



MEETING OF THE

Audit and Finance Subcommittee

Date:

November 14, 2019

Starting Time

12:00 p.m.

Location:

Valley Metro

Lake Powell Conference Room (10A)

101 N. 1st Avenue, 10th Floor

Phoenix

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



Agenda

November 7, 2019

Audit and Finance Subcommittee

Thursday, November 14, 2019

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

101 N. 1st Avenue, 10th Floor

12:00 p.m.

Action Recommended

1. Public Comment

1. For information

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

2. Minutes

2. For action

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

3. Full-Time Equivalent Audit Report

3. For action

Mary Modelski, Director, Internal Audit, will present the results of the Full Time Employee Additions Audit for acceptance.

4. Internal Audit Update

4. For information

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

5. Internal Audit Exceptions Update

5. For information

The Internal Audit Exceptions log is presented for information.



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

6. For Information

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

7. Executive Session

7. For action

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 performance evaluation of the Chief Financial Officer and Director, Internal Audit. Discussion and consultation may be both with and without the Chief Financial Officer and Director, Internal Audit present.

8. Executive Session Action Items

8. For action

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

9. Future Agenda Items

9. For information

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



10. Next Meeting

10. For information

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

Qualified sign language interpreters are available with 72 hours notice. Materials in alternative formats 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

November 7, 2019

AGENDA ITEM 1**SUBJECT**

Public Comment

PURPOSE

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

BACKGROUND | DISCUSSION | CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

This item presented for information only.

CONTACT

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

ATTACHMENT

None



Minutes

November 7, 2019

AGENDA ITEM 2

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

Meeting Participants

Councilmember Lauren Tolmachoff, City of Glendale
Councilmember Francisco Heredia, City of Mesa
Deputy City Manager Mario Paniagua, City of Phoenix
Councilmember Robin Arredondo-Savage, City of Tempe, Chair
Vice Mayor Bill Stipp, City of Goodyear

Chair Arredondo-Savage called the meeting to order at 12:09 p.m.

1. Public Comment

None.

2. Minutes

Minutes from the September 12, 2019, Audit and Finance Subcommittee meeting presented for approval.

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER HEREDIA AND UNANIMOUSLY CARRIED TO APPROVE THE SEPTEMBER 12, 2019 AFS MINUTES.

3. Full-Time Equivalent Additions Audit Report

Mary Modelski, Director, Internal Audit, provided an overview of the results of the Full-Time Equivalent Additions Audit that included the following findings and recommendation due dates:

- Relocation Process. Recommendation due date: January 31, 2020
 - 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.



- Position Requisition. Recommendation due date: January 31, 2020
 - HR and Finance should collaborate to determine the components necessary to be completed and captured prior to an employee being recruited or on-boarded. Such process should be clearly documented and shared between Division management to ensure all requirements area addressed, documented, approved, and memorialized.
- Network Access: Recommendation due date: April 7, 2020
 - 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.
- Contract employee: No recommendation.
 - Internal Audit brings the issue to the attention of the Audit and Finance Subcommittee for their information.

There was discussion amongst the Audit and Finance Subcommittee about the timing of receiving this audit report and whether to move it to the November 14, 2019 AFS meeting to give the AFS more time to review before taking any action.

Chair Arredondo-Savage said that she would like a review of the findings today and asked the AFS if they had any concerns or questions of the findings in the audit report to ask Ms. Modelski.

Ms. Modelski said Internal Audit brought three recommendations forward to management. The recommendations were relocation allocation to make provisions for individuals moving more than 100 miles to join our staff, position requisitions in terms of adding individuals to the Valley Metro organizational chart, and network access to disable employees or contractor's access when terminating employment.

Ms. Modelski continued with a review of the audit report and discussed the findings presented. She said Internal Audit added something new to this audit report. A disclosure was added for an item where information was provided but no recommendation was made. Discussions occurred with management however there was disagreement on recommendations. We wanted to bring this item to your attention.

Vice Mayor Stipp said he is concerned that there wasn't any turnover rates to compare with and that he would like to see this taken from an internal audit perspective to an organizational perspective and asked Mr. Smith, HR, and their counterparts to put together some benchmarks for the turnover rates.



Ms. Modelski said that she did reach out to other agencies. Turnover rates are sensitive subject and didn't receive any responses. She said will reach out again.

Mr. Smith said that we can reach out to other peer agencies and compile benchmarks for the turnover rates of the two areas indicated as highest.

Councilmember Tolmachoff asked about comparing benefits such as education and other benefits that Valley Metro offers with other agencies.

Mr. Smith said that Valley Metro looks at the local market and many times, at your cities, to see if we commensurate with what's happening in other government. He said that Valley Metro has an annual benefit review and takes input from employees to see whether our medical and other benefits are in line with their needs and with other cities.

Chair Arredondo-Savage asked that Ms. Modelski coordinate the comparisons of benefits and turnover rates.

Mr. Hodgins said Valley Metro staff will reach out to peer agencies and put together industry comparisons before next month and will incorporate that into the report.

Vice Mayor Stipp said he wants to see a repeat of this type of audit in FY21 to see any improvements on the turnover rates.

Councilmember Tolmachoff said gathering more information as to the reason for voluntary termination of employment is the type of data is valuable.

Mr. Smith said that he will follow-up with Human Resources to obtain more targeted data.

Ms. Modelski continued with explanation of relocation expenses of one employee that voluntarily terminated his employment with Valley Metro after five months. He was placed on a repayment plan to pay back the relocation reimbursement, however the remaining funds owed to Valley Metro are still outstanding.

Mr. Paniagua asked about the process for position requisitions and how new or vacant positions are approved and funded. He said that he understood there was to be a change to Valley Metro's process of adding new positions.

Mr. Hodgins explained that with our current process the Board authorizes an expenditure amount for adding new positions. He clarified that when a department is in need of a new position, part of the position requisition process is reviewing the budget assumption for the position being requested and when the position is in the budget then it is a more streamlined process to get that position filled. If a position is not assumed in the budget, there was some discussion and concern about how do we get that position



added without going to the Board. He said that Mr. Smith has some authority to approve an added position, however, there needs to be justification for the need of the position, justification of how the added position is going to be funded within the current adopted budget, and approved by the Chief Executive and Chief Financial Officers as an addition outside of the budget.

Mr. Smith asked to clarify what it is meant by the position not being in the budget. The funds are in the budget, however the specific position was not in the budget plan. It is the number of positions that are in the budget. He said should a department want to add an extra position not included in the budget that is when we review the department's budget and see where the funds will come from to fund that extra position. For example, if a department says they will spend less in one area of the current adopted budget then those funds can be used for the added position. We are not undertaking a financial obligation that isn't supported in the overall budget.

Mr. Paniagua said he understands, however, it was his understanding that there was going to be a change in that process. asked how the new or vacant positions are budgeted mid-year and gave an example of City of Phoenix process. For example, you hire someone at \$100,000 annually and there are savings of \$50,000, you can fund the position for the next six months. When it comes to budgeting for the full salary the next year, it increases the budget by \$50,000 for the next year for that specific position.

Mr. Smith said Valley Metro does not have the same budget process for new or vacant positions as City of Phoenix. He said we look at establishing a long-term cost of that position and how it will impact the department's ability to perform its function. He said we do a multi-year and create it as an on-going expense. There is a shift in department resources however, overall department budget will not change.

Mr. Paniagua said he wanted to ensure that the way Valley Metro budgets for mid-year FTE additions is on-going and not a one-time cost and that the on-going costs are actually being pulled from other resources in order to fill the position.

Mr. Hodgins said we wouldn't shift from a capital budget to hire staff.

Mr. Paniagua said there may be savings from vacancies in a particular year that are again one time that year. There is savings from existing vacancies that you will eventually fill. He asked if the savings from those vacancies are pulled to fund this new position.

Mr. Smith said the FTE would not change. It wouldn't be an increased position. He said if there is a vacancy it would just be filling a vacancy.

Councilmember Tolmachoff said Mr. Paniagua means an additional vacancy.



Mr. Smith said no because if a manager chooses to hire someone to fill the new position then the vacancies go away because there wouldn't be any funds to support it year after year.

Mr. Paniagua said the six-month savings are available. The savings you earn from the first six months of that position being opened are still available.

Mr. Smith said we don't look at it as short-term savings. We look at it as a long-term impact and ensure the manager understands that if they hire this position then they the other vacancies used to fund this one position. He said the other two vacancies go away and the dollar amount stays the same.

Chair Arredondo-Savage said maybe that's another part of this discussion in regards to transparency as far as what we see. She said it can be explained that way, however that is not what the AFS saw happen throughout the year.

Councilmember Tolmachoff asked what funds are being used for reallocation when the funds for the additional position wasn't in the budget. She asked what savings are being used to fund the additional position.

Mr. Smith said that the funds are in the budget. He said there are a variety of savings.

Councilmember Tolmachoff asked if a department can cut whatever they want out of their budget.

Mr. Smith said no. He said the department is asked what resources they need in order to accomplish their objectives.

Councilmember Tolmachoff said if there's excess money in that department and you cut back on pens and pencils to fund the newly added position within the amount of money that was allocated out of the office supplies cost center for the fiscal year. She asked if going forward you will only be allowed to use a certain number of pens and pencils because those funds have been committed to fund the added position.

Mr. Smith no because the next year we start at zero-based budgeting philosophy.

Councilmember Tolmachoff said what Mr. Paniagua is saying that the next year the budget will increase because you have an additional position.

Mr. Smith said no because we basically take a modified zero-based budget. He said this year with the modified zero-based budgeting, the department will have to justify the resources going forward. The department has to justify the resources they are asking for are necessary to accomplish their goals.



Councilmember Tolmachoff asked if it is justifiable then the budget may be increased.

Mr. Smith said not until the next budget cycle.

Councilmember Tolmachoff said she understands. She asked if going forward the department justifies the added position and then decides they need more pens and pencils and they determine they need a budget increase.

Mr. Smith said then the department would have to justify why the additional funds or resources are needed to accomplish their goals. He said if the department can justify it then Valley Metro will figure out a way or we will go to the AFS and say, for example, we have had increased activity and are asking for a budget increase or we tell the department that their activity does not justify a budget increase.

Councilmember Tolmachoff asked if salary savings is off the table in this instance.

Mr. Smith said (start playing at 1:03)

IT WAS AGREED BY THE AFS TO MOVE THIS ITEM TO THE NOVEMBER 14, 2019 MEETING FOR ACTION.

4. Internal Audit Update

Ms. Modelski provided an update on actions taken in Internal Audit including the following:

- Credit card transactions – **On hold**
- Travel expenses – **On hold**
- Professional Development – **Planning started**
- Full-Time Employee Additions - **Complete**
- Contract Management (specific) – **Not started**
- OMC Non-Capitalized Rail Parts and Tools Inventory – **Underway**
- Hardware/Software Management – **PO issued 10/1/19**
- Performance Evaluation – **Planning started**
- Internal Safety and Security Audit Review – **Awaiting SSQA**
- CSD Invoice Processing – **Assisted with training 10/1/19**
- HR Information Management System (HRMIS) Implementation – **Released & monitoring stability**
- ERP Implementation – **Monitoring**
- External Audits:
 - Maricopa County-Paratransit – **Report December 2019**
 - City of Phoenix-Fare Revenue – **Report December 2019**
 - City of Phoenix-Contract Risk Assessment – **Entrance meeting 10/8/19**



This item was presented for information only.

5. Internal Audit Exceptions Update

Ms. Modelski provided an update of the Audit Exceptions Log.

This item was presented for information only.

6. Fiscal Year 2020-21 (FY21) Budget Assumptions

Paul Hodgins, Chief Financial Officer, provided an overview of Fiscal Year 2020-21 (FY21) Budget Key Assumptions including the following items:

VMR FY21 Budget Key Assumptions

- Revenues Forecasts
- Streetcar Operations
- Rail Transportation
- Respect the Ride
- State of Good Repair

RPTA FY21 Budget Key Assumptions

- Revenues Forecasts
- PTF Forecast
- Base Service Levels
- Service Increases
- Contract Rates – East Valley Bus
- Contract Rates – West Valley Bus
- Fixed Route Bus
- Contract Rates – Paratransit
- Staffing
- Rider Experience
- Regional Planning/Funding

This item presented for information only.

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

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

- A. Commercial Property, Liability and Worker's Compensation Insurance
- B. Miscellaneous Construction Services Contract Award



- C. Manufacture and Delivery of Medium Duty Transit Bus Contract Award
- D. Northwest Phase II Light Rail Extension – Joint Project Agreement with the Arizona Department of Transportation (ADOT)
- E. Purchase of Replacement Bar Signals for the Light Rail Alignment
- F. Northwest Phase II Light Rail Extension: Phoenix Funding Agreement
- G. South Central Extension/Downtown Hub Project: Phoenix Funding Agreement

This was item presented for information only.

8. 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 performance evaluation of the Chief Financial Officer and Director, Internal Audit. Discussion and consultation may be both with and without the Chief Financial Officer and Director, Internal Audit present.

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

9. Executive Session Action Items

The Audit and Finance Subcommittee may take action related to items discussed as part of Agenda Item 8.

IT WAS AGREED BY THE AUDIT AND FINANCE SUBCOMMITTEE TO MOVE THIS ITEM TO THE NOVEMBER 14, 2019 MEETING FOR ACTION.

10. Future Agenda Items

Chair Arredondo-Savage appreciated the list of future agenda items provided and said that she would like the AFS to submit their requests for future agenda items.



11. Next Meeting

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

With no further discussion, the meeting adjourned at 3:03 p.m.



Information Summary

DATE

November 7, 2019

AGENDA ITEM 3**SUBJECT**

Full Time Employee Additions Audit

PURPOSE

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

BACKGROUND/DISCUSSION/CONSIDERATION

The Fiscal Year 2019/2020 Internal Audit Plan approved by the AFS on June 18, 2019, included a review of Full Time Employee Additions. The objective of the audit was to determine if full-time employee additions have been justified and budgeted; why employees are terminating and if termination occurred before the required timeframe for any incentives offered.

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

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

CONTACT

Mary Modelski
Internal Audit Director
mmodelski@valleymetro.org
602-322-4453

ATTACHMENT

Full Time Employee Additions Audit



Full Time Employee Additions

October 2019

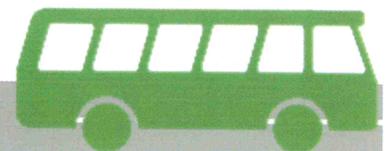


Audit Report

Internal Audit

Distribution

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



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To Scott Smith, Chief Executive Officer:

The purpose of this report is to communicate the process of adding Full Time Employees to the organization. This audit was part of Valley Metro's fiscal year 2019/20 Internal Audit Plan.

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

Based on Internal Audit's review, this report contains three recommendations to improve the process of managing relocation allocations, position requisitions, network access and one disclosure related to contract employee. The annual fiscal year budget was approved by the Board of Directors in total which allowed for changes and allocation of funding that could be used for staff costs. Valley Metro did not exceed the total approved budget for the timeframe under review. We found Valley Metro hired 93, terminated 61 and had 10 internships end for an overall turnover rate of 21%. If we remove Valley Metro's two highest area of terminations (Customer Service and Light Rail Vehicle Maintenance), include voluntary and involuntary, the turnover rate is 14%. Twenty-one of the new hires voluntarily terminated within the first year of service. The Division who lost individuals within the first year are as follows:

Division/Area	Terminated within one year
Communications	2
Finance	1
Safety and Security	1
Operations and Maintenance	
Customer Service	8
Light Rail Vehicle Maintenance	7
Maintenance of Way	2
TOTAL	21

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

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



Mary Modelski
Internal Audit Director
October 9, 2019

Performed by:
Vickie Murphy
Senior Internal Auditor

Objective

Determine if full time employee additions have been justified and budgeted. Analyze information on employee turnover and summarize the reasons for terminating employment. Determine if employment incentives were collected if termination occurred before the required timeframe.

Scope

The review focused on personnel activity from July 1, 2018 through June 30, 2019, excluding Internal Audit new hires. During this time frame, Internal Audit hired two new employees. To eliminate any conflict of interest, these hires were excluded from testing performed.

Methodology

Internal Audit reviewed all employees hired between July 1, 2018 and June 30, 2019 by comparing Human Resource (HR) and Payroll files, Information Summary Reports presented to the Board, and meeting minutes of the Board's related to budget on funding for employees. A cross reconciliation was also completed of terminated positions and new positions reported.

We compared the current employee listings from the payroll system (ADP) and active, hired and terminated employee reports generated by HR to identify positions that had been added, realigned in reporting structure, or changes in personnel roles. We reviewed Audit and Finance Subcommittee (AFS) and Board of Directors agendas, meeting minutes and presentations to determine direction provided as to addition or changes in staffing and personal services budget. For contracted employees that were converted to employees, we reviewed the justification for the conversion and any cost savings that were realized. We did not recalculate the cost savings.

We reviewed resignation letters and exit interview information from departing employees and summarized the information and calculated a turnover rate. We compared this to national turnover rates as well as turnover rates at other transportation agencies. For terminated employees, we reviewed computer access to determine if access was disabled.

Background

Valley Metro's fiscal year 2019/20 Internal Audit Plan included the Full Time Employee Additions Audit. The Audit Plan was approved by the AFS on June 18, 2019. The audit plan included this

audit due to the concern that the number of full time employees has been significantly increasing over the last several years.

Staffing Needs

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

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

If a position is required during the current fiscal year, the department head presents the need and justification to the CFO and CEO for approval. If the CFO states there are sufficient funds available in the current fiscal year for the department or overall budget to cover the additional position, the CEO could approve of the position. During the mid-year budget adjustment, the department head would include any departmental budget adjustments or additional staff added for the current fiscal year. This information is submitted to the Budget department in October or November of the current fiscal year. During fiscal year 2018/19, there was no mid-year budget adjustment, but there were increases in the headcount (see page 9 for further explanation).

Regardless of how a position is approved, the department head completes a "Position Requisition" that is submitted to HR when it is time to fill a position. HR ensures the position is approved by the Budget department, given a job description, classified for compensation purposes and filled.

The CEO is charged with the responsibility of managing all employees, including hiring employees. This responsibility is granted to the CEO per the Administrative code (ARS 48-5122.3) of the

Regional Public Transportation Authority (Board approved on November 21, 2013), the CEO shall have the powers, duties, and responsibilities as stated below:

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

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

Contract Employees

When Valley Metro identifies a business need that it cannot meet within existing employees, rather than increase the number of employees, it contracts with a third party to provide a person to perform duties at the direction of Valley Metro for a specified time frame. Valley Metro pays a set hourly rate to the third party and the third party is responsible for that person’s compensation, taxes and benefits. In select cases, a set fee is charged rather than an hourly rate. These individuals are called contract employees.

Valley Metro does not have a central tracking system to track contract employees. Each Division head is responsible for managing their work load through employees or contract employees within the amount budgeted.

If a Division head decides that it would be cost beneficial to convert a contract employee to a full time employee, it is up to the Division head to convert the funds from contract funds to personal services through the budget process and to document the cost savings.

There are two Divisions that relied on contract employees for the time period reviewed: Information Technology (IT) and Capital and Service Development. During fiscal year 2019, Valley Metro had 67 contact employees. There were four positions that were converted to employees as follows:

Converted Contract Employees			
Position Title	Contractor Rate	Staff Rate	Annual Savings
Project Controls Manager	64.00	57.00	\$ 79,560
Office Engineer*	46.00	47.60	40,823
Information Security Engineer	72.12	43.27	24,000
Enterprise Systems Engineer	121.50	50.48	105,720

* Although the rate is higher as an employee, the removal of the contractor’s overhead rate resulted in an annual savings.

Committee/Board Approval

The CFO presents the mid and annual fiscal year budget first to the TMC/RMC for comments and suggestions. Next, the AFS is presented and takes action on the mid and annual fiscal year budget. Finally, the mid and annual fiscal year budget is presented to the Board of Directors for approval. Below is a summary of information presented to the Board of Directors related to staffing used for the budget:

FY18-20 Proposed Staffing Levels					
Division	Final 2018	Proposed 2019	Mid-Year Adjustments	Final 2019	Budgeted 2020
Agency Business, Technology & Services	47	49		49	51
Capital and Service Development	52	56	1	57	58
Communication & Marketing	10	10	6	16	16
CEO Executive Office	5	5	-1	4	4
Finance	22	22	13	35	37
Human Resource	10	10		10	12
Internal Audit	2	2	1	3	3
Legal*	14	14	-12	2	2
Operations and Maintenance - RPTA	66	66		66	66
Operations and Maintenance - VMR	122	132		132	170
Safety and Security	10	10		10	10
Total Positions	360	376	8	385	429
RPTA	150	151	2	153	155
VMR	210	225	6	231	274

* Legal had Procurement until it was moved to Finance in fiscal year 2018/19

Although Full Time Employee levels are presented to the Board of Directors, budgets are approved in total. Whether costs are spent on Full Time Employee or contractors does not matter as long as total expenditures do not exceed the budgeted amounts. The CFO presents to the Board of Directors the anticipated budget for Operating and Capital funds. During the May 2019 meeting, the Board of Directors were shown fiscal year 2017/18, 2018/19 and 2019/20 budgets. Staffing and contract costs are included within both operating and capital costs. Following the presentation on the budget, the Board of Directors were asked to approve of the fiscal year's budget. The budgets for RPTA and VMR are shown on the next page.

RPTA Budget

Audit & Finance Subcommittee
FY20 Preliminary Operating & Capital Budget

OVERVIEW

	FY18 Actual	FY19 Budget	FY20 Budget
Combined			
Operating	\$ 175,922,000	\$ 190,998,000	\$ 201,741,000
Capital	124,596,000	127,075,000	164,260,000
Total Combined	\$ 300,518,000	\$ 318,073,000	\$ 366,001,000
Full Time Equivalents			
Operating	149.3	149.4	152.4
Capital	0.9	1.9	1.7
Total	150.2	151.3	154.1

VMR Budget

Audit & Finance Subcommittee
FY20 Preliminary Operating & Capital Budget

OVERVIEW

	FY18 Actual	FY19 Budget	FY20 Budget
Combined			
Operating	\$ 55,351,000	\$ 68,684,000	\$ 72,046,000
Capital	132,610,000	239,458,000	408,521,000
Total Combined	\$ 187,961,000	\$ 308,142,000	\$ 480,567,000
Full Time Equivalents			
Operating	173.3	180.6	225.1
Capital	36.5	44.1	47.8
Total	209.8	224.8	272.9

Relocation

In November 2018 and January 2019 the Relocation policy was revised to add clarity and change the documentation requirements. The purpose of the policy is to assist individuals moving at least 100 miles to join Valley Metro. The policy provides a set dollar amount determined by the Division Director and CEO to be used to cover expense related to moving. Employees are not required to provide receipts for expenses incurred. An agreement is executed with the employee upon hire that states:

“Valley Metro will provide to you a one-time lump sum Relocation Allowance of \$[Insert dollar value]. This Relocation Allowance is intended to assist you with the expenses associated with your relocation to Greater Phoenix/Maricopa County for your Valley Metro employment.

You understand by accepting this Relocation Allowance offer:

- Your Relocation Allowance will be reported as taxable income and is subject to the applicable payroll tax withholdings. It is your responsibility to discuss potential tax implications with your tax advisor*
- You are not required to submit expense reports to Valley Metro for your Relocation expenses; however, we recommend you keep all receipts and maintain adequate records for your personal tax purposes*
- If you voluntarily terminate your Valley Metro employment within 12-months of your hire date, full reimbursement of this Relocation Allowance will be required”*

The number and amount of relocation allowances offered during the time under review are as follows:

Relocation Allowances	FY2018	FY2019
Number Provided	4	2
Total Amount Provided	\$35,000	\$12,500

Staffing Levels

Between June 2018 and June 2019, actual staffing levels were increased by 19 employees. The chart on the following page illustrates the number of actual employee by Division.

Staff Level Increases by Division

Division	June 2018	June 2019	Additions (Reduction)
Agency Business, Technology and Service	41	48	7
Capital and Development Services	54	56	2
Communication and Strategic Initiatives	7	12	5
Executive	5	4	(1)
Finance	31	33	2
Human Resource	9	8	(1)
Internal Audit	0	3	3
Legal	3	2	(1)
Operations and Maintenance	170	175	5
Safety and Security	9	10	0
Grand Total	329	351	22

In addition to new positions being added, some reporting structures were realigned. Below is a summary of positions determined to have been added, moved or realigned:

- Agency Business, Technology and Services
 - IT converted the Chief Technology Officer to the Business Intelligence Engineer.
 - IT converted the VMWare Administrator to the Enterprise Systems Engineer.
 - IT created and hired five new Apprentice (Intern) positions.
 - IT hired a Security Engineer.
 - Marketing added a Marketing Production Representative.
- Capital and Development Services
 - Converted a Systems Engineer Manager to a Deputy Director Corridor Planning.
 - Converted a Planner III to a Planner I.
 - Converted the Manager of Geographic Services to a Senior GIS Administrator.
 - Converted the Community Outreach Program Coordinator to a Sustainability Coordinator.
 - Created a new Deputy Director of Corridor Development.
 - Converted a contract employee into an Office Engineer.
- Communications and Strategic Initiatives Division
 - Converted a Community Relations representative into a Community Relations Coordinator.
 - Added five Operations Community Specialists.
- Executive
 - Created a Chief Administrative Officer.
 - The Internal Audit Manager was retitled to Internal Audit Director and moved from the Executive Division to the Internal Audit Services.

- Finance Division
 - Converted the Manager of General Accounting into an Accountant III.
 - Converted a Contract Specialist into a Contract Administrator.
 - The Program Coordinator was moved from Legal to Finance.
 - Purchasing created a part time Disadvantage Business Enterprise Compliance Coordinator position.
- Internal Audit Services
 - Two Senior Internal Auditors were hired within this Service area.
- Operations and Maintenance Division
 - Created a Light Rail Vehicle Maintenance Technician and a Paratransit/RideChoice Program Representative.
 - Created two intern positions.

From July 1, 2018 to June 30, 2019, Valley Metro hired a total of 93 employees, including Consultants conversions for new, open and/or realigned positions. There were also 71 employees that were terminated or removed during this timeframe. On the following chart is a table reflecting changes by Division:

Changes in Employee by Division			
Division	Hired	Termed	Internship Ended
Agency Business, Technology & Services	12	4	2
Capital & Service Development	14	6	6
Communications & Strategic Initiative	9	2	2
Executive	1	1	
Finance	6	3	
Human Resource	0	1	
Internal Audit	2	0	
Legal	0	0	
Operations & Maintenance	47	43	
Safety, Security, and QA	2	1	
Grand Total	93	61	10

Turnover Rates

A turnover rate refers to the percentage of employees terminating from a company within a certain period of time. High turnover rates can identify management issues that should be addressed. There is a cost to replace an employee, so a higher turnover rate can be expensive. The turnover rate is calculated by dividing the number of employees that left the organization

by the average of the beginning employee counts and the ending employee counts. The chart below shows the turnover rate by Division.

FY2018/19 Turnover Percentage		
Division	FY2018	FY2019
Agency Business, Technology & Services	3	11
Capital & Service Development	14	22
Communications & Strategic Initiative	29	53
Executive	0	25
Finance	6	9
Human Resource	0	12
Internal Audit	0	0
Legal	0	0
Operations & Maintenance	18	24
Safety, Security, and QA	0	22
Overall Turnover Rate	13%	21%

Two areas that experience a higher rate of turnover are Customer Service and Light Rail Maintenance. The CEO expressed concern these areas are overstating Valley Metro's overall turnover rate. During fiscal year 2018/19, there were 18 and 16 terminations in Customer Service and Light Rail Maintenance, respectively. If the overall turnover rate is adjusted for those areas, the remaining turnover rate is 14% for fiscal year 2018/19.

To determine whether Valley Metro's turnover rate is high, we pulled information from the Bureau of Labor statistics and reached out to other transportation agencies. The transit agency that responded to us were Utah Transit Authority, LYNX – Central Florida Regional Transportation Authority and North County Transit District (California). The chart below shows how Valley Metro compared to the information gathered.

Overall Turnover Rates*	
Valley Metro	21%
Bureau of Labor Statistics (Calendar Year 2018)	
Overall Rate	44.3%
Transportation, Warehouses, Utilities	44.2%
Government	18.7%
State and Local (excluding Education)	20.0%
Western Region	43.8%
Utah Transit Authority(including customer service)	14.4%
LYNX – Central Florida Regional Transportation	17.7%
North County Transit	9.0%

* Includes Voluntary and Involuntary

Based on the information gathered, Valley Metro is higher than other transit organizations, in-line with government entities and under the national average for overall terminations. We requested information on Customer Service turnover for Utah Transit Authority*. Their numbers are similar to Valley Metro:

Customer Service	Valley Metro	Salt Lake
Active Employees	47	47
Terminated in FY 2018/19	18	15

*We requested information from the other transit companies but did not receive this detail

To get a better picture, we recalculated the turnover rate to represent employees that left voluntarily by removing involuntary terminations and intern completions.

Voluntary Only	
Valley Metro	17%
Bureau of Labor Statistics (Calendar Year 2018)	
National Overall rate	26.9%
Transportation, Warehouses, Utilities	24.7%
Government	9.6%
State and Local (excluding Education)	10.1%
Western Region	27.2%
Utah Transit Authority	Not Provided
LYNX – Central Florida Regional Transportation	15.9%
North County Transit	Not Provided

For voluntary terminations, Valley Metro is high compared to the average government entities but under the national average.

According to the article *“To Have and to Hold”* issued by Society for Human Resource Management (SHRM) on February 23, 2019, the cost of replacing an employee is “about one-third of the worker’s annual earnings.” A third of that cost is related to “recruiting, background checks, drug screens and temp workers”. The remaining costs are associated with “reduced productivity, interview time, and lost knowledge”. According to the Work Institute’s *2018 Retention Report*, the average cost of turnover is 33% of the salary and the nation-wide average cost is \$15,000 per position. Using the average cost of \$15,000, the cost of turnovers last year for Valley Metro would be estimated at \$1,065,000.

Terminations

We looked at the 71 terminations that occurred within the year. Based on the resignation letter, email and/or the exit interview, we categorized the reasons given for terminating. Ten

individuals ended their employment due to the end of their internship and fourteen individuals left involuntarily. Of the employees that left voluntarily, 21 or 44% left before one year with Valley Metro.

The remaining 47 employees' reasons for terminating are identified below:

Terminations		
Reason Provided	Count	Percent
No explanation	13	28%
Outside Employment	11	23%
Personal Issues	7	15%
Supervisor	5	11%
Lack of Promotional Opportunity	3	6%
Work Environment	3	6%
No Show/No Call	3	6%
Retirement	2	4%

} 23%

As you can see, 23% of those that left voluntarily stated the reason for terminating was related to the work environment, supervisor, or lack of promotional opportunity.

Exit interviews are not required but are offered to the departing employee. Out of the 71 employees that left, only 13 exit interviews were held. Based on the 13 exit interviews, individuals could select multiple reasons for departure and we calculated as:

- Six left because they accepted jobs with promotional opportunities.
- Three indicated their new job resulted in a pay increase.
- Issues with their supervisor or management was indicated by 13.
- Nine of them indicated that training was inadequate, not effective or not provided.
- Seven indicated that they had shared concerns with management but they felt that management did not address the concerns.

HR stated that they use the information in the exit interviews and follows-up on the any situations that describe inappropriate or poor management. Without performing exit interviews with 100 percent of the people that terminate, it is difficult to project that information onto the population or identify trends.

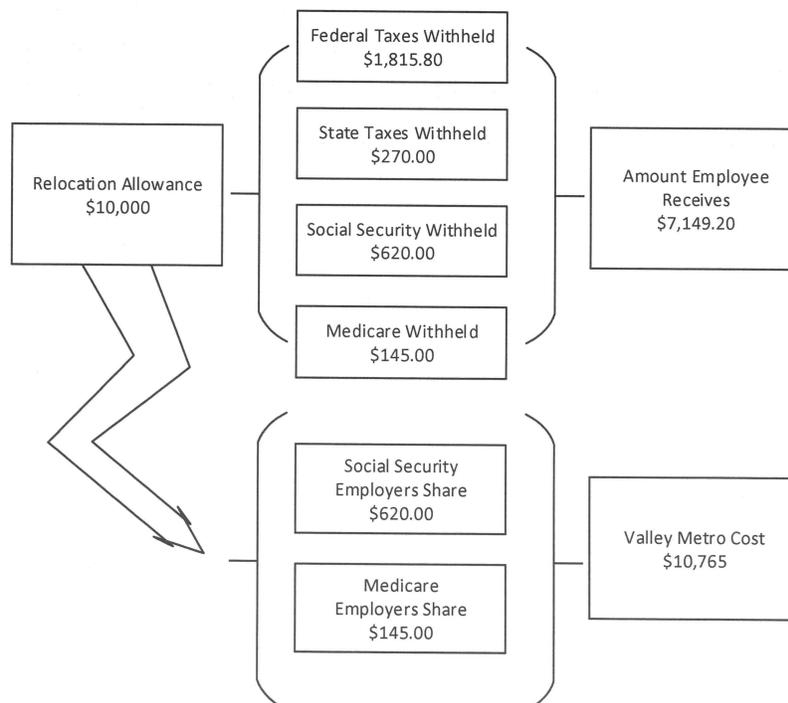
Audit Findings and Recommendations:

Relocation Process

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.

<i>Date</i>	<i>Action</i>
2/21/2018	Started Employment
3/2/2018	Received \$10,000 Relocation Allowance
8/31/2018	Terminated Employment/Signed Agreement
9/14/2018	Final Paycheck – Collected \$2,620.26
12/20/2018	Payment of \$1,800 by ex-employee
8/31/2019	Remaining balance per agreement \$2,728.94

Total amount of the agreement not collected by Valley Metro is \$2,728.94. When the employee received the relocation payment it was subject to taxes, so the employee’s take home pay was reduced. In addition, Valley Metro paid the employer contributions (e.g., taxes, Social Security).



In accordance with Policy HR-10.03 New Employee, Relocation Expenses, the employee's hire letter stated:

"If you voluntarily terminate your Valley Metro employment within 12 months of hire date, full reimbursement of this Relocation Allowance will be required."

There is no documented process for providing and tracking relocation allowances. The responsibility for tracking this reimbursement was not clearly communicated so neither HR nor Finance followed up on the payments due. The amount included in the repayment agreement was reduced by the amount of taxes that Valley Metro would collect back from the Internal Revenue Service and the State for employee taxes. Those amounts and the employer paid taxes can only be collected after the employee makes payments and Valley Metro can adjust the income reported. Valley Metro has collected \$1,322.92 of employee and employer taxes but has not collected \$2,292.88 of outstanding taxes because the employee re-payments have not been made.

Recommendation:

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.

Views of Responsible Officials:

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.

Responsible Party:

CFO and HR Director

Due Date:

January 31, 2020

Position Requisition

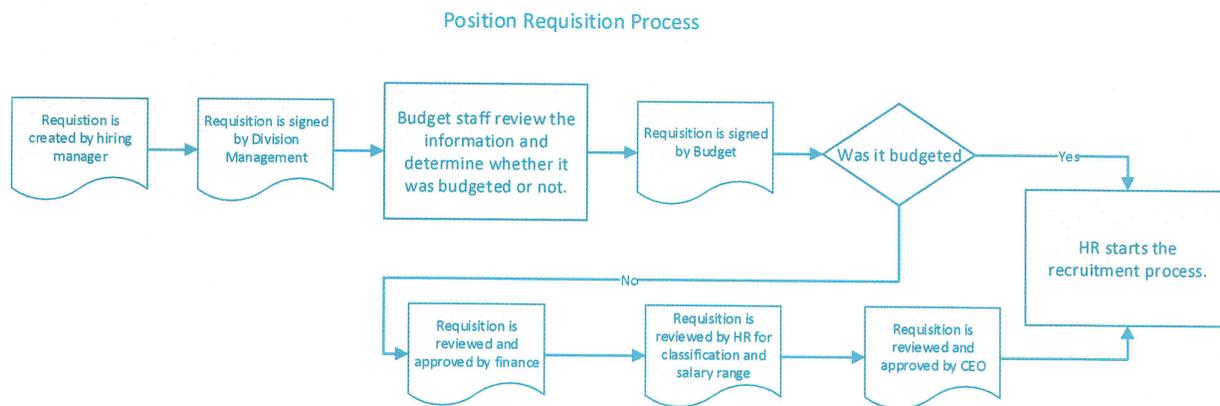
Valley Metro does not have an integrated position control management system. As a result, Division management completes a requisition to initiate the recruitment process. The form identifies the position title, pay grade, proposed salary, who the position reports to, and the Division the position will report. In addition, it identifies the reason for the request, the purpose of the job and allocation of payroll labor costs. We reviewed 90 requisitions and noted the following issues:

New Employees	93
Excluded – Audit Employees*	2
Requisition Not Applicable**	1
Total Requisitions Reviewed	90
Not signed by Division Management	1
Not signed by Budget	8
CEO did not mark “Approved” box	6

* Excluded Internal Audit employees per audit scope.

** This employee retired and returned as a part time position doing the same work so a requisition was not required.

The current process flow below documents the process that is followed.



The current form instructions required the Division management complete and submit the requisition to Budget. Budget forwards the approved requisition to HR. If the position is new, and was not in the approved budget, HR submits the form to the CFO and CEO for approval.

As a best practice, an organization should have an integrated position control management system. This system provides a framework for all positions within an organization. Position control tracks information based on positions rather than employees. As an organization increases in size, this becomes more important. Position control can be used to track budgets and funding sources, headcount/full time employee and provides for data maintenance for regulatory reporting.

Under the process in place at the beginning of the year Budget was not required to approve the form. The process was modified where the CFO and the CEO are not required to approve the position unless it is new and was not budgeted. This change has caused confusion and Division management did not follow a consistent practice.

A fairly small organization can rely on a position requisition to track employees. Since Valley Metro has been increasing in size and is not considered a small organization, it is important that it moves to a position control management process. As the new Enterprise Resource Planning system is developed, position control should be included as a component.

Recommendation: HR and Finance should collaborate to determine the components necessary to be completed and captured prior to an employee being recruited or on-boarded. Such process should be clearly documented and shared between Division management to ensure all requirements area addressed, documented, approved, and memorialized.

Views of Responsible Officials:

The current process captures relevant information on paper, with control checks against positions assumed in the adopted budget. The enterprise resource planning system currently being procured will provide better position control. The position requisition form will be updated to ensure clarity and the process will be properly communicated to all division directors, managers and supervisors.

Responsible Party:

CFO and HR Director

Due Date:

January 31, 2020

Network Access

During fiscal year 2018/19, 71 employees terminated. Two of these employees still had active network accounts. One of the employee's had their password changed, so the employee would not be able to access the system. The other employee access was not revoked. Since there is no centralized function that tracks contract employees, we were unable to test whether contract employees' network access was removed from the network. IT staff indicated that they are not consistently notified when a contract employee terminates.

When an employee or contract employee terminates, the "Departing Employee/Contractor Notification" form should be initiated by HR in the case of an employee or the department manager in the case of a contractor, routed to the department administrative assistant and/or department manager to add information, and then routed to the "Departing Employee" distribution group to notify Office and Business Services, Finance and to IT to ensure all building access, financial authority, and network access is disabled. IT staff stated that this form is not always completed and sent to IT. To offset this, an informal procedure is performed. IT periodically provides a list of employees in the system to HR to identify employees that may have been missed. This process is based on active domain accounts that are identified as Valley Metro employees. This process will not capture contract employees because it focuses on Valley Metro employees.

The existing process lacks a responsible party or mechanism to verify that all activities for a terminated employee have been completed. IT personnel stated that there is no back up process for contracted employees and they rarely get notified when a contract employee leaves Valley Metro. IT staff have identified individuals that have accounts that have not been accessed recently but have not disabled these accounts. IT staff stated the process for contract employees needs to be analyzed and re-engineered to ensure all the issues are addressed.

Best practice for HR should include a comprehensive employee and contract employee termination procedure that is timely, consistent and communicated to all employees. IT General Controls require that access be revoked the day employees leave the organization. To ensure all contract employees' access is disabled, best practices require a centralized tracking process for contract employees.

If a network account is not disabled, the employee could still potentially access the system. If the employee was disgruntled, they could destroy or change information. In addition, disabling unused accounts reduces unauthorized access attempts to Valley Metro systems.

Recommendation: 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.

Views of Responsible Officials:

Information Technology will assign a Business Analyst to assess the existing employee termination process and recommend modifications to the existing or implementation of a new process to ensure timely and consistent termination of access. Information Technology will implement those recommendations agreed upon by HR and IT to ensure that all information systems access is revoked in a timely and consistent manner and IT devices are recovered.

Contracts and Procurement staff will review existing contracts and ensure that there are requirements for contractors to notify Valley Metro timely when contract staff are replaced. Contracts and Procurement will ensure that such requirements exist in all future procurements and resultant contracts.

Responsible Party:

IT Manager and Chief Procurement Officer

Due Date:

April 7, 2020

Contract Employee

Valley Metro executed a contract with Arcadis in July 2016 for program support services to augment Valley Metro staff. This contract provides support for: engineering services, document control, budget and cost control, schedule control, cost estimating, inspection, environmental services, testing, contract administration and construction management services. As part of that contract, Arcadis subcontracted with PGH Wong. One employee of PGH Wong was assigned responsibilities more in line with responsibilities of an employee. The contractor was provided a Valley Metro title of Deputy Director, is listed on the Valley Metro organization chart and provided the responsibility of supervising three Valley Metro employees. By performing these duties, the contract employee assumes Valley Metro employee responsibilities. Valley Metro has attempted to convert this contractor to an employee but found it to be cost prohibitive.

There are risks associated with the latitude of this contract employee responsibilities. Valley Metro does not have full control of the employee, and the contract employees can be changed or replaced by Arcadis and/or PGH Wong.

Valley Metro has stated there are mitigating controls for this position. Activities performed by the individual (e.g., performance evaluations and financial approvals) are overseen, reviewed and signed by the Division Director. Valley Metro maintains that this oversight mitigates the risk adequately.

While management oversight is a good control. Management review can be superficial, or at a high enough level where it would not identify potential or actual detailed problems. This control is subjective; therefore, it is difficult to measure effectiveness and consistency.

There is a risk that Valley Metro employee morale is adversely impacted by special treatment of contract employees, or that Valley Metro employees have to report to a contract employee.

In addition, there is a potentially legal risk that exists due to this relationship. There have been documented cases settled by the firm of Bendich, Stobaugh and Strong, P.C. specifically:

- Clark v. King County, No. 95-2-29890-7 SEA (King County Superior Court).
"Lawsuit brought by common-law employees who were mislabeled as "independent contractors," "contract workers" and "agency" employees. The case was settled in September, 2000, for \$18.6 million, including compensation for denial of vacation, sick leave and health insurance and retroactive enrollment in the State's PERS pension plan.

The agreement requires the County to review work performed by "contract workers" and requires the County to establish new positions or stop doing the work."

- Logan v. King County, No. 93-2-20233-4 SEA (King County Superior Court).
"Lawsuit against King County on behalf of long-term "temporary" employees, who were denied career service protection, health insurance, vacation and other leave benefits. Court approved a settlement in December, 1997. The \$24 million settlement includes back pay to approximately 2,500 past and present employees for the period 1/89 - 12/97, plus future benefits, placement of about 500 long-term "temporaries" in jobs with full benefits, and establishment of procedures to assure proper employee classification in the future."
- Vizcaino v. Microsoft, No. C93-0178D (W.D. Wash), 97 F.3d 1187 (9th Cir. 1996) (Vizcaino I), modified, 120 F.3d 1006 (9th Cir. 1997) (en banc) (Vizcaino II), cert. den., 522 U.S. 1098 (1998), enforced by mandamus, Vizcaino v. U.S. Dist. Ct., 173 F.3d 713 (9th Cir. 1999) (Vizcaino III), amended and rehearing denied, 184 F.3d 1070 (9th Cir. 1999), cert. denied, 528 U.S. 1105 (2000).
"In 1992 Bendich, Stobaugh & Strong filed a lawsuit on behalf of several common-law Microsoft employees who were mislabeled as "independent contractors," "freelancers" (another name for independent contractor), and/or employees of "staffing" firms. The case was certified as a class action in 1993. The district court dismissed the case in 1994. In 1996 and again in 1997 the Ninth Circuit Court of Appeals ruled the class is entitled to participate in Microsoft's employee stock purchase plan. On remand, in 1998, the district court reduced the class to a tiny sliver of its original size. On May 12, 1999, the Ninth Circuit restored the original class by granting a writ of mandamus. See Vizcaino v. Microsoft, 173 F.3d 713 rehearing denied and opinion amended, 184 F.3d 1070 (9th Cir. 1999), cert. denied, 528 U.S. 1105 (2000). The parties announced a \$97 million settlement on December 12, 2000. In addition, as part of the settlement Microsoft hired roughly 3,000 class members as regular employees with full employee benefits, which the Court valued at an additional \$101 million. The Settlement Agreement was approved by the Court in orders dated March 21, 2001 (overall settlement) and April 16, 2001 (class counsel's fees). See 142 F.Supp.2d 1299 (W.D. Wash. 2001), affirmed, 290 F.3d 1043 (9th Cir. 2002), cert. denied, 537 U.S. 1018 (2002)."

The risks associated with this particular contract employee could be inadequately mitigated but Internal Audit makes no recommendation at this time due to lack of sufficient evidence to demonstrate control effectiveness. Internal Audit brings the issue to the attention of the Audit and Finance Committee for their information.



Information Summary

DATE

November 7, 2019

AGENDA ITEM 4**SUBJECT**

Internal Audit Update

PURPOSE

To update the Audit and Finance Subcommittee on Internal Audit activities.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

Item presented for information only.

CONTACT

Mary Modelski

Internal Audit Director

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602-322-4453

ATTACHMENT

None

Valley Metro Audit and Finance Subcommittee Internal Audit Update November 2019



1

Update:

Fiscal Year 19/20 Audit Plan



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

2

2



Information Summary

DATE

November 7, 2019

AGENDA ITEM 5**SUBJECT**

Audit exceptions update

PURPOSE

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

BACKGROUND/DISCUSSION/CONSIDERATION

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

COST AND BUDGET

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

COMMITTEE PROCESS

None

RECOMMENDATION

Items presented for information only.

CONTACT

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602-322-4453

ATTACHMENTS

Audit exceptions log



Exception Summary

Overdue items:

Ref #	Management Action	Due Date	Status/ Responsible Party	Estimated Date
1	IT Policy Revision – Asset Management	3/31/2018	In Policy Review Process	12/31/2019
2	Credit Card Policy Update – Training and monitoring	3/31/2019	In Policy Review Process	Coming Weeks
3	Credit Card Policy Update – Process update	3/31/2019	In Policy Review Process	Coming Weeks
4	Credit Card Policy Update – Transaction monitoring	3/31/2019	In Policy Review Process	Coming Weeks
5	Purchasing Files Updated – Close-out process	8/31/2019	Purchasing Manager	11/15/2019
6	DBE Payments – Reconcile	8/31/2019	CFO	Not provided
7	Purchasing File – Periodic Review	8/31/2019	Purchasing Manager	Not provided



Exception Summary

Upcoming Due Dates:

Ref #	Management Action	Due Date	Status/ Responsible Party	Estimated Date
8	Second Generation Non-compliance	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
9	Pay Applications Approval & Timing	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
10	Managing Bus Contract Costs	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
11	Bus Contract Invoice Support	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
12	Bus Contract Federal Monitoring	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
13	Bus Contract Obligations	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
14	Travel Policy Clarification	-	Pending Review by Audit	Next Travel Audit
15	Travel Policy Exceptions	-	Pending Review by Audit	Next Travel Audit
16	Policy Compliance Documented Approves Not Maintained	-	Pending Review by Audit	Next Travel Audit
17	Policy Compliance, Incomplete Documents in Reconciliation	-	Pending Review by Audit	Next Travel Audit

Exception Summary

Issues Reported as Remediated this Month*:

Audit	Recommendation	Management Action
Travel	Management should update the Travel policy to address a process of accountability/ consequences for non-compliance to the policy to promote consistent enforcement and maintenance of fiscal responsibility.	10/29/2019 Travel Policy updated 11/01/2019 Staff notified of changes TBD Training
Travel	Management should submit all CEO Agency related travel to the Board Chairs for pre-approval and the Travel Administrators should not complete travel arrangements without documented Board approvals. The Travel policy should also reflect if CEO travel trip in state does not require Board pre-approval.	10/29/2019 Travel Policy updated 11/01/2019 Staff notified of changes TBD Training
Travel	Management should provide Travel policy training on an annual basis and timely after policy and form updates to ensure travelers adhere to the requirement of coordinating travel through the Travel Administrators. Additionally, management should monitor travel documentation for compliance with the policy.	10/29/2019 Travel Policy updated 11/01/2019 Staff notified of changes TBD Training
Travel	Management should provide Travel policy training on an annual basis and timely after policy and form updates. Additionally, verification for accuracy of completed TERs and supporting travel documentation by the travelers' management prior to submission to Finance can ensure a segregation of duties from booking and reconciling travel expenses and monitor for compliance with the policy. Any modifications made to the TERs by Finance should be discussed for clarification and understanding prior to final processing.	10/29/2019 Travel Policy updated 11/01/2019 Staff notified of changes TBD Training



Exception Summary

Audit	Recommendation	Management Action
Travel	Management should ensure the completeness and accuracy of the travel report submitted to the board by clarifying to staff the policies and procedures for reporting, and assigning an individual who is not involved in the preparation of the report the task of reviewing, validating, and reconciling the report for accuracy of the information prior to the BOD submission.	Per CFO, the process to create the Travel Report submitted to the Board has been updated to ensure that all travel is captured.
Travel	Management should align the Travel policy intent with associated forms and practices. In order to hold Travelers accountable for timely submission of their Travel Authorization Forms and Travel Expense Reports, the policy should clearly define the submission deadlines. To properly document approved exceptions to the policy, the policy should clearly define the process and timeline for obtaining approvals. To ensure accountability assigned for accurate and complete reporting to BOD on Agency travel, the policy should identify the roles and define the reporting responsibilities. Finally, to ensure travel cancelations or changes properly approved, documented, and tracked; the policy should identify the roles and define the responsibilities.	10/29/2019 Travel Policy updated 11/01/2019 Staff notified of changes TBD Training

Exception Summary

Audit	Recommendation	Management Action
Bus Services Contract Audit	Management should revise the monitoring forms to clarify monthly and annual monitoring items and separate out the maintenance monitoring items. In addition, management should establish an oversight process to ensure the reports are completed on time, accurately and provide training to staff as to attributes to be reviewed.	Per Bus Service Delivery Manager, <ul style="list-style-type: none"> • A letter outlining the audit findings was sent to each contractor on 9/13/19. • Revised Contract Monitoring Forms have been developed for Operations and Maintenance (separately) for all three contractors. These revised forms are being used each month to monitor key contract deliverables and contract compliance. Revised forms have been used since July 2019.
Bus Services Contract Audit	Management should establish a process to identify what consumables are removed from the midlife rehabilitation and establish a review process to reconcile the third party invoices to contractor's invoice to ensure the payments are accurate.	Per Bus Service Delivery Manager, <ul style="list-style-type: none"> • A revised process has been established and implemented to correct any inaccuracies or deficiencies. • Two staff members are reviewing all submitted forms and invoices to insure the information is accurate. • All consumables are being underlined and highlighted to ensure they are visible when scanned and saved into the file. • Proper back-up documentation has been obtained that included third party invoices as it relates to the one invoice from First Transit and two invoices from Total Ride.



Exception Summary

Audit	Recommendation	Management Action
Contract Management Audit	Management should establish all distribution codes to reference the contract number. Additionally, Management should establish an on-going communication process between Finance and the Contract Administrators for periodic contract reconciliations to verify the accuracy of transaction coding to facilitate better contract monitoring tools.	Per the CFO, Finance staff are reviewing coding more thoroughly to ensure accuracy in the general ledger.
Contract Management Audit	Management should ensure the completeness and accuracy of the Weekly Procurement Report submitted to Executive Leadership. Possibly, by assigning an individual who is not involved in the preparation of the report the task of reviewing, validating and reconciling the report for accurate information prior to the Executive Leadership submission.	Per the CFO, Contracts Administrators are reviewing the reports weekly and providing updated information as needed.
Contract Management Audit	Management should communicate and enforce the retention standards and the Federal requirements for contract supporting documentation. Additionally, management should develop a monitoring process and periodically assess compliance, to ensure adherence to the requirements.	Per the CFO, Procurement Managers are reviewing contract files for completeness and that the files are stored properly to ensure retention guidelines are met.

*Internal Audit will test these items in the next review

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

Ref #	Finding Title	Dept	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
1	Outdated policies and procedures over Information Technology (IT)	IT	<p>Valley Metro did not have current policies and procedures in place to address necessary areas of risk related to hardware and/or software. The current version of policies and procedures provided by IT management was dated 2013. This version of the policies and procedures lacked sufficient direction and instruction on the following areas including, but not limited to;</p> <ul style="list-style-type: none"> •Remote access to the system •Approved and appropriate use of personal devices on the network •Naming convention •Patch implementation, testing and oversight •Process for ensuring new software and hardware populates correctly and completely in Lansweper, etc. and •Acquisition of hardware and software <p>IT management and staff have changed significantly since 2013. These changes have resulted in undocumented directives and philosophies as to how to manage and lead IT. Insufficient direction and instruction allowed for inconsistent processes and practices within the environment. Best practices would be to have a documented consistent process in place in order to mitigate risk and ensure strategies are carried out.</p>	<p>Management should define a process by which on an annual basis policies and procedures are reviewed and updated as needed and appropriate. Updates should be communicated and appropriate training provided to necessary individual in order for such individuals to execute their duties or provide backup support of other team members.</p> <p>The user community should also be educated on updates made to applicable policies and procedures to allow for consistent enforcement.</p>	<p>We intend to revise all policies and procedures to ensure that our policies and procedures comply with the strictest requirements/best practices.</p>	2/7/2018	3/31/2018	Manager, Information Technology & Executive Leadership Team	10/28/2019 - Per Chief Administrative Officer, To address the finding's six issues, two policies have been issued. One is in the review process and will be complete by November 15, and two are in development and will be complete by the end of the calendar year.
2	Policy Compliance – Supporting Documents Not Maintained within Cardholder Reconciliation Packets	Finance & Procurement	<p>Credit card reconciliation packets are being submitted and processed without all policy required signatures or documentation for technology and sequential purchases.</p> <p>Four cardholders did not maintain in their credit card reconciliation packets evidence of technology purchase approvals for five transactions, totaling \$7,913.</p> <p>Although one cardholder maintained in their credit card reconciliation packet evidence of technology purchase approval, itemized receipts and packets slips for the purchase of four HP All-in-one computers, the packet lacked evidence supporting the business need for sequential transactions. Additionally, Hewlett Packard is on an Arizona State Contract. This state contract requires the issuance of a purchase order to acquire merchandise. The Credit Card Administrator should have made the determination a credit card was not the appropriate form of payment and noted such in their review notes.</p>	<p>Management should provide training and/or policy changes that outline when it is acceptable to use an agency credit card and when it is not appropriate. Documentation and justification of exemptions to the policy need clarity and communication. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads when exception exists or when all policy-required documentation is lacking.</p>	<p>Management concurs with the recommendation. Management will update the procedures for the Credit Card Administrator to include a review for potential sequential transactions, including additional follow-up with the Cardholder and Division Head. Additionally, cardholder training will include a review of the appropriateness of credit card use versus purchase orders.</p>	2/21/2019	3/31/2019	Chief Financial Officer	10/30/2019 - Per the CFO the Credit Card Administrator has updated procedures to ensure better review of packets for compliance. Credit Card and procurement training is updated to provide guidance on the appropriate use of credit cards versus purchase orders.
3	Policy Clarifications – Credit Card, Acceptable Use	Finance & Procurement	<p>The Credit Card, Acceptable Use policies (v. 7/28/16 and v. 10/10/18) did not reflect current practices.</p> <ul style="list-style-type: none"> ☐ Policies did not address the need for cardholder Division Heads to attend training and acknowledge responsibilities assigned in the policy. ☐ Policies did not identify the required approval documentation/ signatures for travel, local dining and technology purchases, nor the need to maintain them within credit card reconciliation packets. ☐ Policies did not clarify that within the Travel policy, Management limited authorization to purchase travel and training related expenses to the Travel Administrators. <p>Additionally, the Credit Card, Acceptable Use policy (v. 10/10/18) did not provide a clear process for users to follow. The policy:</p> <ul style="list-style-type: none"> ☐ Referenced obsolete forms: <ul style="list-style-type: none"> o Credit Card Purchase Approval form (page 5) should reference the Agency Credit Cardholder Agreement, Request & Change form o Credit Card Purchase Approval form (page 5) should reference the Bank Transaction Detail Report ☐ Required the Division Head to submit paperwork "to Finance within six (6) business days of monthly statement closing." This is one business day prior to when the policy required cardholders to submit paperwork "each month to the Division Head for approval within seven (7) business days following closing date of monthly statement." 	<p>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.</p>	<p>Management partially concurs with the recommendation. The credit card policy is not the appropriate place to define the required approval documentation for other policies. Those requirements all reside within the policies and responsibility for maintaining and reviewing the documentation is defined within those policies. Multiple copies of complete travel packets, for example, should not be required to be maintained in each credit card packet that has an associated charge. The credit card policy will refer to other relevant policies and note that credit card use must be consistent with and proper documentation maintained to support that transactions were properly approved pursuant to those policies.</p>	2/21/2019	3/31/2019	Chief Financial Officer	10/30/2019 - Per the CFO the draft updated policy addresses this finding. The draft policy is being reviewed currently and should be finalized in the coming weeks.

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

Ref #	Finding Title	Dept	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
4	Policy Non-Compliance not Identified or not Properly Escalated	Finance & Procurement	<p>Four cardholders had four transactions that did not comply with the Credit Card, Acceptable Use policy. The following two transactions did not fall within the Credit Card Administrators sample population:</p> <ul style="list-style-type: none"> ▣ A transaction for \$300 in Diamondback tickets indicated eight tickets purchased, while supporting documents showed cardholder received ten tickets. A list of who was the recipient of these tickets was not present ▣ \$163 bagel purchase included an email that indicated another employee used the cardholder's credit card information on file to complete the transaction <p>Additionally, the Credit Card Administrator's review identified two transactions as noncompliant/questionable; however, escalation or follow-up did not occur.</p> <ul style="list-style-type: none"> ▣ The Agency issued the cardholder's credit card on 9/20/17; however, the cardholder reported the charge posted on 10/29/17 for \$69.00 at Maya in Scottsdale as fraudulent. <p>Wells Fargo denied reversal of such charge due to the card being present at the location to complete the transaction. Internal Audit confirmed Wells Fargo cancelled the card and reissued a new card; however, Finance maintained no documentation to evidence further action taken by Valley Metro to recover the \$69.</p> <ul style="list-style-type: none"> ▣ Evidence to support CEO approval was not present to purchase \$2,757 in advertising for General Counsel's finalist award in the Business Journal on 11/6/17. 	<p>Management should utilize a report such as, the Wells Fargo Commercial Card Expense Report, the Abila Current Consolidated Unposted General Ledger Transactions report or any other report, to provide transaction characteristics to facilitate the review. The review should focus upon fields such as description and/or specific transaction criteria that Management pre-established based on historical anomalies. Additionally, the Credit Card Administrator should document the method used to review the credit card transactions and follow-up actions taken.</p>	<p>Management concurs with the recommendation. Management recognizes that sampling the transactions for compliance runs the risk of not reviewing potential violations. Simply enlarging the sample does not eliminate the risk. Management does not see value in enlarging the sample size, however management will review the criteria used to determine the sample to attempt to capture transactions that are at higher risk of policy violations. Management will also develop a procedure to ensure that proper follow-up is conducted when the Credit Card Administrator identifies a potential violation.</p>	2/21/2019	3/31/2019	Chief Financial Officer	10/30/2019 - Per the CFO the Credit Card Administrator has updated procedures to ensure better review of packets for compliance and follow-up with Credit Card Holders.
5	Contract Closeout Documentation - Not Maintained	Finance- Contracts & Procurement	<p>Contracts and Procurement did not maintain evidence to support the contract closeout process or completed the applicable closeout documentation for seven contracts. Three contracts had service end dates before July 1, 2018 and four contracts had final products invoiced before July 1, 2018. Four contracts with Federal funds required submission of a contract recap to the City of Phoenix (CoP). The table below is a summary of the seven contracts and indications of closeout processes or documentation.</p>	<p>Management should establish and communicate clear processes and procedures for contract closeout and periodic self-audit of closed contracts to monitor for compliance with those procedures.</p>	<p>The Procurement Manual released in 2018 and subsequent update in 2019 include procedures for the proper closeout of contracts. The Chief Procurement Officer (CPO) provides training to contract administrators and follow-up to ensure that contracts are closed properly. The CPO and procurement managers will perform periodic reviews of the contract files to ensure that contract administrators are following proper procedures.</p>	6/5/2019	8/31/2019	Chief Financial Officer	10/30/2019 - Per the CFO Procurement Managers are reviewing contract files for completeness and ensuring that contracts are being closed appropriately.
6	Contract Payment Reconciliation and Follow-up Documentation - Not Maintained	Finance- Contracts & Procurement	<p>To satisfy the Disadvantaged Business Enterprise (DBE) requirements, vendors were required to report total contract payments in the City of Phoenix's Certification and Compliance System, B2GNow (B2G). B2G payments did not match the Valley Metro contract payment records for two of five contracts, totaling a net \$94,776. Evidence of a reconciliation process or follow-up actions for the discrepancies did not exist. Valley Metro used Federal funds for eight of the 17 contracts reviewed therefore, DBE requirements were applicable. The vendors were required to report contract payments in B2G to satisfy DBE requirements. However, the three contracts to Transit Vehicle Manufacturers (TVM) for rolling stock procurements did not require the vendors to report contract payments thereby reducing the testing population to five. The table below is a summary of the reported contract payments in B2G and a comparison of those amounts to Valley Metro contract payment records for the five contracts.</p>	<p>Management should establish a reconciliation process for matching vendor reported contract payments to the Valley Metro payment records. Additionally, the process should include documentation of follow-up actions taken with the vendor and the City of Phoenix, as applicable.</p>	<p>Valley Metro and its vendors report payments to the City of Phoenix as required by the Federal Transit Administration. Valley Metro's reporting is based on the actual payments made to vendors. While there have been no issues with any previous FTA Triennial Review related to reporting payments, we agree that regular verification and reconciliation of payments reported by vendors would help ensure that there are no findings in the future. The Chief Procurement Officer will develop a procedure for contract administrators to reconcile vendor payments reported to the City of Phoenix.</p>	6/5/2019	8/31/2019	Chief Financial Officer	10/30/2019 - Per the CFO a new position is being identified to manage the Disadvantaged Business Enterprise (DBE) process for Valley Metro. This position will coordinate with the City of Phoenix to ensure compliance with all aspects of DBE administration and reporting.
7	Contract File Documentation	Finance Division	<p>The procurement/contract file did contain: Second Generation: - The initial requisition to initiate the contract - Identification of the price analysis and which of the three methods of analysis was chosen for the proposal - The DBE letter from the Arizona Department of Transportation Total Ride - The initial requisition to initiate the contract - Support for change order 12 First Transit - Support for change order 8 - The independent cost estimate, summary of procurement, memo of negotiation or a technical evaluation for change order 9</p>	<p>Management should establish and communicate clear processes and procedures for contract closeout and periodic self-audit of closed contracts to monitor for compliance with those procedures.</p>	<p>This finding was also identified in the Contract Management Audit, dated June 2019. The Procurement Manual released in 2018 and subsequent update in 2019 include procedures for the proper closeout of contracts. The Chief Procurement Officer (CPO) provides training to contract administrators and follow-up to ensure that contracts are closed properly. The CPO and procurement managers will perform periodic reviews of the contract files to ensure that contract administrators are following proper procedures.</p>	8/28/2019	8/31/2019	Chief Financial Officer	10/30/19 - Per CFO Procurement Managers are reviewing contract files for completeness and ensuring that contracts are being closed appropriately.

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

Ref #	Finding Title	Dept	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
8	Second Generation Contract Non-compliance	Bus Operations	<p>Based on review of 20 monitoring forms completed for Second Generation, the contract manager identified "non-compliant" on these specific monitoring attributes.</p> <ul style="list-style-type: none"> -Annual background checks -Commercial Driver's License (CDL) -Safety Plan -Security Plan -Secured Facility <p>Although the contract requires all drivers have a CDL license, the buses that currently operate on the Buckeye Route do not require a CDL license based on Arizona state law. We were unable to verify that the drivers without CDL's only drove the Buckeye Route.</p> <p>In addition, we noted out of the five years tested, Second Generation only met the 50% of the employee pool drug-testing requirement for one year.</p>	<p>Management should establish a process for monitoring the contract, which includes documenting visits to the contractor's location and the enforcement actions taken to ensure compliance with the contract requirements.</p>	<p>We agree with the recommendations outlined within this finding. Management has taken the steps to ensure the Program Coordinator assigned to this contract conducts a site visit to the Ajo Transportation bus depot on a monthly basis. In addition, a letter will be sent to this contractor alerting them of the deficiencies noted. The letter will also outline the steps that are required to address each deficiency with a deadline associated with each item to meet contract requirements.</p> <p>In regards to the Commercial Driver's License finding, we will amend the contract to waive this requirement for services operated in the Buckeye short trips. The vehicles used to transport passengers on this route do not require the operator to have a CDL. A class D driver's license is all that is required for this size and type of vehicle operated on this route only.</p>	8/28/2019	12/2/2019	Bus Service Delivery Manager	<p>10/25/19 - Per Bus Service Delivery Manager</p> <ul style="list-style-type: none"> • Contractor (Second Generation) is actively working on all of the deficiencies noted in this audit finding. • Contract language has been drafted that clarifies expectations, ambiguity of past language and revisions to the scope have been sent to Valley Metro's Contracts Administrator and the legal department for review. • Safety and Security plans are being updated to reflect current conditions and concerns. • Contract administrator has increased number of site visits to ensure compliance with all Federal and agency terms. • Overall status—pending
9	Pay Application Approval & Timing	Bus Operations	<p>We tested 50 pay applications for Total Ride and Second Generation and 52 pay applications for First Transit. We identified:</p> <ul style="list-style-type: none"> •Payments were made in excess of 30 days from receipt of the invoice. •The Chief Operations Officer delegated signature authority to the Operations Manager, which resulted in the Operations Manager signing the document twice. •One payment to Total Ride was incorrect. The cents were left off. Total Ride brought it to RPTA's attention and it was corrected in the next payment. •The Chief Financial Officer did not sign off on Finance reviews. 	<p>Management should refine the pay application review and approval process in cooperation with Finance to increase efficiency and ensure authorized approval.</p>	<p>We agree with the recommendations outlined within this recommendation. Management will take steps to revise the pay application review and approval process. Management will make every effort to make payment to the contractor within thirty (30) days after the receipt of an invoice.</p> <p>Accounts payable staff will be re-trained to review pay applications for proper signatures and ensure that all required signatures have been obtained prior to paying the invoice.</p>	8/28/2019	12/2/2019	Bus Service Delivery Manager, Chief Financial Officer, Operations Manager, Support & Analysis	<p>10/25/19 - Per Bus Service Delivery Manager</p> <ul style="list-style-type: none"> • Process is still under review • When the COO delegates signature authority to the Operations Manager, only one signature by the Operations Manager will be on the Pay Apps. • Working with Finance to review payment process to insure contractors are being paid within 30 days. • Overall status—pending
10	Managing Contract Costs	Bus Operations	<p>Although RPTA is capturing all the cost of the contracts, they are not consistently capturing the types of costs. Costs associated with engine mid-life repairs and reimbursements for miscellaneous items are not a cost for the contractors providing bus services. The contract costs are not accurately being reported because the total payment amount, including additional provisions and items, is subtracted from the contract value.</p>	<p>Management should review the process expenses are posted to determine a structure that allows for categorization of costs that best represents the expense incurred.</p>	<p>We agree with the recommendations outlined within this recommendation. Management will review the process for categorization of costs and will work with Finance to revise as directed. Finance and Operations will review the categorization of contract expenses to ensure that financial reporting meets agency needs.</p>	8/28/2019	12/2/2019	Bus Service Delivery Manager, Chief Financial Officer, Operations Manager, Support & Analysis	<p>10/25/19 - Per Bus Service Delivery Manager</p> <ul style="list-style-type: none"> • Contract language has been drafted for Second Generation to clarify that expenses noted in the audit finding are eligible for reimbursement. • Contract language is being drafted for First Transit to clarify that expenses noted in the audit finding are eligible for reimbursement. • Moving forward, have begun to record items that were previously recorded under activity code 7000 to a different activity code that best represents the expense incurred. • Remaining deficiencies are being developed by Finance Department • Overall status—partially completed

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

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11	Invoice Support	Bus Operations	Each month, the bus contractors submit an invoice(s) and supporting documentation for the invoice(s). For each contractor, there were exceptions found with the supporting documentation provided.	Management should work with contractors to ensure appropriate support is provided with the invoices and accurately reflect the cost incurred and posted on the pay applications.	We agree with the recommendation outlined within this finding and will take the necessary steps to ensure appropriate support is provided with the invoices from the three (3) bus service providers. A revised process has already been established that provides supporting documentation verifying preventive maintenance costs with First Transit. A similar report will also be established with the other two contractors by the proposed deadline.	8/28/2019	12/2/2019	Bus Service Delivery Manager & Operations Manager, Support & Analysis	10/25/19 - Per Bus Service Delivery Manager <ul style="list-style-type: none"> • Invoice support deficiencies have been addressed with all three contractors. Sufficient backup documentation is now being provided to validate PMI expenses and State of Good Repair expenses. • Drug testing invoices for Second Generation were allowed on two occasions due to grant funding that was secured which allowed for these type of expenses to be reimbursed as part of the state funding used to pay for this service. • Staff is diligently reviewing invoices to ensure all backup documentation is included and adds up to the amounts noted on the invoice. • Overall status—partially completed
12	Federal Monitoring	Bus Operations	The three bus contracts are partially funded by federal dollars. As such, RPTA is responsible for ensuring that the contract activity and associated costs comply with federal rules and regulations. We identified three areas where federal regulations were not properly monitored.	Management should establish a reconciliation process for matching vendor reported contract payments to the RPTA payment records. Additionally, the process should include documentation of follow-up actions taken with the vendor and the City of Phoenix or Arizona Department of Transportation, as applicable.	We agree with the recommendations outlined within this recommendation. Management will take steps with the three (3) bus service contractors to ensure appropriate support is provided. Steps will also be taken with the contractors to ensure they properly report payments in the City of Phoenix DBE system. In regards to the rural route contract, there was a misunderstanding of the reporting requirements for that contractor (Ajo). They were never directed to report their DBE expenses to the DBE website. We will work with this contractor to provide access to the DBE website and make sure they report their DBE paid expenses to that site each month. Valley Metro and its vendors report payments to the City of Phoenix as required by the Federal Transit Administration. Valley Metro's reporting is based on the actual payments made to vendors. While there have been no issues with any previous FTA Triennial Review related to reporting payments, we agree that regular verification and reconciliation of payments reported by vendors would help ensure that there are no findings in the future. The Chief Procurement Officer will develop a procedure for contract administrators to reconcile vendor payments reported to	8/28/2019	12/2/2019	Bus Service Delivery Manager & Operations Manager, Support & Analysis	10/25/19 - Per Bus Service Delivery Manager <ul style="list-style-type: none"> • Second Generation has been notified they must also enter receipt of payment from Valley Metro in the State's DBE web portal. Please note that Second Generation has no other DBE requirements or goals. • All other contractors have been notified of deficiency and are complying with this requirement. Staff is monitoring the Web sites monthly to ensure accurate information is being submitted and to ensure compliance. • Moving forward, PM costs reported by the contractors are supported with proper documentation each month. • Overall status—partially completed

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

Ref #	Finding Title	Dept	Finding Description	Recommendations	Management Response	Report Date	Due Date	Responsible Party	AFS Notes
13	Contract Obligations	Bus Operations	Detailed review of the bus contractors pay applications showed payment for items that were reimbursed, but not identified as part of the contract, change order(s) or noted within the Contract Monitors files. Items reimbursed to the bus contractors included: Second Generation -DEF fluids \$6,811.93 -Software \$1,518 -Air show service \$356.64 Total Ride -DEF fluids \$2,616.42 -Midlife Rehabilitation \$267,697 -Data cable \$674.02 First Transit -Software \$4,214.40	Management should establish a process to document modifications to the contract agreed upon by both parties; file such agreements within the contract file; and, initiate a change order when the amounts are necessary.	We agree with the recommendations noted within this finding. Please note the DEF item listed in this finding was due to a regulatory change enacted on all new diesel engines built beginning in 2017. The DEF fluid is now required on all buses with diesel engines to provide an after-burn treatment of the pollutants that emit from the exhaust. In addition, the software and cable expenses that were reimbursed are equipment diagnosis licenses that are required on certain bus builds. Staff will amend each contract noted to ensure it includes these items as eligible expenses that can be reimbursed to the contractor throughout the duration of each contract.	8/28/2019	12/2/2019	Bus Service Delivery Manager	10/25/19 - Per Bus Service Delivery Manager • Contract language has been drafted for Second Generation to clarify that expenses noted in the audit finding are eligible for reimbursement. • Contract language is being drafted for First Transit to clarify that expenses noted in the audit finding are eligible for reimbursement. • Revised contract language for Second Generation has been sent to Valley Metro's Contracts Administrator and the legal department for review. • The new contract for Total Ride, effective July 1, 2019 included language that authorized reimbursement for the expenses noted in the finding. • Overall status—partially completed
14	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. GSA §301-11.303 states: "The maximum amount that you may be reimbursed under actual expense is limited to 300 percent (rounded to the next higher dollar) of the applicable maximum per diem rate." 17 of 93 travel instances were identified where the daily rate for lodging was in excess of the GSA published rate but under the 300 percent cap. The rates ranged from \$35 to over \$100 per night above the allowed GSA rate. Total spending on lodging for travel during fiscal year 2017 was \$59,551, of which a total of \$2,539 was spent in excess of GSA lodging limits (4.26%). Additionally, the Travel Authorization form states "Hotel expenses are reimbursable up to the maximum GSA hotel rate". Also, "the traveler is responsible for the difference in the rates." Evidence of reimbursement by the traveler of the amount in excess of the GSA rate did not exist. •Defines: "Agency Travel, Conference and Out-of-County Training form – The Valley Metro (Agency) form used to process all authorized and budgeted Agency travel. This form requires Division Head, Chief Financial Officer (CFO) and Chief Executive Officer (CEO) signature approval". Of the 93 forms completed, two Division Head signatures were found not to be present. •Identifies one of the responsibilities of the traveler is to "submit actual post-travel expenses with itemized receipts and the Agency Travel, Conference and Out-of-County Training form to Travel Administrator with five (5) working days after competing travel". Of the 93 forms submitted, we found 45 forms were not submitted within five working days, based upon the date of the Expense Report. Below is a table outlining the number of days, after travel was completed, the Expense form was dated: 2-5 Days6-9 Days 11-15 DaysOver 18 Days 22 forms11 forms 5 forms 7 forms •States: "The Traveler will adjust the Per Diem amount for meals provided by business host or conference	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	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.	4/6/2018	Pending Next Audit	Chief Financial Officer	No additional follow-up until next audit review.

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

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15	Travel Policy Exceptions	Finance	<p>After reviewing 93 travel requests, 87 instances were in compliance. In six instances, documentation was insufficient to determine whether costs were appropriate. The six instances were:</p> <ul style="list-style-type: none"> •One traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost comparison nor explanation was not included. Therefore evidence to verify the saving was not present. •One traveler used a more expensive vehicle option for transportation for a San Francisco hotel to the Oakland airport at the end of the conference. The cost was \$96. An explanation as to why this vehicle was selected did not exist within the travel file. •One traveler utilized the terminal parking at Phoenix Sky Harbor airport for two days. Resulting in a reimbursed expense of \$50.00 (\$25 a day) versus \$22 (\$11 a day). The Travel policy states: "economy parking should always be used". This was the travelers' first trip for Valley Metro and was unaware of the Travel policy parking requirements. •One traveler purchased the CEO a \$150 ticket for the Rail Rodeo Awards Banquet and submitted the expense. The traveler did obtain the CEO approval on her Expense form; but additional approval was not obtained from the CFO nor Board of Directors on the expense for the CEO. •On two occasions airfare was purchased at four and six days prior to departure resulting in fares of \$1,052.00 (Savannah GA) and \$1,285.20 (San Francisco). The Travel policy states: traveler(s) are to "submit the Agency Travel, Conference and Out-of-County Training Form at least 21-days in advance to travel so that the Travel Administrators can purchase travel at least 14-days prior to departure". The travel was approved, but the reasons why these purchases were made less than 14-days prior to departure was not documented within the travel file. <p>The Travel policy states: "Extenuating circumstances may arise during travel which may require unanticipated expenses. Whenever possible, approval should be received from the CEO and CFO prior to incurring the expense". Evidence to demonstrate follow-up on unusual expenses was not maintained</p>	<p>Management should require travelers acknowledge review of the current Travel policy on an annual basis. Travel Administrators should document within the travel file any unusual requests for travel expenses and receive appropriate approval for such requests prior to booking. Travelers should be required to explain any unusual expenses incurred on the Expense form prior to being approved for reimbursement.</p>	<p>Management concurs with the recommendation. Annual refresher training will be provided to ensure compliance with the Travel Policy.</p>	4/6/2018	Pending Next Audit	Chief Financial Officer	No additional follow-up until next audit review.
16	Policy Compliance – Documented Division Head Approvals Not Maintained	Finance & Procurement	<p>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.</p> <ul style="list-style-type: none"> ▣ 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 	<p>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.</p>	<p>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.</p>	2/21/2019	Pending Next Audit	Chief Financial Officer	No follow-up until next audit review.
17	Policy Compliance – Insufficient/Incomplete Documents within Cardholder Reconciliation Packets	Finance & Procurement	<p>Credit card reconciliation packets were submitted and processed without all policy required signatures or documentation.</p> <ul style="list-style-type: none"> 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 credit card transactions, totaling \$1,861, were for committee/employee meetings and events, cardholders did not maintain the approval forms in their credit card reconciliation packets. 	<p>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.</p>	<p>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</p>	2/21/2019	Pending Next Audit	Chief Financial Officer	No follow-up until next audit review.

Valley Metro Audit and Finance Subcommittee Audit Exception Log

November 2019



Overdue Items:



Ref #	Management Action	Due Date	Status/ Responsible Party	Estimated Date
1	IT Policy Revision – Asset Management	3/31/2018	In Policy Review Process	12/31/2019
2	Credit Card Policy Update – Training and monitoring	3/31/2019	In Policy Review Process	Coming Weeks
3	Credit Card Policy Update – Process update	3/31/2019	In Policy Review Process	Coming Weeks
4	Credit Card Policy Update – Transaction monitoring	3/31/2019	In Policy Review Process	Coming Weeks
5	Purchasing Files Updated – Close-out process	8/31/2019	Purchasing Manager	11/15/2019
6	DBE Payments – Reconcile	8/31/2019	CFO	Not provided
7	Purchasing File – Periodic Review	8/31/2019	Purchasing Manager	Not provided



Upcoming Due Dates:

Ref #	Management Action	Due Date	Status/ Responsible Party	Estimated Date
8	Second Generation Non-compliance	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
9	Pay Applications Approval & Timing	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
10	Managing Bus Contract Costs	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
11	Bus Contract Invoice Support	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
12	Bus Contract Federal Monitoring	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
13	Bus Contract Obligations	12/2/2019	In Process – Bus Service Delivery Manager	12/2/2019
14	Travel Policy Clarification	-	Pending Review by Audit	Next Travel Audit
15	Travel Policy Exceptions	-	Pending Review by Audit	Next Travel Audit
16	Policy Compliance Documented Approves Not Maintained	-	Pending Review by Audit	Next Travel Audit
17	Policy Compliance, Incomplete Documents in Reconciliation	-	Pending Review by Audit	Next Travel Audit



Reported as Remediated this Month:

Audit	# of Recs	Management Action
Travel	6	10/29/2019 Travel Policy updated 11/01/2019 Staff notified of changes TBD Training
Bus Service Contract Audit	2	Per Bus Service Delivery Manager, <ul style="list-style-type: none">• A letter sent to each contractor• Revised Contract Monitoring Forms and have used since July 2019• A revised process has been established and implemented• Proper back-up documentation has been obtained
Contract Management Audit	3	Per the CFO, <ul style="list-style-type: none">• Finance staff are reviewing coding more thoroughly to ensure accuracy in the general ledger.• Contracts Administrators are reviewing the reports weekly and providing updated information as needed.• Procurement Managers are reviewing contract files for completeness and that the files are stored properly to ensure retention guidelines are met.



Information Summary

DATE

November 7, 2019

AGENDA ITEM 6

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. Secondary Storage Expansion Authorization

Purchase NAS equipment in the amount of \$83,300.

B. Business Analyst Contractor Position

Use funds budgeted in FY 2020 to purchase Business Analyst services in an amount not to exceed \$248,800.

C. Market Research Services Contract Award

Execute a contract with Westgroup Research, Inc. for market research services for a five-year contract term for an amount not to exceed \$587,617.

D. Arizona Governmental Training Services Contract Award

Execute a 3-year contract for onsite course facilitation and development with Arizona Governmental Training Services (AGTS) not to exceed \$141,665 for the period of December 1, 2019 to December 1, 2022.

E. Light Rail Vehicle (LRV) Gearbox/Axle Overhaul Contract Award

Execute a contract with Penn Machine Company, LLC to complete a gearbox/axle overall program for the light rail vehicles in an amount not to exceed \$3,148,000.

RECOMMENDATION

For information only.

CONTACT

Paul Hodgins

Chief Financial Officer

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602-262-7433



ATTACHMENT

Information Summaries for items listed above



Information Summary

DATE

November 7, 2019

AGENDA ITEM 6A

SUBJECT

Secondary Storage Expansion Authorization

PURPOSE

To request authorization for the Chief Executive Officer (CEO) to expend funds budgeted in FY 2020 to purchase Network Attached Storage (NAS) equipment in amount of \$83,300.

BACKGROUND/DISCUSSION/CONSIDERATION

To reduce costs while maintaining performance, Valley Metro's Information Technology (IT) department uses a three-tier data storage system:

1. For mission critical, heavy-use systems, and data where responsiveness is an important factor, a Storage Area Network (SAN)¹ is used.
2. For regularly used systems and data where responsiveness is less of a factor², a less expensive and correspondingly lower performance NAS³ is utilized.
3. For long term retention of infrequently accessed data, a low-cost, cloud-based 'cold storage' system⁴ is used.

The IT department seeks authorization to expend funds included in the FY 2020 budget to expand our second-tier NAS. Utilization of the second tier NAS is currently at 63%. In the months to come, storage needs are forecasted to grow due to increased video retention for the new Siemens light rail vehicles⁵; the ramping-up of current capital projects; and improvements in the Information Security program resulting in the monitoring of more devices, the retention of more system logs, and the need to improve business continuity through more comprehensive data back-ups. Addressing those needs requires obtaining an additional storage module for the existing NAS device and purchasing a second NAS device with all module bays filled.

The NAS equipment will be purchased from Transource Services Corp. utilizing a cooperative contract awarded by the Arizona State Procurement Office. Purchasing under a cooperative contract saves Valley Metro resources due to the simplified

¹ Valley Metro uses Nimble devices from Hewlett Packard Enterprise (HPE) at \$1,278 per TB

² For example, vehicle incident videos, certain modelling data, security logs, etc.

³ Valley Metro uses Cohesity NAS, an HPE trusted partner, at \$410 per TB

⁴ Valley Metro uses Microsoft's Azure Blob Storage at \$176 per TB

⁵ The new Siemens LRVs have more and higher-definition cameras resulting in the need to retain more and larger video files.



acquisition process, the cooperative purchasing power of multiple agencies, and terms and conditions that have previously been negotiated.

COST AND BUDGET

The RPTA portion is \$41,650 and the VMR portion is \$41,650. All costs in FY 2020 are included in the adopted RPTA & VMR FY 2020 Operating and Capital Budget.

Purchase	Vendor	Contract	Cost
Second NAS Unit	Transource Services Corp.	State Contract: ADSP016-098200	\$67,100
NAS Expansion Tray	Transource Services Corp.	State Contract: ADSP016-098200	\$16,200
Subtotal			\$83,300

COMMITTEE PROCESS

RTAG: October 15, 2019 for information
 TMC/RMC: November 6, 2019 for action
 Boards of Directors: December 5, 2019 for action

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

RECOMMENDATION

Staff recommends that the TMC/RMC forward to the Boards of Directors authorization for the CEO to purchase NAS equipment in the amount of \$83,300.

CONTACT

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

ATTACHMENT

None



Information Summary

DATE

November 7, 2019

AGENDA ITEM 6B**SUBJECT**

Business Analyst Contractor Authorization

PURPOSE

To request authorization for the Chief Executive Officer (CEO) to use funds budgeted in FY 2020 to purchase Business Analyst services in an amount not to exceed \$248,800.

BACKGROUND/DISCUSSION/CONSIDERATION

Business Analysts are professionals trained to engage with subject matter experts to assess and document business processes to determine the functional requirements for IT systems that support those processes. These requirements become the scope of work for any IT system procurement and serve as the criteria for evaluating the fit of systems proposed by vendors or the design requirements for in-house development projects. As a result, the Project Management Institute has found that poor requirements are the leading cause of project failure and directly correlate with project cost over-runs. Therefore, it is critical for Valley Metro to establish accurate requirement for all projects.

Valley Metro has no Business Analysts on staff. Over the next nine months, the agency will be making major changes to or replacing a number of IT systems including a security incident management system, a public arts maintenance system, a driver infraction tracking system, it's marketing project management system, and the Paratransit eligibility and trip management system. As a result, staff is requesting authorization to expend funds budgeted in FY 2020 to employ two Business Analyst contractors through the remainder of FY 2020 to ensure accurate requirement for these projects.

The Business Analyst contractors will be procured from Acro Service Corporation utilizing a cooperative contract awarded by Maricopa County through the Strategic Alliance for Volume Expenditures (SAVE) and Knowledge Services utilizing a cooperative contract awarded by the Arizona State Procurement Office. Purchasing under a cooperative contract saves Valley Metro resources due to the simplified acquisition process, the cooperative purchasing power of multiple agencies, and the use of terms and conditions that have previously been negotiated.

COST AND BUDGET

The RPTA portion is \$124,400 and the VMR portion is \$124,400. All costs in FY 2020 are included in the adopted RPTA & VMR FY 2020 Operating and Capital Budget. The



FY 2021 budget process will determine whether an on-going need for Business Analysts exists. If it does, both FY 2020 and FY 2021 costs could be reduced by converting a contractor to a full-time position.

Purchase	Vendor	Contract	Cost ¹
Business Analyst #1	Acro Service Corporation	SAVE (Maricopa): 2017139	\$118,400
Business Analyst #2	Knowledge Services	State Contract: ADSP017-174599	\$127,400
FY 2020 Total			\$248,200

COMMITTEE PROCESS

RTAG: October 15, 2019 for information

TMC/RMC: November 6, 2019 for action

Boards of Directors: December 5, 2019 for action

STRATEGIC PLAN ALIGNMENT

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

- Goal 1: Increase customer focus
- Goal 2: Advance performance based operation

RECOMMENDATION

Staff recommends that the TMC/RMC forward to the Boards of Directors authorization for the CEO to use funds budgeted in FY 2020 to purchase Business Analyst services in an amount not to exceed \$248,800.

CONTACT

Phil Ozlin

Manager, Information Technology

602-495-8253

pozlin@valleymetro.org

ATTACHMENT

None

¹ Cost based on 1600 work-hours in FY 2020 per Analyst at a contract rate of \$74 and \$79.62 per hour respectively.



Information Summary

DATE

November 7, 2019

AGENDA ITEM 6C**SUBJECT**

Market Research Services Contract Award

PURPOSE

To request authorization for the Chief Executive Officer (CEO) to execute a 5-year joint RPTA and Valley Metro Rail contract with Westgroup Research, Inc. for market research services in an amount not to exceed \$587,617.

BACKGROUND | DISCUSSION | CONSIDERATION

In 2014, a five-year contract was awarded to Westgroup Research, Inc., for the agency’s market research needs. Over the past five years, Valley Metro has utilized this contract to conduct a range of surveys including biannual Rider Satisfaction surveys, biannual Public Perception surveys, annual Transportation Demand Management (TDM) surveys, ASU student intercept surveys, MOD grant research project, a transit book rider feedback survey, and focus groups on Valley Metro’s website. The data captured by these surveys shapes Valley Metro’s marketing and outreach efforts and helps Valley Metro and the Board make informed decisions on issues and opportunities for improvement.

The scope of work for the new contract will consist of ongoing rider satisfaction intercept surveys, public perception telephone surveys, TDM telephone surveys, and a general category called “ad-hoc surveys” in order to meet our future market research needs in the areas of focus groups, intercept surveys, and telephone surveys. The Scope of Work also includes cooperative language for potential member city use.

Valley Metro staff issued a federally compliant competitive solicitation for market research services for a five-year contract term. On June 28, 2019, Valley Metro solicited proposals from qualified firms for market research services.

The solicitation included the following technical and price evaluation criteria:

Evaluation Criteria	
Understanding/Approach to the Scope of Services	250 points
Qualifications & Experience of the Firm	175 points
Qualifications & Experience of Assigned Personnel	175 points
Pricing	400 points
TOTAL POINTS AVAILABLE	1,000 Points



On July 30, 2019, Valley Metro received proposals from the following Proposers:

- OH Partners
- Westgroup Research, Inc.
- Moses, Inc.

An evaluation committee consisting of Valley Metro, City of Phoenix, and City of Chandler staff were appointed to evaluate proposals in accordance with the evaluation criteria listed above. Westgroup Research provided the highest ranked technical score based on their understanding and approach to qualitative research methods and their experience with market research in the transportation industry. The evaluation committee arrived at its contract award recommendation using the best value selection process that allows for tradeoffs and the analysis of overall cost and value to the Agency. Under best value, the evaluation committee reached a consensus to award to the highest total points, Westgroup Research. The proposers in their ranked order is listed below:

Proposers by Points and Rank Order			
Proposer	Technical Points	Price Points	Total Points
Westgroup Research, Inc	563	295	858
Moses Inc	456	400	856
OH Partners	498	330	828

An independent cost estimate was completed and the proposed prices have been deemed fair and reasonable.

COST AND BUDGET The estimated \$118,225 for first year costs are included in the FY 2020 Valley Metro RPTA and VMR budgets. All future costs will be determined by the adopted annual Valley Metro RPTA and VMR budgets. The amounts below and the total authorization are estimates of the potential utilization of this contract not a commitment to future spending. The overall five-year value of the contract shall not exceed \$587,617. The amount is broken down below:

Description	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Total
Rider Satisfaction Survey	\$33,975		\$35,348		\$36,775	\$106,098
TDM Survey	\$34,250	\$34,935	\$35,634	\$36,347	\$37,075	\$178,241
Public Perception Survey		\$26,112		\$27,166		\$53,278
Ad-Hoc Surveys	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$250,000
Totals	\$118,225	\$111,047	\$120,982	\$113,513	\$123,850	\$587,617



This pricing represents a 6% reduction in total anticipated costs as compared the contract awarded in 2014ⁱ.

The source of funding is a combination of Prop 400 (PTF) and Federal funds.

STRATEGIC PLAN ALIGNMENT

FY 2016 – 2020:

- Goal 1: Increase customer focus
- Goal 3: Grow transit ridership.
- Goal 5: Advance the value of transit

COMMITTEE PROCESS

RTAG: October 15, 2019 for information

TMC/RMC: November 6, 2019 for action

Boards of Directors: December 5, 2019 for action

RECOMMENDATION

Staff recommends that the TMC/RMC forward to Boards of Directors authorization for the CEO to execute a contract with Westgroup Research, Inc. for market research services for a five-year contract term for an amount not to exceed \$587,617.

CONTACT

Jim Hillyard
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ATTACHMENT

None

ⁱ For comparison, the pricing of the FY 2014 – FY 2019 contract was as follows:

Description	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total
Satisfaction Survey	\$36,475	\$37,570	\$38,700	\$39,860	\$41,050	\$193,655
TDM Survey	\$33,925	\$34,950	\$36,000	\$37,100	\$38,225	\$180,200
Ad-hoc surveys	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$250,000
Total	\$120,400	\$122,520	\$124,700	\$126,960	\$129,275	\$623,855



Information Summary

DATE

November 7, 2019

AGENDA ITEM 6D

SUBJECT

Arizona Governmental Training Services (AGTS) Contract Award

PURPOSE

To request authorization for the Chief Executive Officer (CEO) to execute a 3-year contract for onsite course facilitation and development services with Arizona Governmental Training Services (AGTS), not to exceed \$141,665 for the period of December 1, 2019 to December 1, 2022.

BACKGROUND/DISCUSSION/CONSIDERATION

Since implementing an on-site professional development function in 2018, Valley Metro has partnered with several training vendors including AGTS to facilitate a variety of onsite courses available to employees at all levels in the organization. In many cases, the course content aligns with our needs; however, there are times when the Learning & Development Manager also works with vendor facilitators to customize courses to meet Valley Metro's more specific requirements, especially when a course is targeted for specific work units. For FY20, we are partnering with AGTS to facilitate 24 sessions covering 15 topics, seven of which will be customized. Approximately 400 learning seats will be available to staff across the organization at an average investment of \$125 per learner. Staff would like to move from individual purchase orders to a standing contract with AGTS to reduce the administrative effort associated with frequent purchase orders.

The estimated value of the contract is based on the prior year expenditures and anticipated expenditures through FY23.

Fiscal Year	Anticipated Spend
2020	\$29,165
2021	\$45,000
2022	\$45,000
2023	\$22,500
Total	\$141,665

AGTS services will be procured directly using a cooperative contract awarded by the Arizona State Procurement Office. Purchasing under a cooperative contract saves Valley Metro resources due to the simplified acquisition process, cooperative purchasing power of multiple agencies, and terms and conditions that have previously been negotiated.



COST AND BUDGET

The expected spend for AGTS onsite course facilitation and development services over the next 3 years is \$141,665. For Fiscal Year 2020, the RPTA contract obligation is \$50,000 which is fully funded within the Valley Metro Operating and Capital Budget. Contract Obligations beyond FY20 are incorporated into the Valley Metro RPTA Five Year Operating Forecast and Capital Program FY2020 thru FY2024. The source of funding is Prop 400.

Purchase	Vendor	Contract	Cost
Facilitation and Development Services	AGTS	State Contract: ADSP018-210226	\$141,665
Total			\$141,665

COMMITTEE PROCESS

RTAG: October 15, 2019 for information
TMC/RMC: November 6, 2019 for action
Boards of Directors: December 5, 2019 for action

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

RECOMMENDATION

Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute a 3-year contract for onsite course facilitation and development with Arizona Governmental Training Services (AGTS) not to exceed \$141,665 for the period of December 1, 2019 to December 1, 2022.

CONTACT

Penny Lynch
Director, Human Resources
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plynch@valleymetro.org

ATTACHMENT

None



Information Summary

DATE

November 7, 2019

AGENDA ITEM 6E

SUBJECT

Light Rail Vehicle (LRV) Gearbox/Axle Overhaul Contract Award

PURPOSE

To request authorization for the Chief Executive Officer (CEO) to execute a contract with Penn Machine Company, LLC to complete a gearbox/axle overall program for the light rail vehicles in an amount not to exceed \$2,886,000 and to establish a contract change contingency of \$262,000, for a total of \$3,148,000.

BACKGROUND | DISCUSSION | CONSIDERATION

In November 2016, the Board approved the CEO to execute a contract with UTCRAS, Inc. to complete a gearbox/axle overall program for the light rail vehicles in an amount not to exceed \$1,631,106. Since that time, staff has worked closely with the contractor in performing the overhauls to Valley Metro's quality standards. Unfortunately, the contractor has continuously provided substandard workmanship leading to poor quality overhauls. Valley Metro has spent many hours to repair the defective units that were received from the contractor and adjusted schedules to accommodate the lack of available gearbox and axle assemblies for use. The substandard gearbox and axle assemblies received from the contractor has come with defective parts that were cracked, deformed, with poor installation, and overall low quality workmanship.

After over two years of working with the contractor attempting to improve the quality of overhauls, it has been unsuccessful. Therefore, Valley Metro has terminated the contract with UTCRAS, Inc.

In October 2019, Valley Metro issued a public notice to execute a sole source contract with the Original Equipment Manufacturers (OEM) of the gearbox and axle. Valley Metro is confident that Penn Machine is able to perform the overhauls to the OEM standards. Therefore, Valley Metro is requesting authorization to execute a contract with Penn Machine Company, LLC to perform the gearbox/axle overhauls.

The contractor shall provide all necessary parts, materials and labor to complete the gearbox/axle overhaul program for 50 LRVs. The cost includes overhauling and testing the equipment to OEM standards. Valley Metro LRV maintenance personnel will remove the gearbox/axle assemblies from the vehicles and ship to the contractor. The contractor will overhaul the equipment and return to the Valley Metro LRV Maintenance Facility. The purpose of the overhaul is to keep the equipment in a state of good repair and to maintain safe and reliable operation.



COST AND BUDGET

The gearbox/axle assembly overhaul contract for approval with Penn Machine Company, LLC is in an amount not to exceed \$2,886,000 and to establish a contract change contingency of \$262,000 for unanticipated repairs. During the overhaul process, there may be repairs that are needed once the gearbox/axle assemblies are broken down. These unforeseen repairs are in the scope of work and will be handled on a case by case basis. The cost for the gearbox/axle overall program for the light rail vehicles is included in the Valley Metro Rail Adopted FY 2020 Operating and Capital Budget. Contract obligations beyond FY2020 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2020 thru FY2024).

The source of funding is Prop 400 and federal Section 5337.

STRATEGIC PLAN ALIGNMENT

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

- Goal 2: Advance performance based operation

COMMITTEE PROCESS

RTAG: October 15, 2019 for information

RMC: November 6, 2019 for action

Board of Directors: December 5, 2019 for action

RECOMMENDATION

Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a contract with Penn Machine Company, LLC to complete a gearbox/axle overall program for the light rail vehicles in an amount not to exceed \$3,148,000.

CONTACT

Ray Abraham

Chief Operations Officer

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ATTACHMENT

None



Information Summary

DATE

November 7, 2019

AGENDA ITEM 7**SUBJECT**

Executive Session

PURPOSE

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

The agenda for Executive Session involves discussion and consultation regarding performance evaluation of the Chief Financial Officer and Director, Internal Audit. Discussion and consultation may be both with and without the Chief Financial Officer and Director, Internal Audit in attendance.

BACKGROUND | DISCUSSION | CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

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

CONTACT

Michael Minnaugh

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ATTACHMENT

None



Information Summary

DATE

November 7, 2019

AGENDA ITEM 8**SUBJECT**

Executive Session Action Items

PURPOSE

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

BACKGROUND | DISCUSSION | CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

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

CONTACT

Michael Minnaugh

General Counsel

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ATTACHMENT

None



Information Summary

DATE

November 7, 2019

AGENDA ITEM 9**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
Hardware/Software Management	December 2019/January 2020
External Audits:	
o City of Phoenix Fare Revenue	December 2019/January 2020
o City of Phoenix Contract Management Risk Assessment	January/February 2020
o Maricopa County Paratransit	November/December 2019
Present Comprehensive Annual Financial Reports for acceptance	February 2020
Key Budget Assumptions update	February 2020
Professional Development Audit	February 2020
Enterprise Resource Planning contract award	February 2020
Present Annual Budgets for information	March 2020
Contract Management (Specific) Paratransit	March 2020
Audit Plan Areas of Concern for future Audit information	March/April 2020
Present 5-Year Plans	April 2020
Agency Credit card Audit	April 2020
Travel Audit	April 2020
Draft Audit Plan for information	April/May 2020
Present Annual Budgets and 5-Year Plans for Action	May 2020
Proposed Audit Plan for FY21	May/June 2020

CONTACT

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ATTACHMENT

None