



MEETING OF THE

Audit and Finance Subcommittee

Date:

September 13, 2018

Starting Time

12:00 p.m.

Location:

Valley Metro

Lake Mead Conference Room (10B)

101 N. 1st Avenue, 10th Floor

Phoenix

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



Agenda

September 7, 2018

Audit and Finance Subcommittee

Thursday, September 13, 2018

10th Floor, Lake Mead Conference Room (10B)
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Action Recommended

1. Public Comment

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.

1. For information

2. Minutes

Minutes from the June 14, 2018 Audit and Finance Subcommittee meeting presented for approval.

2. For action

3. Executive Session

The Audit and Finance Subcommittee may vote to enter Executive Session for discussion or consultation and for legal advice with the attorney or attorneys of the public body and to consider its position and instruct its attorneys regarding the public body's 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.

3. For action

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

4. Executive Session Action Items

4. For action

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

5. Internal Audit Update

5. For information

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

6. Internal Audit Exceptions Update

6. For information

Mary Modelski, Manager, Internal Audit will provide an update to the Audit and Finance Subcommittee on the progress of audit exceptions.

7. Future Agenda Items

7. For information

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

8. Next Meeting

8. For information

The next meeting of the Audit and Finance Subcommittee is **October 11, 2018 at 12:00 p.m.**

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



Information Summary

DATE

September 7, 2018

AGENDA ITEM 1**SUBJECT**

Items for Citizens Present

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

September 7, 2018

AGENDA ITEM 2

Audit and Finance Subcommittee
Thursday, June 14, 2018
Lake Mead Conference Room
101 N. 1st Avenue, 10th Floor
12:00 p.m.

Meeting Participants

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

Chair Orsborn called the meeting to order at 12:01 p.m.

1. Public Comment

None.

2. Minutes

Minutes from the April 12, 2018, Audit and Finance Subcommittee meeting presented for approval.

IT WAS MOVED BY MAYOR WILLIAMS, SECONDED BY VICE MAYOR ARREDONDO-SAVAGE AND UNANIMOUSLY CARRIED TO APPROVE THE APRIL 12, 2018 AFS MINUTES.

3. RPTA Fiscal Year 2019 (FY19) **Proposed** Operating and Capital Budget (correction of wording published on original agenda)

Paul Hodgins, Chief Financial Officer, provided an overview and recommended that AFS forward to the Board of Directors approval of the Valley Metro RPTA FY19 Proposed Operating and Capital Budget and acceptance of the Five-Year Operating Forecast and Capital Program (FY 2019 thru 2023).

Mr. Hodgins provided changes to the RPTA FY19 Proposed Operating and Capital Budget that was presented in April. Those changes included:



- **Operating Budget**
 - Reduced Regional Services expenses by \$0.9M
- **Capital Budget**
 - Reduced Rail Program Disbursements (no net change)

IT WAS MOVED BY MAYOR WILLIAMS, SECONDED BY VICE MAYOR ARREDONDO-SAVAGE AND UNANIMOUSLY CARRIED TO FORWARD TO THE BOARD OF DIRECTORS TO APPROVE THE RPTA FISCAL YEAR 2019 (FY19) PRELIMINARY OPERATING AND CAPITAL BUDGET AND ACCEPTANCE OF THE FIVE-YEAR OPERATING FORECAST AND CAPITAL PROGRAM (FY 2019 THRU 2023).

4. Valley Metro Rail Fiscal Year 2019 (FY19) **Proposed** Operating and Capital Budget (correction of wording published on original agenda)

Paul Hodgins, Chief Financial Officer, provided an overview and recommended that AFS forward to the Board of Directors approval of the Valley Metro RPTA FY19 Proposed Operating and Capital Budget and acceptance of the Five-Year Operating Forecast and Capital Program (FY 2019 thru 2023).

Mr. Hodgins provided changes to the RPTA FY19 Preliminary Operating and Capital Budget that was presented in April. Those changes included:

- **Operating Budget**
 - Reduction in local security costs for Mesa

Mr. Hodgins stated the reason for the reduction is because Mesa has agreed to incur the costs for security.

- **Capital Budget**
 - No change

IT WAS MOVED BY VICE MAYOR ARREDONDO-SAVAGE, SECONDED BY MAYOR WILLIAMS AND UNANIMOUSLY CARRIED TO FORWARD TO THE BOARD OF DIRECTORS TO APPROVE THE VALLEY METRO RAIL FISCAL YEAR 2019 (FY19) PRELIMINARY OPERATING AND CAPITAL BUDGET AND ACCEPTANCE OF THE FIVE-YEAR OPERATING FORECAST AND CAPITAL PROGRAM (FY 2019 THRU 2023).



5. Fiscal Year 18/19 Audit Plan for Approval

Mary Modelski, Manager, Internal Audit, provided an overview of the FY18/19 Audit Plan and requested authorization to execute the proposed FY18/19 Audit Plan.

She briefly discussed International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 2010 which included:

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

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

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

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

The proposed Audit Plan includes:

- Credit Card Transactions
- New employee relocation expenses
- Travel and Entertainment expenses
- Contract Management
- ERP Implementation
- External Audit(s)

Vice Mayor Arredondo-Savage requested Ms. Modelski follow up on zero-based budget audit of FTEs within Valley Metro. Ms. Modelski said she would bring this item forward.

IT WAS MOVED BY VICE MAYOR ARREDONDO-SAVAGE, SECONDED BY MAYOR WILLIAMS AND UNANIMOUSLY CARRIED TO AUTHORIZE THE MANAGER, INTERNAL AUDIT TO EXECUTE THE PROPOSED FY18/19 AUDIT PLAN.



6. Internal Audit Update

Ms. Modelski provided an update of the actions taken to continue to build Internal Audit.

Ms. Modelski said that there is a lot of room for improvement with risk assessment even with the limited resources.

Vice Mayor Arredondo-Savage asked about audits in various departments. She suggested auditing the 12 staff positions that were added to the budget to determine what they do and how much time they contribute to the projects they are assigned.

The items discussed were:

Policies:

- Ethics – General Counsel is updating based upon comments received from vetting the draft with internal managers.

Mayor Williams expressed concern of the time the AFS has been waiting for an update on the Ethics Policy.

Mike Minnaugh, General Counsel, explained that the policy is in the process of being evaluated to review comments and feedback from various Valley Metro department managers, the CEO and Internal Audit Manager to determine if the comments and feedback are appropriate to incorporate them into the final draft. He said the policy will be completed within the next two weeks to give the CEO time to do a final review.

Mayor Williams requested the AFS receive a copy of the final draft.

Vice Mayor Arredondo-Savage asked for General Counsel to provide information of the background information as to how the final draft was compiled. Mr. Minnaugh said that completion would then be extended to give the AFS time to review the final draft. Vice Mayor Arredondo-Savage requested the policy be completed within three weeks including the information she asked to be provided from General Counsel.

- Procurement Policy – provided comments to Chief Procurement Officer.

Ms. Modelski said that the Procurement Policy was given to her and she provided her comments to the Chief Procurement Officer.

Mr. Minnaugh provided an update on the Procurement Policy. He said that there were two procurement manuals, one for RPTA and the other for VMR and were utilized depending on the type of solicitation. Through a joint collaborative effort among the Legal office and Procurement and Finance Divisions, these two manuals have been combined. He added that a Chief Procurement Officer was hired and this is one of his primary objectives along with working with the Finance Division to combine the two manuals. A solid product has been produced and was forwarded to the Internal Audit Manager. He said that the manual is two weeks away from being finalized.



Mr. Hodgins added that as of June 1, 2018 the Procurement staff now reports to the Finance Department. The Procurement Policy will be finalized by June 30, 2018.

Ms. Modelski also included an update of audit items in progress.

Work in progress:

- COP – Exit conference held on 6/4/18. Management is working on responses for the three findings. Anticipating receipt of management responses on 6/18/18 (correction to date of 6/4/18 published on original presentation) to forward to COP. Councilmember Hall asked Ms. Modelski if she was reviewing the audit exceptions follow up. Ms. Modelski said that she is and that this COP audit will be included in the exceptions log and will provide more detail in the next agenda item.
- Relocation audit – Followed up with Tempe's City Auditor on availability to complete audit. Awaiting response.
- Non-contract procurement audit – currently underway. The audit focuses upon purchases made without an RFP/RFQ/RFI. Ms. Modelski said that she will have a final report to the AFS by September 2018.
- Annual audit plan – Compiled recommended items to audit based upon feedback received from Valley Metro leadership, select Transit Directors and AFS members.
- Audit exceptions – Following up with management on the remediation status of previously reported items. AFS previously request an update on what is happening with deficiencies. Ms. Modelski said that she included a 16 page log of the deficiencies which will be discussed on agenda item number seven.
- Human Resources – Recruiting candidates for Internal Audit position.

Annual Risk Assessment:

- Publish FY19 Audit Plan on Internet IA webpage – June

7. Audit Exceptions Log

Ms. Modelski provided a brief explanation of what the log detailed in relation to the deficiencies and the committed response from management. She said that items on pages one through nine are open. She said management is given 30 days after their committed due date to finalize anything. The first seven pages are those items that are past due as of March 31, 2018 or April 30, 2018. Ms. Modelski said she did follow-up with management asking for their responses and those are included in the exceptions log. The items starting at page 11 and forward are due June 30, 2018.

Mayor Williams asked if there was a penalty if management ever follows through.

Ms. Modelski said not to her knowledge.

Councilmember Hall said to Ms. Modelski that she gives 30 days for a response to each item. However, on items one and two she's given 52 days and on items three, four, five, six, seven, and eight she's given 82 days and management still hasn't complied. He



strongly expressed his concern of management not complying within the committed due dates. He asked what the problem of reacting to an audit is and coming up with plan to fix after 52 and 82 days. He said somebody is going to have to explain why this is going on.

Vice Mayor Arredondo-Savage said that maybe it is more about where is the accountability piece to ensure that there is follow up and that there is obviously nothing if you don't. She said it seems like there is room for improvement to make assurances that the window that is given to comply needs to be followed through and if not, there needs to be some consequences.

Ms. Modelski said that the dates that were given were management's dates they provided as to when they are defining when they will have it done. She said following through with them and asking where are the responses, she doesn't have the authority to instruct management that they will be penalized for this.

Councilmember Hall said that someone needs to be accountable. So if this person, R. Antoniak, can't do it then it needs to be elevated to Scott Smith. If Scott Smith can't do it, then it needs to be elevated to the Board. Then, we as the Board, can discuss it with Scott. Because there is no excuse for this. You're going to keep on finding deficiencies and we're going to have 30 pages of exceptions where it hasn't been tied off and complied with. It's very upsetting to me that this hasn't been reacted to. He said that he would like an explanation from Scott Smith or Antoniak as to how they're going to get this thing done and to this committee.

Vice Mayor Arredondo-Savage suggested that in addition to Councilmember Hall's question, that there be a plan, policy or practice that comes forward to the AFS to ensure that we avoid this in the future.

Councilmember Hall said that he is ok with Vice Mayor Arredondo-Savage's suggestion. There has to be some accountability.

Vice Mayor Arredondo-Savage said that Ms. Modelski needs some more resources.

Mayor Williams asked Mr. Minnaugh if he could provide a draft and discuss with Scott and have a recommendation for AFS soon.

Mr. Minnaugh said that he would meet with Mr. Smith, as some of the other Valley Metro staff here surely will, to discuss this item and is certain that Mr. Smith will be able to present a plan that resonates well with the group.

Mayor Williams asked that Mr. Minnaugh remind Mr. Smith that he is on a schedule.

Vice Mayor suggested that Mr. Smith follow up with at least an email, letting us know whether he has any information and what his thought process is in moving forward and when we could expect to see the confirmed recommendation.

Mr. Minnaugh said that he will share the concerns and suggest a path to get to where we need to be moving forward.



Mayor Williams said that she thinks right now that it's important for that path to report to the Board.

Councilmember Hall said that the Board knows that we brought in Ms. Modelski because we needed an internal audit feature that was for us and for the outside world to know that we are concerned about the financial goings on in Valley Metro. If we put her in a position where she isn't reacted to findings, it's like we're undercutting her importance. It has to be throughout the whole organization. Ms. Modelski's job is important and she is helping us to be a better financially health organization and we support her.

Vice Mayor Peterson said that she agrees with Councilmember Hall. She thinks Ms. Modelski is doing a great job despite the obstacles she had along the way, and that the hiring situation (of Ms. Modelski's staff) is a crazy story of its own but she does agree with what Councilmember Hall said. She said let's move forward with what the AFS has been talking about.

Ms. Modelski said that she will continue to provide an update like this (audit exception log) on a monthly basis, if the AFS would like, so that they can see the aging.

The AFS said that they would like a monthly update on the audit exceptions.

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

Mr. Hodgins provided an update on upcoming intergovernmental agreements, contract awards, amendments and change orders that included the following items:

- Change Order for Compressed Natural Gas (CNG) Facility Maintenance

Mr. Hodgins explained that this is for the Mesa Bus Operations Maintenance Facility.

- Transit Book Printing Services Contract Award

Mr. Hodgins said we only have one bid because there is a shrinking pool of printing services vendors.

Councilmember Hall asked why is that and why is printing so tricky.

Mr. Hodgins explained that it's not that the printing is tricky, it's that there is a shrinking pool of vendors because most vendors are going digital.

Mayor Williams asked if there is a substantial cost increase from last contract.

Mr. Hodgins said he didn't think so. He said the cost in the first year is fairly consistent with what we are paying now.

Vice Mayor Arredondo-Savage suggested that a cost comparison from year to year be included.

Mr. Hodgins said that we can include that comparison next week at the Board meeting.



- Paratransit Eligibility and Fixed-Route Travel Training Services

Mr. Hodgins briefly explained the services that Medical Transportation Management (MTM) will provide.

- Norwest Phase II Light Rail Design Extension Design Contract Award

Mr. Hodgins provided a brief overview of the contract award to Jacobs Engineering, Inc. for the design of Northwest Phase II Light Rail Extension project.

Councilmember Hall asked what is included in the design.

Mr. Hodgins said that for this particular project it is the track work, the overhead lines, it's the bridge over Interstate 17 and the elevated transit station at Metrocenter. Even though it is 1.6 miles there are some significant structures involved.

9. Future Agenda Items

Chair Orsborn mentioned that it is performance evaluation time and since the Chief Financial Officer and the Manager, Internal Audit report to the Audit and FS, they will be conducting performance evaluations.

10. Next Meeting

The next meeting of the Audit and Finance Subcommittee is August 9, 2018 at 12:00p.m.

With no further discussion, the meeting adjourned at 12:57 p.m.



Information Summary

DATE

September 7, 2018

AGENDA ITEM 3**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 Manager, Internal Audit. Discussion and consultation may be both with and without the Chief Financial Officer and Manager, 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

General Counsel

602-262-7433

mminnaugh@valleymetro.org

ATTACHMENT

None



Information Summary

DATE

September 7, 2018

AGENDA ITEM 4**SUBJECT**

Executive Session Action Items

PURPOSE

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

BACKGROUND | DISCUSSION | CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

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

CONTACT

Michael Minnaugh

General Counsel

602-262-7433

mminnaugh@valleymetro.org

ATTACHMENT

None



Information Summary

DATE

September 7, 2018

AGENDA ITEM 5**SUBJECT**

Internal Audit Update

PURPOSE

To update the Audit and Finance Subcommittee on actions taken to continue to build Internal Audit.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

Item presented for information only.

CONTACT

Mary Modelski

Internal Audit Manager

mmodelski@valleymetro.org

602-262-7433

ATTACHMENT

None

Valley Metro

Audit and Finance Subcommittee

Internal Audit Update

September 2018



Update: Policies:

- Ethics – Awaiting General Counsel roll-out of the policy.
- Procurement Policy – Submitted to City of Phoenix on 7/2/18. COP rejected manual for two issues. Chief Procurement Officer/Chief Financial Officer working to provide additional procedures to address issues.

Work in progress:

- COP: Purchasing Card audit – Report issued 6/20/18. Awaiting completion of managements remediation efforts – due 9/14/18.
- Relocation audit – Tempe's City Auditor is vetting the report with VM management.
- Non-contract procurement audit – Finished testing and presented management with issues for response.
- Full-time employee additions audit – Awaiting additional backup for justification of numbers from management.
- Contract management audit – Began collecting preliminary information so we can kick-off an audit after selecting specific contracts.
- ERP Implementation audit – Began planning for kick-off of Human Resource audit by collecting best practices from Project Management Institute (PMI).
- Credit card audit – Began to review credit card information since the last audit in 2017.
- Travel and entertainment audit – Began to review credit card information since the last audit in 2017.
- Audit exceptions – Current status of deficiencies under a separate attachment.
- Human Resources – Jennifer Davis began on 8/27/18. Amber Vitale, Consultant, has been working with us and will be here through 9/28/18.





City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

Project Team

Ross Tate
City Auditor

Barbara Coppage
Deputy City Auditor

Greg Holmes
Senior Internal Auditor

Ryan Richelson
Associate Auditor

Project Number

1180059

This report can be made available in alternate format upon request.

Public Transit Department Valley Metro Purchasing Cards

June 20, 2018

Report Highlights

Prior Audit Recommendations

All four prior audit recommendations that relate to credit card purchasing were implemented.

Policies and Procedures

The credit card transactions we tested were appropriate; however, some documentation exceptions were noted. In addition, we found that the use of cardholder agreements needed improvement.

*City Auditor Department
140 N 3rd Avenue Phoenix, AZ 85003
602-262-6641 (TTY use 7-1-1)*

Executive Summary

Purpose

Our purpose was to determine that Valley Metro credit card controls were adequate to ensure compliance with policies and regulations.

Background

Valley Metro is the regional public transportation agency providing coordinated transit options to residents of the greater Phoenix area. Our scope included credit card transactions from May 2016 through January 2018. During this period, there were 25 active cardholders at Valley Metro who conducted 3,959 transactions totaling \$1,304,233.

Our audit testing covered four areas:

- 1) Prior credit card audit recommendations
- 2) Credit cardholder agreements
- 3) Credit card monitoring controls
- 4) Credit card transaction guidelines – Valley Metro and Federal

Results in Brief

Prior audit recommendations related to credit card purchases were implemented.

There were four recommendations tested for compliance. Three dealt with policy updates to improve controls over Chief Executive Officer (CEO) expenses, itemized receipts, and reconciliation of travel reports. The fourth required all cardholders to utilize the corporate account and follow organizational policy.

Usage of the credit cardholder agreement needed improvement.

While all current cardholders have a signed agreement, portions of our audit period lacked documented acknowledgement of policies, establishment of spending limits, and replacement or return of credit cards.

Credit card usage monitoring was adequate according to Valley Metro policy, with one exception where charges occurred after the return of the credit card.

The expenses noted in the exception were business-related. We recommended immediate cancellation of all returned credit cards to prevent further occurrences of this kind.

Individual credit card transaction testing showed all sample transactions were appropriate; however, some exceptions were noted.

We found that all 100 transactions tested were for appropriate business use. However, some exceptions were noted for lack of itemized receipts and lack of approvals (meal pre-approvals, technology approvals, and approvals for purchases greater than \$3,000).

Department Responses to Recommendations

| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------------------------------------|
| Rec. 2.1: Valley Metro – Require all current cardholders to immediately sign the policy acknowledgement and compliance form when a new credit card policy is in effect. | | |
| Response: Valley Metro concurs with the recommendation. No more than 10 business days prior to implementing a new credit card policy, all cardholders will receive training on the policy and will sign an acknowledgment form. After the effective date of the new policy, cardholders will not be permitted to use their card if the acknowledgment form has not been signed. Any new cardholders will receive the training and must sign the acknowledgment form prior to receiving the card for use. | | Target Date: Sept. 14, 2018 |
| Explanation, Target Date > 90 Days: NA | | |
| Rec. 2.2: Valley Metro – Assure all cardholders have current single purchase and monthly spending limit documentation on file. | | |
| Response: Valley Metro concurs with the recommendation. The Credit Card Administrator will annually review the documentation on file to ensure it is complete and has identified the appropriate single purchase and monthly limits. | | Target Date: Sept. 14, 2018 |
| Explanation, Target Date > 90 Days: NA | | |
| Rec. 2.3: Valley Metro – Assure all appropriate approval signatures are completed for credit card limit changes, replacements, and returns. | | |
| Response: Valley Metro concurs with the recommendation. The Credit Card Administrator will annually review the documentation on file to ensure it is complete and has the required approvals. | | Target Date: Sept. 14, 2018 |
| Explanation, Target Date > 90 Days: NA | | |
| Rec. 3.1: Valley Metro – Require credit cards to be canceled immediately upon return. | | |
| Response: Valley Metro concurs with the recommendation. The Credit Card Administrator, once a card has been returned, shall verify with the Controller that all pending charges have been processed and shall cancel the card within 5 business days of the card being returned. | | Target Date: Sept. 14, 2018 |
| Explanation, Target Date > 90 Days: NA | | |

Rec. 4.1: Valley Metro – Expand monitoring role within the credit card policy to include review of:

- Submittal of itemized receipts
- Preapprovals for meals from Division Heads
- Approvals for technology purchases from the Chief Technology Officer
- Approvals for purchases greater than \$3,000 from Division Head and Contracts and Procurement

Response: Valley Metro concurs with the recommendation. Each cardholder's immediate supervisor will be responsible to ensure that proper documentation is included for each purchase, including any pre-approval forms for meals or travel with signatures. The Credit Card Administrator will verify that technology purchases have proper approval by the Division Head responsible for IT. The Credit Card Administrator will verify that purchases greater than \$3,000 have the proper approvals from the Division Head and Contracts and Procurement.

Target Date:
Sept. 14, 2018

Explanation, Target Date > 90 Days: NA

1 – Compliance with Prior Audit Recommendations

Background

We completed an audit of Valley Metro in April 2016 (Valley Metro Travel / Expenditure Audit 1160100), which reviewed staff-related expenditures for compliance with organizational policies, and assessed the adequacy of the financial control environment. As part of this audit, we assessed compliance with recommendations from the April 2016 audit pertaining to credit card purchases.

There were four recommendations tested for compliance:

1) **Recommendation 1.1:**

VMR and RPTA Boards update policy and/or employment agreements to reflect supervisory approvals necessary for CEO Monthly Expense Reports and credit card statements.

2) **Recommendation 1.2:**

Valley Metro staff review and consistently apply agency policy related to itemized receipts for all purchases.

3) **Recommendation 2.6:**

Valley Metro staff modify procedures to include a reconciliation of credit card expenditures to travel reports to ensure that all costs are captured, including conference registrations, miscellaneous airfare charges, and when necessary, foreign transaction fees, for transparency and accounting purposes.

4) **Recommendation 5.7:**

Valley Metro executive staff ensure that all organizational employees utilize the corporate commercial credit card account and follow organizational policy.

Results

From a policy modification standpoint, Valley Metro implemented all the credit card related recommendations from the prior audit. Application of the new controls could be improved in the areas of itemized receipts and reconciliation of travel reports.

Recommendations 1.1 and 1.2 were implemented. The policy was updated to require the Audit Finance Subcommittee Chair to review the CEO's credit card expenses, and to require itemized receipts for every purchase. Application of the policy could be improved regarding itemized receipts, as noted in Observation 4 of our detailed transaction testing. Recommendation 5.7 was implemented. All cardholders were on the same Wells Fargo account.

Recommendation 2.6 was implemented from a policy standpoint, in that reconciliation of all travel related credit card expenses was required. However, application of the policy

could be improved. We tested the following transactions from May 2016 through January 2018:

Travel Expenses Reconciled to Travel Report

| Description | Amount | % | # Transactions | % |
|----------------------------------------|-----------|-----|----------------|-----|
| Credit Card Travel Expenses Identified | \$130,216 | | 345 | |
| Travel Expenses Tested | \$43,912 | | 141 | |
| Travel Expenses Reconciled | \$43,441 | 99% | 130 | 92% |
| Travel Expenses Not Reconciled | \$471 | 1% | 11 | 8% |

8% of transactions did not reconcile to the travel reports

Recommendations

None

2 – Compliance with Valley Metro Credit Cardholder Agreement

Background

The Agency Credit Cardholder Agreement, Request and Change Form (CC Form), served several purposes:

- Acknowledgement that credit cardholders understand and will comply with the current Valley Metro Credit Card, Acceptable Use Policy
- Establishment of new cardholder single purchase and monthly spending limits
- Document changes in existing cardholder's individual purchase and monthly spending limits
- Document issuance of new credit cards to replace lost credit cards
- Document return of credit card that will no longer be used

We tested compliance of the use of the CC Form from May 2016 through January 2018.

Results

All current credit cardholders have signed the CC Form acknowledging the current policy. However, there were gaps during our testing period when cardholders did not have a signed CC Form on file for months, some as long as a year.

The current credit card policy took effect in July 2016. Changes from the prior policy included additional approvals, oversight responsibilities, purchase preapprovals, and bank contact information. According to the policy, all cardholders should have signed a new CC Form acknowledging understanding of and compliance with the new policy; however, none did at that time.

Eventually, all cardholders either had their spending limits adjusted, requiring them to sign the CC Form, or left Valley Metro employment. This accounted for 18 cardholders. The remaining 10 were new cardholders (from the time the policy was implemented) and had signed the CC Form upon receiving their credit card.

Valley Metro inconsistently documented initial single and monthly purchase limits on the CC Form.

All cardholders were required to have a CC Form documenting single and monthly purchase limits with the approval of the Division Head, Chief Financial Officer (CFO), and CEO. During our testing period, 28 cardholders were identified:

- 17 did not have documented and approved initial single purchase limits
- 14 did not have documented and approved monthly purchase limits

Monitoring controls did not consistently ensure that single and monthly purchase limits were not exceeded.

We limited our testing to periods of time when cardholder spending limits were documented on the CC Form. Of the 17 cardholders with single purchase limits documented on the CC Form, one exception was noted, where a \$4,840 purchase was made on a \$3,000 limit. Of the 14 cardholders with monthly purchase limits documented on the CC Form, five exceptions were noted.

Valley Metro inconsistently used the CC Form to change existing single or monthly purchase limits.

There were 13 changes for either single or monthly purchase limits during our testing period. Nine occurrences had the proper approvals, the remaining four did not. Three of the CC Forms were missing the Division Head approval and one was missing the Audit and Finance Subcommittee Chair signature.

All replacement credit card occurrences lacked proper usage of the CC Form.

There were four replacement credit cards issued during our testing period. Three of the instances had no CC Form. One instance used the CC Form, but did not have the required CFO and CEO signatures.

All returned credit card occurrences lacked proper usage of the CC Form.

There were seven returned credit cards during our testing period. Four of the instances had no CC Form. Three instances used the CC Form, but did not have the required CFO and CEO signatures.

Recommendations

- 2.1 Valley Metro – Require all current cardholders to immediately sign the policy acknowledgement and compliance form when a new credit card policy is in effect.
- 2.2 Valley Metro – Assure all cardholders have current single purchase and monthly spending limit documentation on file.
- 2.3 Valley Metro – Assure all appropriate approval signatures are completed for credit card limit changes, replacements, and returns.

3 – Monitoring of Credit Card Expenditures

Background

Monitoring of credit card transactions by Valley Metro was performed by four individuals/groups, as required by their Credit Card Policy. Their duties included:

- 1) Credit Card Administrator – Coordinates and reviews the monthly Transaction Detail Report and approval process including, by not limited to, auditing a sample of transactions.
- 2) Division Heads – Monitor and approve individual cardholder purchases.
- 3) Finance Division – Reviews monthly credit card purchase approvals and billing statements, and ensures timely payment. Reviews and performs accounting transactions, and coordinates with Credit Card Administrator, Division Heads, Managers, and Cardholders to ensure accurate reconciliation of statement balances.
- 4) Chair, Audit and Finance Subcommittee – Reviews and approves CEO's monthly activity and expenditures.

We ensured monthly approvals were performed by each group from May 2016 through January 2018.

Results

Monthly approvals were performed by the Credit Card Administrator, Finance Division, and the Audit and Finance Subcommittee Chair during the audit period without exception. Division Head approvals were completed with one exception.

The Credit Card Administrator, Finance Division, and the Audit and Finance Subcommittee Chair approval process occurs monthly. Testing was based on the Credit Card Administrator performing monthly sample audits, the Finance Division reconciling cardholder expenses to statement balances, and the Audit and Finance Subcommittee Chair approving CEO expenses. These monitoring duties were performed without exception during the 21 months tested.

The Division Head testing was based on the review and approval of individual cardholder statements each month. This resulted in 315 tests over the 21 months. The one exception noted was the result of charges occurring after the return of a credit card. While the approximately \$400 in charges were for legitimate purposes, they were not reviewed and approved by the Division Head.

Recommendations

- 3.1 Valley Metro – Require credit cards to be canceled immediately upon return.

4 – Testing of Individual Transactions

Background

The testing of individual credit card transactions was required to comply with the Valley Metro Credit Card, Acceptable Use Policy. We tested the requirement that itemized receipts were submitted with all purchases. In addition, we tested the following three prohibited credit card purchase areas:

- 1) Business meals not pre-approved in writing by the responsible Division Head.
- 2) Single purchase exceeding \$3,000 without written approvals from the Division Head and the Contracts and Procurement representative.
- 3) Technology purchases not approved by the Chief Technology Officer.

In addition, since Valley Metro receives federal funds, we tested compliance with the Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which identifies allowable and unallowable expense areas.

We tested a sample of transactions from May 2016 through January 2018.

Results

Valley Metro was inconsistent in obtaining pre-approval of meal purchases and in submitting itemized receipts.

We identified 196 meals, totaling \$43,496, and tested 50 (26%), totaling \$12,448 (29%), for compliance with Valley Metro's policy. There were 27 meal purchases that did not have the required pre-approval. Three meal purchases had a summary receipt instead of the required itemized receipt.

Valley Metro was inconsistent in complying with its credit card policy pertaining to high-dollar transactions (greater than \$2,000).

We identified 82 transactions greater than \$2,000, totaling \$200,881, and tested 50 (61%), totaling \$123,969 (62%), for compliance with policy. Of the 50 tested, we found the following:

- 9 did not have itemized receipts. The receipts were either not itemized or were for a technology purchase where an advanced quote was used instead of the actual purchase price.
- 15 were for technology purchases; 14 were not preapproved by the Chief Technology Officer.
- 1 was greater than \$3,000 and did not have written approval from the Division Head and Contracts and Procurement representative.

- 1 was for an additional meal purchase and did not have Division Head preapproval.

All transactions tested complied with federal guidelines for allowable costs.

Of the 82 high-dollar transactions, we tested 35 (43%), totaling \$85,128 (42%), for allowability per federal guidelines, specifically the Uniform Guidance. Allowable transaction areas identified under the Uniform Guidance included: computing devices, conference costs, maintenance and repair, professional services, public relations, and rental costs. Some transactions were found to be unallowable, but no federal funds were used.

Recommendations

4.1 Valley Metro – Expand monitoring role within the credit card policy to include review of:

- Submittal of itemized receipts
- Preapprovals for meals from Division Heads
- Approvals for technology purchases from the Chief Technology Officer
- Approvals for purchases greater than \$3,000 from Division Head and Contracts and Procurement

Scope, Methods, and Standards

Scope

We reviewed Valley Metro credit card purchases from May 2016 through January 2018.

Methods

We used the following methods to complete this audit:

- Reviewed Valley Metro credit card, procurement, and travel policies.
- Reviewed Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards commonly known as Uniform Guidance.
- Tested compliance with prior audit recommendations related to credit card usage.
- Tested compliance with usage of Valley Metro's Agency Credit Cardholder Agreement, Request and Change Form.
- Tested compliance with credit card activity monitoring as required by the Valley Metro credit card policy.
- Tested a sample of credit card transactions to assure compliance with the Valley Metro credit card policy and federal guidelines.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Information Summary

DATE

September 7, 2018

AGENDA ITEM 6**SUBJECT**

Audit exceptions update

PURPOSE

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

BACKGROUND/DISCUSSION/CONSIDERATION

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

COST AND BUDGET

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

COMMITTEE PROCESS

AFS: September 13, 2018 for information

RECOMMENDATION

Item presented for information only.

CONTACT

Mary Modelski
Internal Audit Manager
mmodelski@valleymetro.org
602-262-7433

ATTACHMENT

Audit exceptions log

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|-------------------------------------------------------------------------------------------------------|---------------------|---------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Small Dollar Purchases-Monitoring Procedures (Personal Services Contracts & Sole Source Procurements) | Finance/Procurement | Phx - 1170062 | 3.2 | Two personal services contracts were not monitored to ensure appropriate CEO or Board approvals. The personal services contracts were initially created for short periods and small dollar values; however, through change orders these contracts were extended for several years with increased values. In our test sample, we identified two vendors which were engaged with Valley Metro as independent contractors under personal services contract. One personal services contract for videography was created on November 23, 2013, for services occurring from December 1, 2013 through June 30, 2014, and at a sum not to exceed \$20,000. This personal services contract was amended five times extending services through June 30, 2017 and increasing the total value to \$142,130. This contract was not competitively bid and CEO approval was not obtained as required by VMR policy for a contract of this dollar amount. Of the FY16 payment to this vendor, \$5,200 was identified as FTA funds. Another personal services contract for graphic design consulting services was procured by RPTA for the period of September 23, 2013 through November 29, 2013, and at a sum not to exceed \$9,200. Through several change orders this contract was extended through June 30, 2016, with an increased contract value to \$89,200. Two sole source procurements for consulting services performed by the same vendor did not provide the required analysis that the vendor's costs were fair. | Work with Valley Metro to develop monitoring procedures for personal service contracts and sole source procurements to ensure compliance with policies and procedures. | Public Transit with work with Valley Metro to ensure development of procedures that include monitoring of personal service contracts and sole source procurements to ensure compliance with all applicable policies and procedures. | 8/17/2017 | 1/31/2018 | Chief Financial Officer | 9/04/18: Requested quarterly update from P. Hodgins & B. Cummings. 7/24/18: IA advised COP that the Joint Procurement Manual will be updated to include specified procedures with anticipated completion by the end of the calendar year. Quarterly updates will be provided. 7/24/18: Email string from W. Miller and A. Cook (COP) indicated the submitted Joint Procurement Manual was rejected to remediate Finding 3.2, status updated to "Started". 7/02/18: IA sent COP the Joint Procurement Manual effective June 25, 2018. |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|--------------------------------------------------------------|---------------------|---------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Small Dollar Purchases-Review Aggregate Purchases Procedures | Finance/Procurement | Phx - 1170062 | 3.3 | <p>VMR procurements at OMC employed reasonable competition, were transparent, and well documented. We did note that there was no procedure in place that required the consistent review of aggregate vendor purchases to determine if contracts were needed.</p> <p>We tested ten vendors with transactions totaling over \$400,000. Competition was used in 38% (\$156,188), no competition in 45% (\$185,642), and micro purchases, which did not require competition, made up the remaining 17% (\$68,321). Several of the sole source procurements were required due to the manufacturer's warranty on the LRV, that necessitated the use of original equipment manufacturer parts.</p> <p>In interviews with OMC staff, we learned that there is no policy requiring the review of aggregate vendor purchases to determine if contracts are necessary or would be beneficial to the organization. Staff indicated that in November 2016, they implemented their own internal annual review of vendor purchases. A review of Ellipse purchases reflected that there were several made to the same vendor that in aggregate were over \$50,000; while competition was employed, contracts were not obtained. Contracts may provide Valley Metro with enhanced competitive pricing and purchase protection.</p> | Work with Valley Metro OMC to develop procedures to the consistent review of inventory purchases to determine when contracts should be obtained. | Public Transit with work with Valley Metro to ensure development of procedures for the consistent review of inventory purchases to determine when contracts should be obtained. | 8/17/2017 | 1/31/2018 | Chief Financial Officer | <p>9/04/18: Requested quarterly update from P. Hodgins & B. Cummings.</p> <p>7/24/18: IA advised COP that the Joint Procurement Manual will be updated to include specified procedures with anticipated completion by the end of the calendar year. Quarterly updates will be provided.</p> <p>7/24/18: Email string from W. Miller and A. Cook (COP) indicated the submitted Joint Procurement Manual was rejected to remediate Finding 3.3, status updated to "Started".</p> <p>7/02/18: IA sent COP the Joint Procurement Manual effective June 25, 2018.</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|-------------------------------------------------------------------|-------|------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Outdated policies and procedures over Information Technology (IT) | IT | 12/2017 | 1 | <p>Valley Metro did not have current policies and procedures in place to address necessary areas of risk related to hardware and/or software. The current version of policies and procedures provided by IT management was dated 2013. This version of the policies and procedures lacked sufficient direction and instruction on the following areas including, but not limited to;</p> <ul style="list-style-type: none"> • Remote access to the system • Approved and appropriate use of personal devices on the network • Naming convention • Patch implementation, testing and oversight • Process for ensuring new software and hardware populates correctly and completely in Lansweeper, etc. and • Acquisition of hardware and software <p>IT management and staff have changed significantly since 2013. These changes have resulted in undocumented directives and philosophies as to how to manage and lead IT. Insufficient direction and instruction allowed for inconsistent processes and practices within the environment.</p> <p>Best practices would be to have a documented consistent process in place in order to mitigate risk and ensure strategies are carried out.</p> | <p>Management should define a process by which on an annual basis policies and procedures are reviewed and updated as needed and appropriate. Updates should be communicated and appropriate training provided to necessary individual in order for such individuals to execute their duties or provide backup support of other team members. 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 | <p>9/07/18: Per Oz "Change Management policy is draft complete as provided in previous update, Re-work of Asset Management policy is still in progress as per last update, and the Incident Response Plan has been presented to the executive management for input and requires some modification and additional collaboration based on the results."</p> <p>8/31/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by September 5th.</p> <p>7/12/18: Mgmt has started modifications on the 3 policies. Additional supporting forms referred to in the policy needs to be refined and communication still needs to be completed.</p> <p>7/2/18: Requested an update on status or remediated items by July 10th from P. Ozlin & R. Antoniak.</p> <p>6/13/18: P. Ozlin advised he has the supporting documentation lined up and a framework response. Just needs to finalize</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|-----------------------------|---------|------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Travel Policy Clarification | Finance | 04/2018 | 1 | <p>The Travel policy:</p> <ul style="list-style-type: none"> Encourages individuals to stay at the conference or training host hotel site. If the host hotel nightly rate exceeds the GSA Lodging Rate Schedule, the excess host hotel rate is authorized. GSA §301-11.303 states: "The maximum amount that you may be reimbursed under actual expense is limited to 300 percent (rounded to the next higher dollar) of the applicable maximum per diem rate." 17 of 93 travel instances were identified where the daily rate for lodging was in excess of the GSA published rate but under the 300 percent cap. The rates ranged from \$35 to over \$100 per night above the allowed GSA rate. Total spending on lodging for travel during fiscal year 2017 was \$59,551, of which a total of \$2,539 was spent in excess of GSA lodging limits (4.26%). Additionally, the Travel Authorization form states "Hotel expenses are reimbursable up to the maximum GSA hotel rate". Also, "the traveler is responsible for the difference in the rates." Evidence of reimbursement by the traveler of the amount in excess of the GSA rate did not exist. Defines: "Agency Travel, Conference and Out-of-County Training form – The Valley Metro (Agency) form used to process all authorized and budgeted Agency travel. This form requires Division Head, Chief Financial Officer (CFO) and Chief Executive Officer (CEO) signature approval". Of the 93 forms completed, two Division Head signatures were found not to be present. | <p>Management should align the Travel policy intent with associated forms and practices. If circumstances warrant travel to be completed in less than 21-day of the submission the Agency Travel, Conference and Out-of-County Training form, the policy should reflect such verbiage. The Travel Authorization form should be revised to include identification if the user is staying at the host hotel and the rate exceeds the GSA rate. Otherwise, revisions to verbiage related to "hotel expense are reimbursed up to the maximum GSA hotel rate; and a traveler is responsible for the difference in the</p> | <p>Management concurs with the recommendation. Additional clarity is being added to the Travel Policy and procedures will be updated to ensure that documentation is proper and complete.</p> | 4/6/2018 | 5/31/2018 | Chief Financial Officer | <p>8/31/18: Requested status update or remediated items from P. Hodgins by Sept 5th. 7/12/18: Management provided a status update of: "The final draft of the new policy was sent to Leadership team for review on June 22. No additional changes were requested and policy was finalized on June 30, however it has not been signed due to vacations and travel. It is expected to be signed by July 16 and posted to the intranet shortly thereafter.; An overview of the new policy will be given to agency managers on July 30. In depth training for the agency's travel administrators is being developed and will be complete by July 30, with training provided to the administrators by August 17." 7/2/18: Requested status update or remediated item</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|--------------------------|---------|------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Travel Policy Exceptions | Finance | 04/2018 | 2 | <p>After reviewing 93 travel requests, 87 instances were in compliance. In six instances, documentation was insufficient to determine whether costs were appropriate. The six instances were:</p> <ul style="list-style-type: none"> • One traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost comparison nor explanation was not included. Therefore evidence to verify the saving was not present. • One traveler used a more expensive vehicle option for transportation for a San Francisco hotel to the Oakland airport at the end of the conference. The cost was \$96. An explanation as to why this vehicle was selected did not exist within the travel file. • One traveler utilized the terminal parking at Phoenix Sky Harbor airport for two days. Resulting in a reimbursed expense of \$50.00 (\$25 a day) verses \$22 (\$11 a day). The Travel policy states: "economy parking should always be used". This was the travelers' first trip for Valley Metro and was unaware of the Travel policy parking requirements. • One traveler purchased the CEO a \$150 ticket for the Rail Rodeo Awards Banquet and submitted the expense. The traveler did obtain the CEO approval on her Expense form; but additional approval was not obtained from the CFO nor Board of Directors on the expense for the CEO. | <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 | 5/31/2018 | Chief Financial Officer | <p>8/31/18: Requested status update or remediated items from P. Hodgins by Sept 5th.</p> <p>7/12/18: Management provided a status update of: "An overview of the new policy will be given to agency managers on July 30. In depth training for the agency's travel administrators is being developed and will be complete by July 30, with training provided to the administrators by August 17."</p> <p>7/2/18: Requested status update or remediated item by July 10th from P. Hodgins.</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|-------------------|-------|------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Hardware tracking | IT | 12/2017 | 3 | <p>Lansweeper was not up to date nor verified for completeness. Lansweeper appeared to have a system limitation by which Microsoft machines were not auto-populated when a machine was deployed on the network. Thereby, requiring manual inputting into Lansweeper inventory information to track Microsoft machines within the network. Microsoft machines were recognized to be on the network by Lansweeper but inventory information was not captured. Dell machines appeared to communicate with Lansweeper without manual intervention and Lansweeper was updated with inventory information. The following was identified based on analysis performed over the entire population of 513 machines on Lansweeper:</p> <ul style="list-style-type: none"> • 92 machines had not been seen on the network in over a month (See also Exhibit 4). • 16 machines had no user assigned. • 109 machines did not have an IP location documented in Lansweeper (See also Exhibit 1). • 44 machines were past their warranty date (See Exhibit 5). • 43 machines had no warranty date nor purchase date populated in Lansweeper (See Exhibit 5). <p>A sub-sample of 25 machines was selected from the Lansweeper hardware listing for further testing. The following issues were identified:</p> | <p>Management should document a process to verify assets are recognized by Lansweeper upon deployment to the network, are periodically reviewed to ensure errors such as IP locations and missing information is populated and remove assets from Lansweeper upon disposal.</p> <p>Additionally, management should perform periodic verification of assets to ensure assets are being maintained within Lansweeper accurately. Items found to be missing in Lansweeper, should be populated to bring the inventory information current.</p> | <p>We will be implementing policies and procedures in concert with the asset management system to ensure that all asset dispensations are recorded, assets that have not been detected on the network after a defined period are investigated, and that we can conduct periodic inventories to ensure that all listed assets are validated or updated accordingly.</p> | 2/7/2018 | 6/30/2018 | Manager, Information Technology | <p>9/07/18: Per Oz "Asset dispensations past decommissioning are suspended pending approval of a dispensation proposal by executive management, once that is approved the disposal can be recorded in KACE. We are conducting our quarterly inventory on non-reporting devices as provided by KACE, please see supporting document 'Non-Reporting Devices 18Q3'."</p> <p>8/31/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by September 5th.</p> <p>7/12/18: Requested IT Manager provide written status update. Item still in-process.</p> <p>7/2/18: Requested status update or remediated items by July 10th from P. Ozlin & R. Antoniak.</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|----------------------|-------|------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tracking of software | IT | 12/2017 | 4 | <p>A process to track, reconcile and remove unauthorized software was not consistently utilized. Lansweeper was relied upon by IT to track software deployed within the enterprise. A Lansweeper listing was pulled and a high-level review was performed. From the Lansweeper listing, a sample of software, such as Microsoft Office, SQL, Adobe and Able to Extract, were selected for further testing. The following were identified:</p> <ul style="list-style-type: none"> • Comparison of the Lansweeper listing to Finance purchasing reports for the five software items selected appeared to exceed the number of licenses purchased. • There was no process in place to track the number of software licenses purchased versus the number of licenses installed outside of Lansweeper. • There was no consistent process to track when software was coming due for renewal and who was responsible for tracking it. • Five software installations were identified from the Lansweeper listing that were not work related. <p>According to Information Technology and Security Policies (approved 12/19/2013), Policy IS003 – Information Security Review and Audit, the IT Department Responsibilities include, but are not limited to; "Perform an annual audit of all systems, software and peripheral devices to ensure an accurate software and hardware inventory." And</p> | <p>Management should perform a reconciliation of software identified by Lansweeper to actual licenses purchased, in addition consulting with users who may be running unique applications to determine business need and location of the software license. Additionally, management should define a process by which software renewal is tracked within the enterprise either through a tool such as Excel, Lansweeper, Asana, or another automated process. Periodic review should take place of inventory information to ensure reconciliation of license to use of software.</p> | <p>We will be implementing an asset management system that in concert with our network monitoring system will allow us to track the usage of software and validate the availability of appropriate licensing, as well as identifying and removing any non-approved software from our machines and network.</p> | 2/7/2018 | 6/30/2018 | Manager, Information Technology & Database Administrator | <p>9/07/18: Per Oz "Software installed in the environment is now being monitored through the KACE Systems Management Appliance. Please see supporting document 'Capture_SoftwareLicenseCatalog.jpg' for an example screen capture. Over/under licensing reports are also available, but the loading of our software licensing agreements into the system for accurate reporting is still in process. Network segments are regularly being scanned for unknown devices, please see supporting document 'Capture_NetworkDeviceScan.jpg'. "</p> <p>8/31/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by September 5th.</p> <p>7/12/18: While meeting with IT Manager requested a</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|------------------------------------------------------------------|-------|------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inconsistencies in tracking and monitoring of hardware purchases | IT | 12/2017 | 5 | <p>A process defining how hardware and software acquisitions will be determined, evaluated, rolled out and tracked has not been fully implemented. Purchases have been executed to acquire hardware and/or software version which may not be in the best interest of the organization. Evidence to support an assessment is conducted prior to acquiring hardware and/or software does not appear to exist. A consistent hardware build has not been utilized nor has current versions of all software been acquired. Hardware is not tracked by IT until it is placed into service on the network and recognized by Lansweeper.</p> <p>Performing an assessment of user needs prior to acquisition ensures the hardware and/or software will fulfill the user needs, is in alignment with IT support and fits within the IT strategy for achieving the organizational goals. Additionally upon receipt hardware and/or software, the item(s) can be configured to function within the environment securely whilst being monitored by existing technology to ensure the overall safety of user and organizational resources and assets.</p> <p>Due to decentralization of IT and lack of direction, strategy and leadership, acquisitions have taken place which may not align with current support and are not appropriately being monitored or tracked.</p> <p>The inconsistent in acquisitions has led to a variety of platforms requiring IT support, user challenges with incompatibility with other systems and general lack</p> | <p>Management should conduct an inventory of all hardware and software within the environment. A reconciliation of all hardware and software assets should take place to ensure the asset is owned by Valley Metro, can be traced to a valid license or purchase, is current with applicable security patches and is being tracked appropriately.</p> <p>Additionally, management should define an acquisition process by which IT personal evaluate users' needs prior to a purchase taking place, items are tracked and monitored once placed in service.</p> | <p>We will be purchasing an automated asset management system and to track all assets from purchase through disposal. We will be doing a review of all existing equipment to build as complete a record on each item as possible, and all items purchased going forward will be well documented.</p> | 2/7/2018 | 6/30/2018 | Manager, Information Technology | <p>9/07/18: Per Oz "We have implemented the KACE System Management Appliance to act as our asset management system. The majority of existing equipment has been loaded into the system and progress is being made on the remainder. Items being currently purchased are well documented through a hard-copy process that is in the process of being migrated into KACE. A disposal process proposal is currently undergoing review by executive management, all decommissioned equipment is being stored until that is complete and once approved it will be migrated into KACE as well."</p> <p>8/31/18: Requested status update or remediated items from P. Ozlin & R. Antoniak by September 5th.</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|-----------------------------------------------|-----------------|----------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Management Expense Reimbursement Compensation | Human Resources | Memo - 02/2018 | 0 | <p>During the course of the Non-Revenue Fleet Management Audit, we discovered 33 individuals received Management Expense Reimbursement Compensation (stipend). The policy (revised May 1, 2012) states the:</p> <p>Purpose: "to define methods of expense reimbursement compensation for management, CEO, Directors and Managers".</p> <p>Policy: "In lieu of having to submit for local monthly expenses and parking expenses, the following allowances are in effect:</p> <p>CEO: Set By Board of By Contract Directors: \$250/Monthly (Paid Out Bi-Weekly \$115.38) Managers: \$100, Monthly (Paid Out Bi-Weekly \$46.15)"</p> <p>On August 26, 2016 a meeting took place between Human Resources and the Chief Executive Officer (CEO) and the decision was made "From this point forward, be sure that no employment offers/promotional/ letters include any management stipend or cellular phone allowance wording." (Source: Human Resource Generalist)</p> <p>After discussion with the CEO on January 8, 2018, he clarified any stipends in effect prior to August 26, 2016 would continue. As individuals get promoted or leave the organization, such stipends will cease.</p> | <p>We recommend additional context be added to the policy to define how individuals grandfathered into the program would continue or cease to receive stipends as they move within or outside the organization. In addition, further definition of what the stipend is to be used for should be outlined and communicated to those grandfathered into the program.</p> | <p>Human Resources will update its procedure to grandfather 33 agency employees receiving the stipend, prior to the implementation of the new rules, effective August 26, 2016. The procedure will include clarification of use and intent of the management expense reimbursement stipend and will denote how the program will be phased out.</p> <p>A draft revision of the procedure will be prepared by March 9, 2018 for review.</p> <p>Please let me know if you need anything additional from me to ensure compliance with the August 26, 2016</p> | 2/10/2018 | 8/26/2018 | Human Resource Director | <p>9/06/18: Requested from P. Lynch status on updated procedures.</p> <p>9/05/18: Received a memo from P. Lynch addressed to the IA Manager reaffirming, "Directors and managers receiving the management expense reimbursement compensation stipend prior to August 26, 2016 will be grandfathered into the program and will continue to receive the stipend until their employment status changes as follows:</p> <ol style="list-style-type: none"> 1. Employee leaves Valley Metro Employment; or 2. Employee is promoted to the next tier in the management or director level series <p>In addition stipends will not be removed for any manager or director who serves in an "Acting" capacity since this assignment is temporary and not a permanent classification</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|----------------------------------------------------------|---------|---------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Acknowledgments - Compliance w/VM Credit Card Agreements | Finance | Phx - 1180059 | 2.1 | <p>The Agency Credit Card Agreement, Request and Change Form (CC Form) served several purposes: *</p> <ul style="list-style-type: none"> Acknowledgement that credit cardholders understand and will comply with the current Valley Metro Credit Card, Acceptable Use Policy * Establishment of new cardholders single purchase and monthly spending limits * Document changes in existing cardholder's individual purchase and monthly spending limits * Document issuance of new credit cards to replace lost credit cards * Document return of credit card that will no longer be used. <p>We tested compliance with the use of the CC Form from May 2016 through January 2018.</p> <p>All current credit cardholders have now signed the CC Form acknowledging the current policy. However, there were gaps during the testing period when cardholders did not have a signed form on file for months, some as long a year. lack of signed CC Form created an inherent risk that may have made the enforcement of Valley Metro policies more difficult.</p> | Require all current cardholders to immediately sign the policy acknowledgment and compliance form when a new credit card policy is in effect. | Valley Metro concurs with the recommendation. No more than 10 business days prior to implementing a new credit card policy, all cardholders will receive training on the policy and will sign an acknowledgment form. After the effective date of the new policy, cardholders will not be permitted to use their card if the acknowledgement form has not been signed. Any new cardholders will receive the training and must sign the acknowledgement form prior to receiving the card for use. | 6/20/2018 | 9/14/2018 | Chief Financial Officer | <p>9/04/18: Requested status update or remediated items from P. Hodgins & B. Cummings.</p> <p>8/31/18: Requested status update or remediated items by Sept 5th from P. Hodgins.</p> <p>8/24/18: Requested status update or remediated items from B. Cummings.</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|----------------------------------------------------------|---------|---------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purchase limits - Compliance w/VM Credit Card Agreements | Finance | Phx - 1180059 | 2.2 | All Cardholders were required to have a CC Form documenting single purchase limits and monthly purchase limits with the approval of the Division Head, Chief Financial Officer (CFO), and CEO. During our testing period, 28 cardholders were identified: *17 did not have documented and approved initial single purchase limits *14 did not have documented and approved monthly purchase limits | Assure all cardholders have current single purchase and monthly spending limit documentation on file. | Valley Metro concurs with the recommendation. The Credit Card Administrator will annually review the documentation of file to ensure it is complete and has identified the appropriate single purchase and | 6/20/2018 | 9/14/2018 | Chief Financial Officer | 9/04/18: Requested status update or remediated items from P. Hodgins & B. Cummings. 8/31/18: Requested status update or remediated items by Sept 5th from P. Hodgins. 8/24/18: Requested status update or remediated items from B. Cummings. |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|-----------------------------------------------------------------------------------------------|---------|---------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inconsistently used the Credit Card Form - Compliance with Valley Metro Credit Card Agreement | Finance | Phx - 1180059 | 2.3 | <p>There were 13 changes for either single or monthly purchase limits during our testing period. Nine occurrences had the proper approvals, the remaining four did not. Three of the Credit Card Forms were missing the Division Head approval and one was missing the Audit and Finance Subcommittee Chair signature.</p> <p>There were four replacement credit cards issued during our testing period. Three of the instances had no Credit Card Form. One instance used the Credit Card Form, but did not have the required CFO and CEO signatures.</p> <p>There were seven returned credit cards during our testing period. Four of the instances had no Credit Card Form. Three instances used the Credit Card Form, but did not have the required CFO and CEO signatures.</p> | Assure all appropriate approval signatures are completed for credit card limit changes, replacements and returns. | Valley Metro concurs with the recommendation. The Credit Card Administrator will annually review the documentation on file to ensure it is complete and has the required approvals. | 6/20/2018 | 9/14/2018 | Chief Financial Officer | <p>9/04/18: Requested status update or remediated items from P. Hodgins & B. Cummings.</p> <p>8/31/18: Requested status update or remediated items by Sept 5th from P. Hodgins.</p> <p>8/24/18: Requested status update or remediated items from B. Cummings.</p> |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|----------------------------------------|---------|---------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Monitoring of Credit Card Expenditures | Finance | Phx - 1180059 | 3.1 | We tested to ensure month end reconciliations and approvals were performed from May 2016 through January 2018. Monthly reconciliations and approvals were performed by the Credit Card Administrator, Finance Director, and the Audit and Finance Subcommittee Chair during the audit period in compliance with Valley Metro policy without exception. * The Division Head testing was based upon review and approval of individual cardholders statements each month. This resulted in 315 tests over the 21 months * The one exception noted was the result of charges occurring after the return of a credit card. While the approximately \$400 in charges were for legitimate purposes, they were not reviewed and approved by the Division Head. | Expand monitoring role within the credit card policy to include review of: * Submittal of itemized receipts * Preapprovals for meals from Division Heads * Approvals for technology purchases from the Chief Technology Officer * Approvals for purchases greater than \$3,000 from Division Heads and Contracts and Procurements. | Valley Metro concurs with the recommendation. The Credit Card Administrator, once a card has been returned, shall verify with the Controller that all pending charges have been processed and shall cancel the card within 5 business days of the card being returned. | 6/20/2018 | 9/14/2018 | Chief Financial Officer | 9/04/18: Requested status update or remediated items from P. Hodgins & B. Cummings. 8/31/18: Requested status update or remediated items by Sept 5th from P. Hodgins. 8/24/18: Requested status update or remediated items from B. Cummings. |

Valley Metro - Internal Audit

Audit Exceptions Follow-up

September 2018

| Finding Title | Dept. | Report No. | Finding No. | Finding Description | Recommendations | Management Response | Report Date | Due Date | Responsible Party | Auditor Comments |
|------------------------------------|---------|---------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Testing of Individual Transactions | Finance | Phx - 1180059 | 4.1 | <p>Individual credit card transactions had to comply with the Valley Metro Credit Card Acceptable Use Policy. We tested the requirement that an itemized receipt will be submitted with all purchases along with the following three prohibited credit card purchase areas: 1) Business meals which are not pre-approved in writing by the responsible Division Head. 2) Any single purchase exceeding \$3,000 without Division Head and Contracts and Procurement written approvals. 3) Technology Purchases, such as computers, peripherals, cell phones, etc. unless approved by the Chief Technology Officer. In addition, since Valley Metro receives federal funds, we tested compliance with the Office of Management and Budget Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards (Uniform Guidance), which identifies allowable and unallowable expense areas. We tested a sample of transactions in the above area from May 2016 through January 2018.</p> <p>1) Pre-approval of meal purchases, and submission of itemized receipts were inconsistent in violation of Valley Metro policy. Expenses were for legitimate business purposes but managerial oversight could be improved. * We identified 196 meals, totaling \$43,496, and tested 50 (26%), totaling \$12,448 (29%), for compliance with Valley Metro's policy. * There were 27 meals purchases that did not have required pre-approval and three that did not have itemized</p> | Expand monitoring role within the credit card policy to include review of: * Submittal of itemized receipts, * Preapprovals for meals from Division Heads, * Approvals for purchases greater than \$3,000 from Division Head and Contracts and Procurement. | Valley Metro concurs with the recommendation. Each cardholder's immediate supervisor will be responsible to ensure that proper documentation is included for each purchase, including any pre-approval forms for meals or travel with signatures. The Credit Card Administrator will verify that technology purchases have proper approval by the Division Head responsible for IT. The Credit Card Administrator will verify that purchases greater than \$3,000 have the proper approvals from the Division Head and Contracts and Procurement. | 6/20/2018 | 9/14/2018 | Chief Financial Officer | <p>9/04/18: Requested status update or remediated items from P. Hodgins & B. Cummings.</p> <p>8/31/18: Requested status update or remediated items by Sept 5th from P. Hodgins.</p> <p>8/24/18: Requested status update or remediated items from B. Cummings.</p> |



Information Summary

DATE

September 7, 2018

AGENDA ITEM 7**SUBJECT**

Future Agenda Items Request and Report on Current Events

PURPOSE

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

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

This item presented for information only.

CONTACT

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

ATTACHMENT

None.

Pending Items Request

| Item Requested | Date Requested | Planned Follow-up Date |
|----------------|----------------|------------------------|
| | | |
| | | |