as of 10/31 from Total Contract Authorization
$2,174,185	$ -	$ 20,000	$ -	$1,651,000	**$ 3,845,185**	$ 2,169,480

Mosaic451 Contract Payments

On April 19, 2018, the Board approved a five-year contract with Mosaic451, LLC. The contract was effective July 1, 2018 through June 30, 2023, for "managed security services," not to exceed $2,284,000. Through the cooperative agreement between the State of Arizona and Lightsquare, LLC, Lightsquare subcontracted with Mosaic451, LLC to provide Valley Metro with 24x7 security monitoring with incident response services and an on-site information security staff on Contract #18015. The summary of payments to Mosaic451, LLC under Contract #18015 for the audit scope are:

	07/01/17 - 06/30/18	07/01/18 - 06/30/19	07/01/19 - 10/31/19	Total Payments	Remaining as of 10/31 from Original Contract Authorization
Payments	$ -	$468,100	$ 138,400	$ 606,500	$1,677,500

There have been no change orders to Contract #18015. Services were billed at $34,600 a month: $22,100 for security monitoring and $12,500 for on-site day-to-day security operations support.

nVision Networking Inc. Purchase Order Payments

On August 29, 2019, the Board approved to extend Valley Metro's agreement for "professional services" with nVision Networking Inc. for an additional $195,430. Under the Mojave Educational Services Cooperative agreement with nVision (Strategic Alliance for Volume Expenditures (SAVE) Contract #17-17MP), Valley Metro's Contract and Procurement department issued the following blanket purchase orders for the Full Stack Developer (part-time) position.

Purchase Order	190265	190332	200023	200158	Total Blanket Purchase Authority
Dates	11/21/2018	03/11/2019	07/01/2019	10/02/2019	
Amounts	$ 49,550	$ 108,400	$ 50,331	$ 195,430	**$ 403,711**

The summary of payments to nVision for the Full Stack Developer services for the audit scope are:

	07/01/17 - 06/30/18	07/01/18 - 06/30/19	07/01/19 - 10/31/19	Total Payments	Remaining as of 10/31 from Blanket Purchase Orders
Payments	$ -	$119,429	$ 67,734	$ 187,163	$ 216,548

Acro Service Corporation and Knowledge Services Approvals

On December 5, 2019, the Board approved the purchase of Business Analyst services not to exceed $248,800. The two Business Analyst contractors will be procured from (1) Acro Service Corporation utilizing a cooperative contract awarded by Maricopa County through SAVE and (2) Knowledge Services utilizing a cooperative contract awarded by the Arizona State Procurement Office. According to the November 27, 2019, Board Memo, the costs breakdown as follows:

Position	Vendor	Contract	Purchase Order	Cost [1]
Business Analyst #1	Acro Service Corp.	SAVE (Maricopa) 2017139	200210	$ 118,400
Business Analyst #2	Knowledge Services	State Contract ADSPO17-174599	200209	$ 127,400
			FY 2020 Total	**$ **245,800**

1 Cost based on 1600 workhours in FY 2020 according to Analyst at a contract rate of $74 and $79.62 per hour, respectively.

** Internal Audit noted the table presented to the Board adds up to $245,800 and not the $248,800 requested.

There were no payments made during the scope of this review.

Security Updates and Patch Management Process

Valley Metro's IT utilizes the Windows Server Update Services (WSUS) to approve, push out and install critical and security updates. This process is performed monthly, approximately a week after Microsoft releases the updates.

We obtained a WSUS Failures report dated November 20, 2019, that indicated there were 32 Valley Metro computers that had failed Microsoft Windows Security Updates. On December 4, 2019, we sampled 11 of the 32 computers from this report to verify that updates were current. We inquired with IT Management as to the disposition of these 11 failed machines. On December 21, 2019, IT provided documentation indicating eight sampled computers were current on updates as of December 19, 2019, and three computers were false positives (two in storage and one renamed). We were unable to conclude if IT processes were operating effectively due to lack of documented evidence to support IT actions.

While conducting workstation testing we observed two computers that had not been updated since September 2019. After communicating the first machine to IT, we were advised to restart the computer. The restart did not force the automatic update process. Therefore, updates were installed after the user manually selected "Check for updates." IT's review of the second computer showed the pending update list was retrieved on November 22, 2019, and the computer did not update until it was rebooted during audit testing.

Valley Metro utilizes endpoint protection software. This software is installed mainly through an automated process, but sometimes has to be installed manually if the computer will not be added to the network. Computers utilizing endpoint protection software will pull updates from the cloud. However, there is not an automated alert mechanism in place notifying the IT department whether computers are updating and/or checking in with the endpoint protection software for updates. Automated endpoint protection update alerts can be turned on, but the IT department chooses not to use this feature because of the high volume of false alarms and resulting alert fatigue. We learned from the IT Manager that verifying the percentage of machine coverage was a manual process and performed monthly. This process was recently replaced with a more automated process conducted every two weeks.

Since there were not documented processes to seek out failed WSUS updates on computers or to verify if computers are current with endpoint protection updates we were unable to conclude that these processes are working adequately.

Hardware Warranty Tracking

The ITAM system maintains a functionality for warranty tracking, however, as the ITAM system is not relied upon for verification of warranty information the warranty information in ITAM is not kept up to date or validated for accuracy. The IT department does not have an official computer inventory rotation process. During audit fieldwork we observed 85 active computers on the ITAM inventory report that were out of warranty. We learned from the IT Manager that typically workstations may be replaced after five years and tablets may be replaced after four years, but if the machine is still functioning efficiently it will remain in inventory. We do not consider this to be an observation as this practice appears to be working for Valley Metro and a fiscally prudent practice.

Audit Recommendations

#1: Operating Systems nearing end of support

According to the ITAM Hardware Inventory report dated November 22, 2019, Valley Metro has 134 active computers utilizing the Windows 7 Operating System. This number has decreased from 266 machines that were noted in the 2017 IT Hardware and Software Audit – Finding 7 Outdated Operating Systems Nearing or Past the End of Support. Policy ABTS-05.01 Information Technology Hardware & Software Asset Management states, "*Unsupported software will be uninstalled or upgraded as required.*" Microsoft will cease support of the Windows 7 Operating System on January 14, 2020. However additional Microsoft Windows 7 Extended Security Updates (ESU) can be purchased for machines still utilizing the Windows 7 Operating System.

The use of Windows 7 machines without Microsoft security support leaves the machines vulnerable to hackers and other security risks, and puts Valley Metro's network, systems, and sensitive data at risk of being compromised.

Recommendations:

Management should either convert all remaining active Windows 7 machines to Windows 10 by January 14, 2020, or take advantage of the additional support purchase option being offered by Microsoft at $50 per computer/year.

Views of Responsible Officials:

The IT Department agrees that Microsoft extended security support must be maintained for all Windows 7 machines until they are replaced/upgraded. Microsoft announced the availability of extended security support for Windows 7 in 2018. As a result, the IT Department assessed the cost of that support compared to the cost of expedited replacement. That analysis determined that the use of extended support to allow for the replacement or upgrading the workstations in the course of normal operations was $27,150 less expensive than expedited replacement. As a result, the IT Department purchased extended support for the 126 remaining Windows 7 systems prior to the end of normal support in January. The IT Department is continuing to upgrade and replace workstations in the course of normal operations and does not anticipate the need for more than one year of extended support.

Responsible Party:

Manager, Information Technology

Due Date:

Obtain Microsoft extended security support for Windows 7 machines – complete

#2: Software License Tracking

The IT department tracks Software as a Service (SaaS) and subscription licenses by reviewing each SaaS administrative portal account. The ITAM inventory system is used for tracking on premise device software licenses and these licenses are reconciled during annual true-up periods for each software application. Improvements in the tracking of device software installations are recommended.

During our audit we discovered:

- Windows 10 Enterprise software was installed on 334 machines and licensed for 180 machines.
- Six installations of a PDF editor were installed by employees, of which:
  - Five installations were an older version, of which:
    - Four were installed for a trial basis
    - One, the employee personally purchased
  - One installation was the current version, installed for a trial basis.
- 105 unsupported versions of another PDF editor were installed on machines, of which:
  - 72 were five versions behind
  - 30 were six versions behind
  - 2 were eight versions behind
  - 1 was seven versions behind
- We observed questionable software such as Spotify, Facebook, Netflix, iTunes, and Amazon Kindle on the ITAM Software Report.

There is no communicated policy in place prohibiting employees from installing non-business software on their machines which can put Valley Metro's network at risk. Policy ABTS-05.01 Information Technology Hardware & Software Asset Management states, *"Standards and guidelines for acceptable use of hardware and software assets are documented in the Valley Metro Acceptable Use Policy."* The Acceptable Use Policy was approved January 10, 2020, after audit fieldwork concluded, but has not been communicated to the user community. Additionally, the policy does not address what software employees are authorized to install on their machines without management approval.

Recommendations:

Management should:

- Regularly review the ITAM report to identify and remediate any software device license discrepancies.
- Ensure machines are being re-imaged before being re-issued to employees to eliminate any risks of unsupported software installed on the machine.
- Consider defining the acceptable use of software in the draft Acceptable Use Policy and limit the ability for employees to download and install software onto Valley Metro computers.
- This policy should be communicated and acknowledged by employees.

Views of Responsible Officials:

For context, the 2019 audit found no violations of Valley Metro's software license agreements. By comparison, the 2017 audit identified five instances of software being used without proper licensing. The compliance with software license requirements includes the noted addition of Windows 10 Enterprise licenses. License changes are specifically permitted by Valley Metro's Microsoft enterprise license agreement whereby license counts are adjusted annually for all additions in the preceding twelve months.

The IT Department agrees with the recommended improvements:

1. An addendum to Acceptable Use Policy detailing approved software will be developed. The policy will be communicated and unapproved software will be deleted.

2. The IT will re-image reissued machines to eliminate old software versions. It is important to note, however, that regular vulnerability scans mitigate any risk posed by older software versions.

3. The IT Department will create a procedure to uninstall inactive software to make license tracking clearer.

Responsible Party:

Manager, Information Technology

Due Date:

Uninstall unapproved software – October 31, 2020
Implement procedure for re-imaging reissued devices – March 31, 2020
Implement procedure to uninstall inactive software – June 30, 2020

#3: Inaccurate Hardware Inventory Report

The ITAM Hardware Inventory Report data is inaccurately tracking inventory. Inventory tracking is a repeat finding (Finding 3) from the 2017 Hardware and Software Audit. We randomly sampled 51 computers noted as *Active* in ITAM report and observed the following:

- One duplicate active computer entry. Computer names are manually entered into ITAM utilizing a YYMM-Serial# format. This computer has different YYMM entries associated with the same serial number.

- Two employees are assigned to different computers other than what is indicated on the ITAM Inventory Report. The computers these two employees are currently using are also not listed on the ITAM Inventory Report.

- Eleven computers on the ITAM Inventory Report are not assigned to the users indicated on the report. These computers are shared computers not assigned to dedicated users or locations.

- One employee stated never using the assigned computer indicated on the ITAM Inventory Report. The IT Helpdesk person assisting us could not locate this computer in the ETS system, and the computer name did not match the standard Valley Metro computer YYMM-Serial# naming convention.

We also compared hardware inventory records in the previous ITAM system, computer contract and credit card purchases with the ITAM hardware inventory. We identified the following 35 machines were missing from the ITAM Inventory Report:

- When comparing a sample of Dell computer contract purchases to the ITAM Inventory report, 12 purchased Dell computers were not recorded on the ITAM Inventory Report. These computers were invoiced on April 1, 2019, June 23, 2019, and September 30, 2019.

- When comparing the ITAM Hardware Inventory Report to the previous asset management system's Hardware Inventory Report, 22 additional computers are on the previous ITAM system report that do not appear on the ITAM Inventory Report.

- When comparing Valley Metro approved computer credit card purchases to the ITAM Inventory report, one additional device assigned to the City of Phoenix embedded employee does not have a ITAM inventory record.

Valley Metro's inventory management system was utilizing a slightly earlier ITAM version, which resulted in the omission of computers utilizing a specific version of the Windows 10 operating system. After audit's notification of the 35 machines missing from the ITAM Inventory Report, IT contacted the ITAM system's vendor for support. The vendor directed IT to a June 2019 Knowledge Base article, alerting ITAM users there could be an inventory reporting issue with a specific version of Windows and a specific version of the ITAM software. A new ITAM version was released on December 2, 2019, which Valley Metro installed on December 13, 2019. The installation of the December 2nd ITAM update resulted in 24 of the 35 machines appearing on the ITAM report as of December 20, 2020.

Recommendations:

Management should conduct semi-annual full inventory counts to ensure all computers are captured and data is correct in the inventory system. The employee or contractor name to whom the computer is issued should also be entered into ITAM to ensure Valley Metro has an accurate record of who is assigned to a computer. Detailed location information such as suite, office, conference room, and/or department should be populated in ITAM for each active computer to make physical asset tracking more efficient.

Views of Responsible Officials:

The primary purpose of a hardware inventory is to ensure all devices are accounted for. Therefore, it is important to note that, once the software bug that caused the ITAM system to drop 35 machines running a specific version of Windows 10 was addressed by a patch from the vendor, all machines were accounted for. This is a dramatic improvement from 2017 when 32% of the test sample were unaccounted for.

The IT Department would have detected the ITAM bug in its annual spring physical inventory. The audit simply occurred first. REDW's report only reflects the identification of 24 of 35 machines because REDW's test work concluded seven days after the patch and machines that were either in inventory or used by remote workers and hadn't had time to reconnect to the network. All have since reconnected and are properly accounted for. Additionally, the machine noted in the fourth bullet of page 11 was subsequently identified as a virtual machine and therefore properly accounted for.

The IT Department agrees with two of the recommendations and disagrees with a third:

- The IT Department does not agree that more frequent physical inventories are warranted. Physical inventories require hundreds of hours of staff time. The testing found the current hardware inventory process is effectively managing Valley Metro's hardware assets. The two cases where user names were inaccurate were immaterial. Therefore, IT staff time is better used serving Valley Metro customers and riders.
- The IT Department agrees that there is benefit to making asset locations more specific (although not to the level of offices or cubicles as they are not physically numbered and will, therefore, create confusion). Future inventories will indicate location, building/floor/suite, and department.
- The IT Department also agrees that listing shared computers as assigned to the individual occupying the workspace at the time of deployment can result in confusion. Inventory procedures have been modified to record shared computer as issued to the department responsible for the machine or the room to which the machine is assigned (e.g. conference rooms).

Responsible Party:

Manager, Information Technology

Due Date:

Update menu of inventory locations – April 30, 2020
Update 'issued to' guidelines to use room or department for shared devices – Complete

#4: Information Technology Policies have not been communicated

When field work was completed, Valley Metro did not have approved and communicated policies for Acceptable Use of Technology and Access Control. Both of these policies include controls for remote access and use of personal devices. This is a repeat issue from the 2017 Hardware and Software Audit – Finding 1.

Insufficient policies have allowed for inconsistent processes and practices to take place within the organization.

On January 10, 2020, after audit fieldwork had concluded, both the ABTS-07.01 Information Technology Hardware – Acceptable Use and the ABTS-06.01 Information Technology Hardware – Access Control policies were approved. However, these have not been communicated to all employees or contractors.

Recommendations:

Management should develop a process for relevant IT policies to be reviewed and signed by Valley Metro employees and contractors as soon as the policy has been approved, and also implement a process to have employees and contractors review and sign the Acceptable Use policy annually. Policy acknowledgement should also be included during the new hire onboarding process. Additionally, management should ensure a process is in place to review all approved IT policies annually, and any relevant updates to these policies are communicated timely.

Views of Responsible Officials:

The IT Department agrees that the new Acceptable Use Policy should be communicated to all staff and therefore it was sent to all staff in February as part of the Department's monthly information security awareness training. This training requires all users with network access to review and acknowledge the policy. Human resources already includes a review of the Acceptable Use Policy into new employee orientation and IT policies are included in Valley Metro's annual policy review process.

Responsible Party:

Manager, Information Technology

Due Date:

Communication and Acceptance of the Acceptable Use Policy – March 31, 2020

#5: Printer Inventory Tracking

The printer inventory list maintained by Laser Options (a third-party vendor) is inaccurate. Laser Options' list contains printers that are no longer in service as well as incorrect printer locations within the Valley Metro organization. There are also "peripheral" devices owned by Valley Metro that are not being tracked in inventory.

We obtained the *Valley Metro Device List 11.19.19* (maintained by Imagine Technologies) and the *Valley Metro QBR Report Q3 2019 V2* printer list (maintained by Laser Options) that is used to track their quarterly billing meter readings (QBR). Out of 159 printers listed, we selected a random sample of 28 printers and copiers (17 pre-selected and 11 during on-site) to ensure inventory could be located and cross-checked to the inventory lists. Testing results revealed:

- Three printers from the Laser Options printer list could not be located. It was determined that IT had removed these printers from service and the Laser Option report indicated the following activity in the past 12 months:
  - One of the three printers had made one call in the last 12 months.
  - Two printers had not made any calls. Laser Options had a "Retired?" notation on the printer list.
- One printer on the Laser Options list was located on a different floor than what was indicated at the 101 location. However, the employee name associated with the printer was accurate.
- We located two braille printers and one HP Design Jet T2300 Plotter that were not on either printer inventory list. According to discussion with IT Manager, the braille printers are designated as peripherals, and therefore, not listed in printer inventory and although the plotter displays a Laser Options tag, it is not under Laser Options' managed printer services.
- We observed one printer that did not display a Laser Options number or serial number. We were able to trace the printer back to the Laser Options report by the service tag number.

Failure to regularly review the Laser Options printer list for accuracy has resulted in an over-payment of services for at least three devices. Laser Options has been contacted about these devices and is issuing a credit to Valley Metro based on a first quarter 2019 disposal date. The IT Manager has also asked Laser Options to review the remainder of the printer list for any other errors.

Recommendations:

Management should develop a process to regularly review the Laser Options printer list to ensure the printer inventory is accurate and communicate timely any disposed devices to Laser Options to avoid paying for devices that are no longer in service. Management should also have Laser Options review and update both the employee names and/or locations of the devices they manage, as well as ensure all devices managed by Laser Options are tagged accordingly. Management should create an inventory list to capture specialized or peripheral devices that are still in service so that these devices are not overlooked during any routine inventory reviews.

Views of Responsible Officials:

The IT Department agrees that a reconciliation of Laser Option's billing against its Valley Metro's printer inventory is warranted. The Department already conducts an annual physical inventory of all IT assets and will incorporate the reconciliation into the inventory process. Laser Options has agreed to credit back any miss-billing found in this process. Because the total 12-month overbilling for all three printers was less than $8, more frequent reviews would not be a cost-effective. For context, in 2019, Valley Metro reduced the Agency's office printing costs by 40% ($15,700) through the Laser Options contract.

The IT Department will also use its annual inventory process to update the location of any printers that have moved. There isn't a business need for more frequent updates.

Responsible Party:

Manager, Information Technology

Due Date:

Annual Reconciliation of inventory and Laser Options report – April 30, 2020
Reconcile printer locations – April 30, 2020

Information Summary

DATE   AGENDA ITEM 5
March 5, 2020

SUBJECT
Internal Audit Update

PURPOSE
To update the Audit and Finance Subcommittee on Internal Audit activities and request a change to the Fiscal Year 19/20 Audit Plan.

COST AND BUDGET
None

RECOMMENDATION
Staff recommends that the Audit and Finance Subcommittee authorize the Internal Auditor to modify the Fiscal Year 19/20 Audit Plan.

BACKGROUND/DISCUSSION/CONSIDERATION
The Fiscal Year 19/20 Audit Plan was adopted June 11, 2019. The plan listed a generic place holder for Contract Monitoring audits. The paratransit audit was one selected to date. We would like to add another one:

Contract Management (specific areas) – One contract identified in the previous risk assessment was the Out-Front Media Advertising Contract. The objective would be: Determine if contract monitoring efforts are adequate and ensure the vendor's compliance with the contract.

> Recommendation: Start this audit at the completion of the paratransit audit.

In addition, two of the audits that we had planned were dependent on policies being implemented. Although the policies were issued, they were issued mid-year. We would like to delay these two audits to ensure we have an adequate timeframe to audit.

Credit Card Transactions – The prior audit review was through June 30, 2018. The new policies were issued October 2018 and February 2020.

> Recommendation: Move this audit to next year's audit plan with an audit scope of July 1, 2019 – June 30, 2020.

Travel Expenses – The prior audit review was through June 30, 2018. The new policies were issued July 2018 and October 2019.

Recommendation: Move this audit to next year's audit plan with an audit scope of July 1, 2019 – June 30, 2020.

COMMITTEE ACTION
AFS: March 12, 2020

CONTACT
Vickie Murphy
Interim Internal Audit Director
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602-322-4454

ATTACHMENT
None

Valley Metro
Audit and Finance Subcommittee
Internal Audit Update

March 2020

VALLEY METRO RAIL | VALLEY METRO

1

Update:

Fiscal Year 19/20 Audit Plan

VALLEY METRO RAIL | VALLEY METRO

Process	Status
Credit card transactions	Not started
Travel expenses	Not started
Professional Development	In progress
Full-Time Employee Additions	Complete
Contract Management (specific)	Not started
Paratransit Contract Management	In progress
OMC Non-Capitalized Rail Parts and Tools Inventory	Complete
Hardware/Software Management	Complete
Performance Evaluation	Complete
Internal Safety and Security Audit Review	Not started
CSD Invoice Processing	Not started
HR Information Management System (HRMIS) Implementation	Monitoring
ERP Implementation	Monitoring
External Audits – anticipated:	
Maricopa Co. – Paratransit	Complete
City of Phoenix - Fare Revenue	Complete
City of Phoenix – Contract Risk Assessment	Report April
ADOT – Rail Safety Audit	Report April

2

2

Contract Management

- **Plan identified Contract Management audit (specific)**
- **Option from risk assessment:**
  - Marketing and Advertising Contract
  - The objective:
    Determine if contract monitoring efforts are adequate and ensure the vendor's compliance with the contract.

3

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Credit Card Transactions

- **The prior audit review was through June 30, 2018.**
- **The new policies were issued October 2018 and February 2020.**

  Recommendation:
  Move this audit to next year's audit plan with an audit scope of July 1, 2019 – June 30, 2020.

4

4

Travel Expense

- **The prior audit review was through June 30, 2018.**
- **The new policies were issued July 2018 and October 2019.**

Recommendation:
Move this audit to next year's audit plan with an audit scope of July 1, 2019 – June 30, 2020.

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Information Summary

DATE   **AGENDA ITEM 6**
March 5, 2020

SUBJECT
Audit exceptions update

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

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

RECOMMENDATION
Items presented for information only.

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.*

COMMITTEE ACTION
None

CONTACT
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602-322-4454

ATTACHMENTS
Audit exceptions log

Valley Metro
Audit and Finance Subcommittee
Audit Exception Log Summary

March 2020

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Overdue Items:

Ref #	Management Action	Due Date	Responsible Party	Estimated Date
1	Relocation Process Development	1/31/2020	CFO and HR Director	3/31/2020

2

2

Upcoming Due Dates:

Ref #	Management Action	Due Date	Responsible Party	Estimated Date
2	Inventory Management Policy and update applicable procedures	8/31/2020	CFO and COO	8/31/2020
3	Travel Policy Clarification	-	Pending Review by Audit	Next Travel Audit
4	Travel Policy Exceptions	-	Pending Review by Audit	Next Travel Audit
5	Credit Card Policy Compliance – Documented Approvals Not Maintained	-	Pending Review by Audit	Next Credit Card Audit
6	Credit Card Policy Compliance – Incomplete Reconciliation Documents	-	Pending Review by Audit	Next Credit Card Audit

3

3

Reported as Remediated this Month:

Audit	Recommendation	Management Action
Credit Card	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.	The updated Credit Card, Acceptable Use Policy (FIN-01.03) was approved and communicated on 02/13/2020 and cardholder training was held on 02/27/2020.

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Reported as Remediated this Month:

Audit	Recommendation	Management Action
Full Time Employee Additions	Establish a centralized process to track employees and contract employees to ensure they are properly tracked from hire, modification in roles/ responsibilities through termination. In addition, establish a mechanism and/or process to ensure all termination procedures are completed for all employees and contract employees.	IT has completed the process to include the terminating of access for contactors whose accounts are inactive for a certain period as a way of catching any cases where neither the vendor nor the project manager notifies Valley Metro. This process will be communicated to all staff this week. Additionally, the contracts were identified that include a staff who would access the building and our network. Contracts issued change orders for contracts that lacked sufficient language about notification of staffing changes. Signed change orders will be returned from the contractors in the upcoming weeks.

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Exception Summary

Overdue Items:

Ref #	Management Action	Due Date	Responsible Party	Estimated Date
1	Relocation Process Development	1/31/2020	CFO and HR Director	3/31/2020

Upcoming Due Dates:

Ref #	Management Action	Due Date	Responsible Party	Estimated Date
2	Inventory Management Policy and update applicable procedures	8/31/2020	CFO and Chief Operations Officer	8/31/2020
3	Travel Policy Clarification		Pending Review by Audit	Next Travel Audit
4	Travel Policy Exceptions	-	Pending Review by Audit	Next Travel Audit
5	Credit Card Policy Compliance – Documented Approvals Not Maintained	-	Pending Review by Audit	Next Credit Card Audit
6	Credit Card Policy Compliance – Incomplete Reconciliation Documents	-	Pending Review by Audit	Next Credit Card Audit

Exception Summary

Issues Reported as Remediated this Month*:

Audit	Recommendation	Management Action
Credit Card	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.	The updated Credit Card, Acceptable Use Policy (FIN-01.03) was approved and communicated on 02/13/2020 and cardholder training was held on 02/27/2020.

*Internal Audit will test these items in the next review of this area

Exception Summary

Issues Reported as Remediated this Month*:

Audit	Recommendation	Management Action
Full Time Employee Additions	Establish a centralized process to track employees and contract employees to ensure they are properly tracked from hire, modification in roles/ responsibilities through termination. In addition, establish a mechanism and/or process to ensure all termination procedures are completed for all employees and contract employees.	IT has completed the process to include the terminating of access for contactors whose accounts are inactive for a certain period as a way of catching any cases where neither the vendor nor the project manager notifies Valley Metro. This process will be communicated to all staff this week. Additionally, the contracts were identified that include a staff who would access the building and our network. Contracts issued change orders for contracts that lacked sufficient language about notification of staffing changes. Signed change orders will be returned from the contractors in the upcoming weeks.

*Internal Audit will test these items in the next review of this area

Ref #	Finding Title	Dept	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
1	Relocation Process	Finance Division	One employee terminated employment with Valley Metro after five months and had been provided a relocation allowance. Upon termination, the employee entered into an agreement to repay the relocation allowance by making monthly payments for six months. The total relocation payment was $10,000, but the total of the repayment agreement required a pay back of $7,149.20. A year after his termination, the employee has not repaid the amount required by the agreement.	Collect the remaining $2,728.94 of the relocation repayment agreement plus the $2,292.88 of employee and employer taxes. Define a process for providing and tracking relocation payments and repayment plans to ensure all funds are handled appropriately.	Management agrees with the recommendation. Finance will document how relocation reimbursements are handled with regard to taxes that were withheld. Finance and Human Resources will develop a process to ensure that there is proper follow up for reimbursement agreements and that funds are reimbursed appropriately.	11/14/19	01/31/20	CFO & HR Director	3/03/2020 - Per the Controller, a procedure is in progress and should be finalized in the upcoming month.
2	No Established Inventory Management Policy	OMC & Finance	A written Inventory Management Policy for the parts and tools used at the OMC does not exist. Procedures were not documented, and the processes followed were inefficient in addressing the handling of precious items (e.g., copper and steel), and the reconciliation, disposal, and obsolescence of parts and tools. Management could not provide a documented base knowledge of all items on-site to include in the OMC tools and parts inventories. The OMC has not conducted a full inventory of the parts and tools for the MOE and MOW. A reconciliation of parts on-site to the parts recorded in Ellipse and the tools on-site to the Excel tracking spreadsheets has not been completed. Additionally, the stock movement of parts in Ellipse has not been analyzed to determine the usefulness/value/necessity of unused/obsolete inventory.	Management should establish a written: (A) Inventory Management Policy to address: (1) Accounting and securing precious items, metals, parts, and tools; (2) Disposal of obsolete or broken parts and tools; (3) Reconciliation of on-hand quantities of parts and tools, and (4) Employee counseling and/or reimbursement for lost or damaged agency assets. (B) Set of current procedures to address: (1) Performance of full inventory counts of all parts and tools; (2) Enhancement of the inventory process to not display on-hand quantities during cycle and full counts; (3) Standardization of inventory records, so consistent inventory documentation and descriptions are used on logs and in Ellipse; (4) Determining and disposing of obsolete inventory; (5) Securing and disposing of precious items; (6) Investigation requirements for inventory count discrepancies; (7) Management oversight of tool check-out and return processes, and (8) Timely removal of physical and logical access to the inventory and associated data.	Taking into account the attached comments, management will establish a written Inventory Management Policy that addresses the four (4) components listed in the audit recommendation. Also, management will establish or modify current written procedures that addresses the other eight (8) components listed in the audit recommendation. These policies and procedures will be written in a manner that will provide the most operationally efficient and economical method.	01/16/20	08/31/20	CFO & COO	2/25/2020 - Per COO, meetings and brainstorming sessions to develop procedures have begun. Noting the goal is to balance the cost and effort of random tool and equipment audits with the gain of loss prevention.
3	Travel Policy Clarification	Finance	The Travel policy: *Encourages individuals to stay at the conference or training host hotel site. If the host hotel nightly rate exceeds the GSA Lodging Rate Schedule, the excess host hotel rate is authorized ... 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, CFO and 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 ... Of the 93 forms submitted, we found 45 forms were not submitted within five working days, based upon the date of the Expense Report. *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.	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. Finally, management should ensure appropriate signatures are gained prior to booking or reconciling final travel expenses.	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.	04/06/18	NA	CFO	Pending Next Travel Audit

Ref #	Finding Title	Dept	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
4	Travel Policy Exceptions	Finance	After reviewing 93 travel requests, 87 instances were in compliance. In six instances, documentation was insufficient to determine whether costs were appropriate. The six instances were: *One traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost comparison nor explanation was not included. Therefore evidence to verify the saving was not present. *One traveler used a more expensive vehicle option for transportation for a San Francisco hotel to the Oakland airport at the end of the conference. The cost was $96. An explanation as to why this vehicle was selected did not exist within the travel file. *One traveler utilized the terminal parking at Phoenix Sky Harbor airport for two days. Resulting in a reimbursed expense of $50.00 ($25 a day) verses $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 was approved, but the reasons why these purchases were made less than 14-days prior to departure was not documented within the travel file. The Travel policy states: "Extenuating circumstances may arise during travel which may require	Management should require travelers acknowledge review of the current Travel policy on an annual basis. Travel Administrators should document within the travel file any unusual requests for travel expenses and receive appropriate approval for such requests prior to booking. Travelers should be required to explain any unusual expenses incurred on the Expense form prior to being approved for reimbursement.	Management concurs with the recommendation. Annual refresher training will be provided to ensure compliance with the Travel Policy.	04/06/18	NA	CFO	Pending Next Travel Audit
5	Policy Compliance – Insufficient/ Incomplete Documents within Cardholder Reconciliation Packets	Finance & Procurement	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. *Although six cardholders obtained Pre-Approval Local Dining and Refreshments forms for 16 CC transactions, totaling $1,861, were for committee/employee meetings and events, cardholders did not maintain the approval forms in their CC reconciliation packets.	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.	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.	02/21/19	NA	CFO	Pending Next Credit Card Audit
6	Policy Compliance – Documented Division Head Approvals Not Maintained	Finance & Procurement	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.	Management should expand the policy's training requirement beyond the cardholders to include applicable employees in the Agency's credit card transaction process. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation.	Management disagrees with the recommendation. The intent of the credit card policy is to ensure that credit card transactions comply with the procurement policies and procedures. It is management's view that a cardholder's manager is responsible for reviewing and approving the cardholder's transactions. Management will revise the policy to clarify that a management staff (Manager or Director level) must review and approve transactions. Finance staff will confirm that a management staff has approved the credit card packet and return unapproved packets to the cardholder.	02/21/19	NA	CFO	Pending Next Credit Card Audit

Information Summary

DATE   **AGENDA ITEM 7**
March 5, 2020

SUBJECT
Valley Metro RPTA Fiscal Year 2021 (FY21) Preliminary Operating and Capital Budget

PURPOSE
To provide an overview of the FY21 Preliminary Operating and Capital Budget

RECOMMENDATION
This item is presented for information.

BACKGROUND/DISCUSSION/CONSIDERATION
The Valley Metro Regional Public Transportation Authority (RPTA) FY21 combined operating and capital budget (the budget) is $362.3 million (M) and includes $86.4M of expenses for light rail/high capacity transit capital.

The preliminary FY21 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 include 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 $211.6M, which includes pass-throughs, represents a $7.1M (3%) increase from the previous year's operating budget of $204.5M. The total capital budget of $150.7M, which includes pass-throughs, represents a $17.8M (11%) decrease from the previous year's capital budget of $168.4M.

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 FY21 there are 442 employees budgeted in the integrated agency, with 239 FTE's budgeted to RPTA/Shared agency activities and 203 budgeted to VMR only 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

COMMITTEE PROCESS
Preliminary Budget Review:
Financial Working Group: February 18, 2020 for information
RTAG: February 18, 2020 for information
TMC: March 4, 2020 for information
AFS: March 12, 2020 for information
Board of Directors: March 19, 2020 for information

Proposed Budget Adoption:
TMC: May 6, 2019 for action
AFS: May 14, 2019 for action
Board of Directors: May 21, 2019 for action

RECOMMENDATION
This item is presented for information.

CONTACT
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ATTACHMENT
None

RPTA

FY21 Preliminary Budget Overview

March 2020

VALLEY
METRO

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Baseline: RPTA Operations

VALLEY
METRO

	FY19 Actuals	FY20	FY21
BUS OPERATIONS			
Passenger boardings	13,863,645	14,200,000	14,300,000
Service miles delivered-RPTA operated	12,543,000	12,866,000	12,906,000
Gross Operating Costs	$ 83,084,000	$ 88,318,000	$ 89,694,000
Fare Revenues	$ 9,064,000	$ 8,837,000	$ 8,899,031
Fare Recovery	11%	10%	10%
Average Fare	$0.65	$0.62	$0.62

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Baseline: RPTA Operations

	FY19 Actuals	FY20	FY21
PARATRANSIT OPERATIONS			
Trips	460,115	460,000	433,000
Gross Operating Costs	$ 21,082,000	$ 23,646,000	$ 22,411,000
Fare Revenues	$ 1,617,000	$ 1,840,000	$ 1,742,000
Fare Recovery	8%	8%	8%
Cost per Trip	$ 45.82	$ 51.40	$ 51.76
Average Fare per trip	$3.51	$4.00	$4.02

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Baseline: RPTA Operations

	FY19 Actuals	FY20	FY21
RIDECHOICE OPERATIONS			
Trips	84,000	201,000	241,000
Gross Operating Costs	$ 1,802,000	$ 4,055,000	$ 4,866,000
Fare Revenues	$ 265,000	$ 683,000	$ 810,000
Fare Recovery	15%	17%	17%
Cost per Trip	$ 21.45	$ 20.17	$ 20.19
Average Fare per trip	$3.15	$3.40	$3.36

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Uses of Funds: Operating & Capital
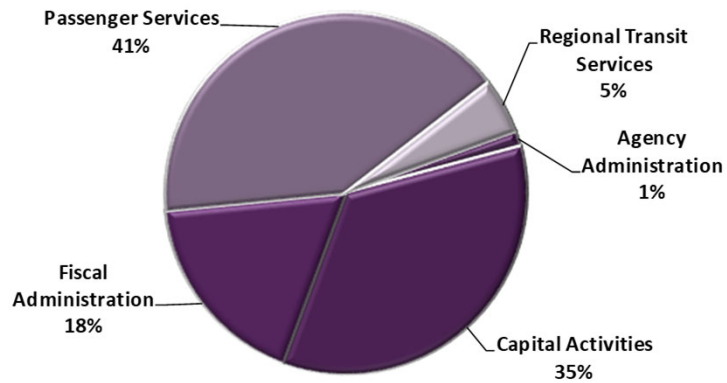
- Passenger Services 41%
- Regional Transit Services 5%
- Agency Administration 1%
- Capital Activities 35%
- Fiscal Administration 18%

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Sources of Funds: Operating & Capital

- Regional Area Road Funds 2%
- Transit Service Reimbursements 14%
- VMR Public Transportation Funds Program 17%
- AZ Lottery Funds 3%
- Carry Forward & Reserves 5%
- Fares 3%
- Federal Funds 17%
- Other 2%
- Public Transportation Funds 37%

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3/6/2020
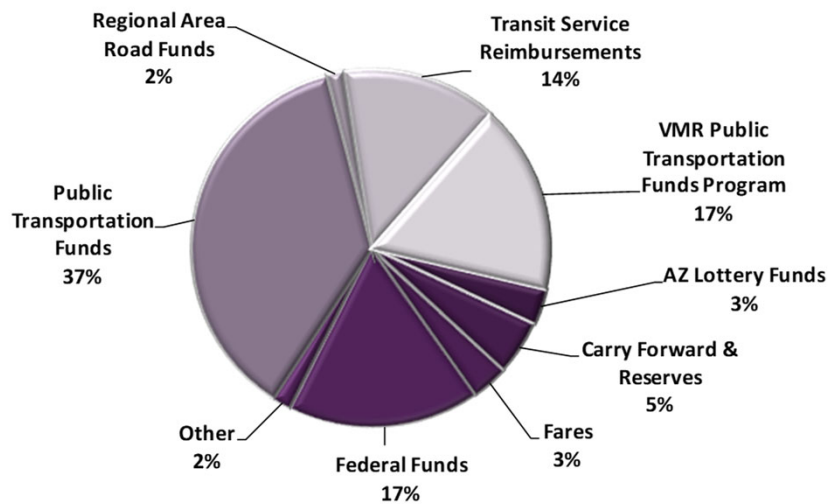
Uses of Funds: Operating ($,000,000)

Uses of Funds	FY20	FY21	Change $	Change %
Fixed Route Operations	$101.7	$103.2	$1.6	2%
Demand Service Operations	42.7	43.4	0.8	2%
Vanpool Operations	0.9	0.9	0.1	7%
Planning	2.1	2.6	0.5	26%
Commute Solutions	1.3	1.3	0.0	0%
Administration and Finance	4.6	5.0	0.4	9%
Regional Services	13.5	15.4	1.9	14%
RPTA Operating	$166.7	$171.9	$5.1	3%

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

Source of Funds	FY20	FY21	Change $	Change %
Public Transportation Funds	$91.4	$95.9	$4.5	5%
Regional Area Road Funds	5.1	5.2	0.0	0%
Transit Service Agreements	47.4	47.5	0.1	0%
MAG Funds	0.5	0.2	(0.3)	-55%
AZ Lottery Funds	0.2	0.0	(0.2)	-100%
Federal Grants	9.0	8.8	(0.2)	-3%
Fare Revenues	11.3	11.4	0.1	1%
Other Revenues	0.6	0.4	(0.2)	-31%
Carry forward and Reserves	1.2	2.6	1.4	115%
RPTA Operating	$166.7	$171.9	$5.1	3%

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

Uses of Funds	FY20	FY21	Change $	Change %
Regional Fleet	$43.4	$54.7	$11.3	26%
Regional Facilities	5.2	4.2	(1.0)	-19%
Other Regional Projects	1.0	1.4	0.4	43%
Member Agency Disbursements	5.1	7.6	2.5	49%
Debt Service	25.3	24.5	(0.8)	-3%
RPTA Capital	$80.0	$92.4	$12.4	15%

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

Source of Funds	FY20	FY21	Change $	Change %
Public Transportation Funds	$25.4	$28.7	$3.3	13%
Member Agency	0.2	0.0	(0.2)	-100%
Federal Funds	38.2	49.4	11.2	29%
Other	0.3	0.2	(0.1)	-25%
Carry Forward & Reserves	15.9	14.1	(1.9)	-12%
RPTA Capital	$80.0	$92.4	$12.4	15%

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Pass-thru Funds: Uses ($,000,000)

Uses of Funds	FY20	FY21	Change $	Change %
VMR RARF Disbursements	$0.5	$0.5	$0.0	0%
AZ Lottery Funds Disbursements	11.2	11.2	0.0	0%
Valley Metro Rail	26.5	28.2	1.7	6%
Rail Program Disbursements	88.4	58.2	(30.2)	-34%
RPTA Pass Thru	**$126.6**	**$98.1**	**($28.5)**	**22%**

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Pass-thru Funds: Sources ($,000,000)

Source of Funds	FY20	FY21	Change $	Change %
VMR Reimbursements	$27.0	$28.7	$1.7	6%
AZ Lottery Funds	11.2	11.2	0.0	0%
VMR Public Transp. Funds	52.2	57.7	5.5	11%
VMR Public Transp. Funds Reserve	36.2	0.5	(35.7)	-99%
RPTA Pass-Thru	**$126.6**	**$98.1**	**($28.5)**	**-22%**

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Operations & Maintenance Handout

- **Updated version of what was provided in October**
- **Detail by mode and functional areas**
- **Detail for expense category 'Other'**
  - Roughly 0.6% of total RPTA budget

- **Budget document to be posted to website this month**

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RPTA Only Staff Changes from FY20 to FY21

	FY20 Budget	Mid-Year Additions	FY21 Additions	FY21 Budget
Positions by Division				
Agency Business, Technology & Services	19		1	20
Capital and Service Development				0
CEO Executive Office				0
Communication & Strategic Initiatives				0
Finance & Procurement	11	1		12
Human Resources	11		1	12
Internal Audit Services				0
Legal				0
Operations and Maintenance	66		2	68
Safety and Security	1			1
Total 100% RPTA Positions	**108**	**1**	**4**	**113**

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Shared Staff Changes from FY20 to FY21

	FY20 Budget	Mid-Year Additions	FY21 Additions	FY21 Budget
Positions by Division				
Agency Business, Technology & Services	32	1		33
Capital and Service Development	29			29
CEO Executive Office	6			6
Communication & Strategic Initiatives	14			14
Finance & Procurement	24			24
Human Resources	0			0
Internal Audit Services	3			3
Legal	2		1	3
Operations and Maintenance	9		1	10
Safety and Security	4			4
Total Shared Agency Positions	**123**	**1**	**2**	**126**
RPTA Effort	*47*	*0.5*	*0.8*	*48*
VMR Effort	*76*	*0.5*	*1.2*	*78*

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PROFESSIONAL DEVELOPMENT Opportunities

Division Sponsored

Organization Sponsored

Tuition Assistance

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Employee Development

RPTA		FY20		FY21
Organizational	$	90,000	$	115,000
Division Sponsored		268,000		195,000
Tuition Reimbursement		65,000		105,000
Total	**$**	**423,000**	**$**	**415,000**

VMR		FY20		FY21
Division Sponsored	$	183,000	$	160,000
Total	**$**	**183,000**	**$**	**160,000**

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Travel

Required Travel
- FTA Quarterly meetings for rail capital projects
- Site visits to manufacturers for inspections
- Required training, such as mandated Safety courses, National Transit Database

Essential Travel
- Meetings with Congressional Delegation
- APTA Annual Meetings for CEO, Board Members
- Conferences where VM staff is presenting

Professional Development Travel
- APTA modal conferences
- GFOA conference
- Railvolution

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Travel by Category

RPTA		FY20		FY21
Required	$	50,000	$	13,000
Essential		18,000		65,000
Professional Development		104,000		133,000
Total	$	**172,000**	$	**211,000**

VMR		FY20		FY21
Required	$	103,000	$	53,000
Essential		27,000		34,000
Professional Development		107,000		105,000
Total	$	**237,000**	$	**192,000**

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Travel by Purpose

Description	RPTA	VMR	Total
APTA	44	30	74
AZTA	5	3	8
EnoMAX	28	0	28
Federal	1	20	21
GFOA	5	2	7
Legislative/Delegation	3	6	9
MOD	3	2	5
Other Conferences	54	46	100
Peer visit	1	4	5
RailVolution	0	8	8
Roads and Streets	0	4	4
SWTA	9	1	10
Vehicle Inspections	5	22	27
Total	**158**	**148**	**306**

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Budget Schedule

Committee/Boards/FWG	
Aug 29, 2019	Board Study Session
Oct 10, 2019	Present Key Assumptions to AFS
Feb 3, 2020	Present update of Key Assumptions to FWG
Feb 13, 2020	Present update of Key Assumptions to AFS
Feb 18, 2020	Present annual budget to FWG
March	Present 5-year plans to FWG
	Present Annual Budgets to Committees/Boards for Info
April	Present 5-year plans to AFS
May	Present Annual Budgets and 5-year plans for action

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Thank You

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Information Summary

SUBJECT
Valley Metro Rail, Inc. Fiscal Year 2021 (FY21) Preliminary Operating and Capital Budget

PURPOSE
To provide an overview of the FY21 Preliminary Operating and Capital Budget

RECOMMENDATION
This item is presented for information.

BACKGROUND | DISCUSSION | CONSIDERATION
The Valley Metro Rail, Inc. (VMR) FY21 combined operating and capital budget (the budget) is $518.9 million (M) and includes $58.2M in projects funded with Proposition 400 Public Transportation Fund (PTF) revenues for light rail/high capacity transit capital.

The preliminary FY21 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 $74.7M represents a $4.4M (6%) increase from the previous year's operating budget of $70.3M. The total capital budget of $444.1M represents a $34.9M (9%) increase from the previous year's capital budget of $409.3M.

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 FY21 there are 442 employees budgeted in the integrated agency, with 239 FTE's budgeted to RPTA/Shared agency activities and 203

budgeted to VMR only 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

COMMITTEE PROCESS
Preliminary Budget Review:
Financial Working Group: February 18, 2020 for information
RTAG: February 18, 2020 for information
RMC: March 4, 2020 for information
AFS: March 12, 2020 for information
Board of Directors: March 19, 2020 for information

Proposed Budget Adoption:
RMC: May 6, 2020 for action
AFS: May 14, 2020 for action
Board of Directors: May 21, 2020 for action

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

ATTACHMENT
None

Valley Metro Rail

FY21 Preliminary Budget Overview

March 2020

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Baseline: Light Rail Operations

	FY19 Actuals	FY20	FY21
RAIL OPERATIONS			
Passenger boardings	15,084,000	15,827,000	15,544,000
Service miles delivered	3,352,000	3,593,000	3,610,000
Gross Operating Costs	$ 48,417,000	$ 55,039,000	$ 58,580,000
Fare Revenues	$ 11,072,000	$ 11,712,000	$ 10,838,000
Fare Recovery	23%	21%	19%

2

2

Baseline: Streetcar Operations

	FY19 Actuals	FY20		FY21
STREETCAR OPERATIONS (6 weeks)				
Passenger boardings				81,000
Service miles delivered				24,000
Gross Operating Costs			$	729,000
Fare Revenues				TBD
Fare Recovery				0%

3

3

LRT Capital Project Schedule
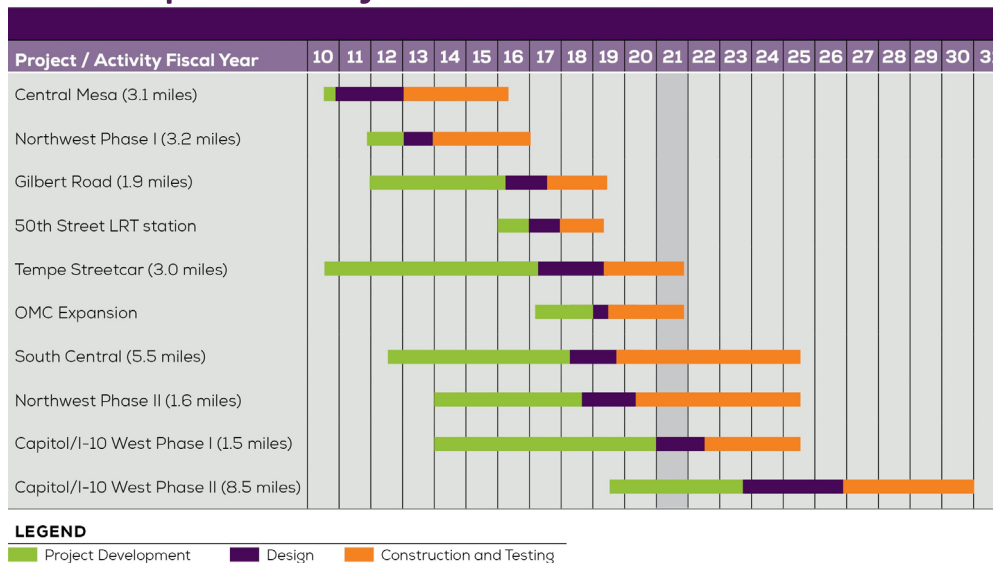
4

Uses of Funds: Project Development ($,000)
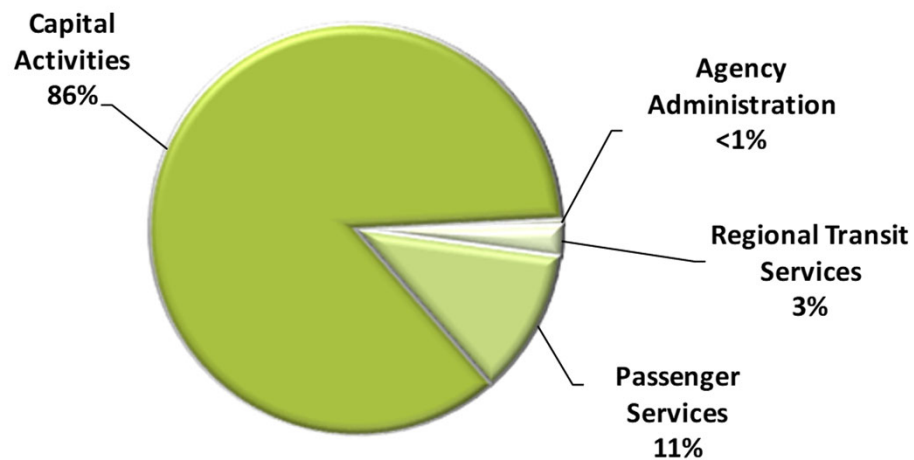
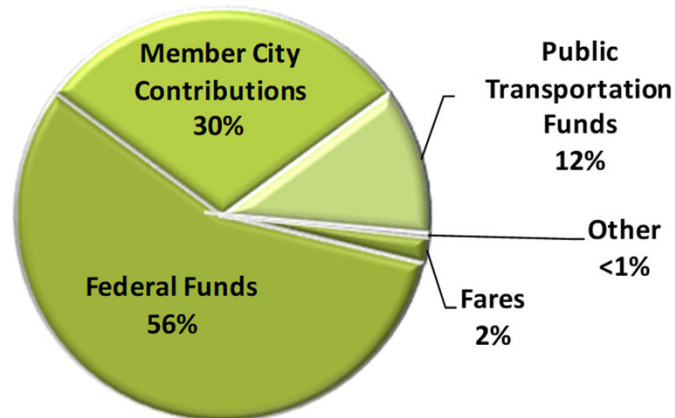| Uses of Funds	FY21
Capitol/I-10 West Phase I	$3,730
Capitol/I-10 West Phase II	450
Fiesta District Corridor Study	254
Downtown Chandler/Arizona Ave AA	180
Tempe/Mesa Streetcar System Study	79
Systems Planning & Project Development	6,752
Capital Project Development Administration	1,571
Total Uses	$13,016

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Uses of Funds: Operating & Capital

6

6

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Sources of Funds: Operating & Capital

- Member City Contributions 30%
- Public Transportation Funds 12%
- Other <1%
- Fares 2%
- Federal Funds 56%

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

Uses of Funds	FY20	FY21	Change $	Change %
Light Rail Operations & Maintenance	$45.7	$49.3	$3.7	8%
Streetcar Operations & Maintenance	0.0	0.6	0.6	-
Security	9.4	9.4	0.0	0%
Future Project Development	13.2	13.0	(0.1)	-1%
Agency Operating	2.1	2.4	0.2	11%
Total Operating Uses	**$70.3**	**$74.7**	**$4.4**	**6%**

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

Sources of Funds	FY20	FY21	Change $	Change %
Advertising	$1.4	$1.1	-$0.3	-21%
Fares	11.7	10.8	(0.9)	-7%
Federal Funds	2.6	1.5	(1.0)	-39%
Member City Contributions	43.2	48.3	5.1	12%
Regional Planning Funds	1.0	1.0	0.0	0%
Public Transportation Funds	10.5	11.8	1.3	12%
Other	0.0	0.1	0.1	-
Total Operating Sources	$70.3	$74.7	$4.4	6%

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

Uses of Funds	FY20	FY21	Change $	Change %
Tempe Streetcar	$85.7	$40.1	($45.6)	-53%
South Central/Downtown Hub	$223.3	$253.2	$29.9	13%
Northwest Phase II	$39.7	$91.6	52.0	131%
OMC Expansion	$32.1	$27.9	(4.2)	-13%
Gilbert Road Extension	$4.1	$3.3	(0.8)	-19%
50th Street Station	$1.2	$0.0	(1.2)	-100%
Central Mesa Extension	$0.3	$0.0	(0.3)	-100%
Systemwide Improvements	$9.4	$18.1	8.7	92%
State of Good Repair	$13.5	$10.0	(3.5)	-26%
Total Capital Uses	$409.3	$444.1	$34.9	9%

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

Sources of Funds	FY20	FY21	Change $	Change %
Federal Funds	$108.3	$291.1	$182.8	169%
Member City Contributions	224.6	106.6	(118.0)	-53%
Public Transportation Funds	77.9	46.4	(31.4)	-40%
City of Mesa Financing	(1.5)	0.0	1.5	-100%
Total Capital Sources	**$409.3**	**$444.1**	**$34.9**	**9%**

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Operations & Maintenance Handout

- **Updated version of what was provided in October**
- **Detail by mode and functional areas**
- **Detail for expense category 'Other'**
  - Roughly 0.6% of total VMR budget

- **Budget document to be posted to website this month**

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VMR Only Staff Changes from FY20 to FY21

Positions by Division	FY20 Budget	Mid-Year Additions	FY21 Additions	FY21 Budget
Agency Business, Technology & Services				0
Capital and Service Development	28			28
CEO Executive Office				0
Communication & Strategic Initiatives	1			1
Finance & Procurement	1			1
Human Resources				0
Internal Audit Services				0
Legal				0
Operations and Maintenance	161	1	6	168
Safety and Security	5			5
Total 100% VMR Positions	**196**	**1**	**6**	**203**

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Shared Staff Changes from FY20 to FY21

Positions by Division	FY20 Budget	Mid-Year Additions	FY21 Additions	FY21 Budget
Agency Business, Technology & Services	32	1		33
Capital and Service Development	29			29
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Communication & Strategic Initiatives	14			14
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Thank You

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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.   Fuel for Paratransit Service

Increase the cooperative agreement purchase order under Arizona State Contract #ADSPO14-052198 for diesel and unleaded fuel by $1,760,000 for a total not-to-exceed amount of $7,260,000 through June 30, 2021.

RECOMMENDATION
For information only.

CONTACT
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602-262-7433

ATTACHMENT
Information Summaries for items listed above.

Information Summary

DATE
March 5, 2020

SUBJECT
Fuel for Paratransit Service

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to increase the cooperative agreement purchase order under Arizona State Contract #ADSPO14-052198 for diesel and unleaded fuel by $1,760,000 for a total not-to-exceed amount of $7,260,000 through June 30, 2021.

COST AND BUDGET
The cost for fuel is included in the FY20 Annual Operating and Capital Budget. The estimated cost for fuel is $440,000 for the remainder of FY20 and $1,320,000 for FY21. Fuel costs are being shifted from Transdev's contract to the state contract. Purchasing bulk fuel directly will result in savings of approximately $120,000 per year.

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to increase the cooperative agreement purchase order under Arizona State Contract #ADSPO14-052198 for diesel and unleaded fuel by $1,760,000 for a total not-to-exceed amount of $7,260,000 through June 30, 2021.

BACKGROUND/DISCUSSION/CONSIDERATION
In June 2016, the Board authorized the CEO to purchase diesel and unleaded fuel from Senergy Petroleum LLC. The fuel was for fixed route service and was to be delivered to two bus facilities. The purchase was authorized for five years from July 1, 2016 through June 30, 2021 for a value not to exceed $5,500,000.

Under Valley Metro's paratransit service contract, Transdev purchases fuel through a card-lock facility and passes those costs through to Valley Metro. To reduce the cost of the paratransit contact, a fuel tank was installed at the Transdev facility in Gilbert. Valley Metro's direct bulk purchase of fuel for the Gilbert facility from Senergy Petroleum will reduce annual fuel costs by approximately $120,000.

STRATEGIC PLAN ALIGNMENT
This item relates to the following goals in the Five-Year Strategic Plan, FY 2016 – 2020:
- Goal 1: Increase customer focus
- Goal 2: Advance performance based operation

COMMITTEE PROCESS
RTAG: February 18, 2020 for information
TMC: March 4, 2020 for action
Board of Directors: March 19, 2020 for action

CONTACT
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ATTACHMENT
None

Information Summary

DATE
March 5, 2020

SUBJECT
Future Agenda Items Request and Report on Current Events

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

Future Items

Item	Month
Audit Exceptions Update o Management status for overdue/past due items	Ongoing
Present Comprehensive Annual Financial Reports for acceptance	February 2020
Audit Plan Areas of Concern for future Audit information	April 2020

FTE Audit Report
   o Mechanism to track contract employees
   o Contract employees cost/benefit analysis
   o Board/policy discussion of budget process for FTE's
   o HR evaluation of employee turnover
	April 2020

External Audits: o City of Phoenix Contract Management Risk Assessment	April 2020
Professional Development Audit	April 2020
Present 5-Year Plans	April 2020
Draft Audit Plan for information	May 2020
Enterprise Resource Planning contract award	May 2020
TLCP Update – Bus	April 2020
TLCP Update – Rail	April 2020
Update on Reduced Fare project	April 2020
Present Annual Budgets and 5-Year Plans for Action	May 2020
Contract Management (Specific) Paratransit	June 2020
Proposed Audit Plan for FY21	June 2020
Agency Credit card Audit	Moved to next year's audit plan
Travel Audit	Moved to next year's audit plan

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