I. Public Comment:

II. Action Items:

1. Approval of revisions to Capital Metro's Reserves and Budgetary Policy. The revision is to update the policy with current practices and reserves.

2. Approval of a resolution affirming the Charter Statement for the Finance, Audit and Administration Committee.

3. Approval of a resolution approving of the Fiscal Year 2018 performance review of the Vice President of Internal Audit.

III. Presentations:

1. Internal Audit Open Audit Updates

2. Internal Audit Semiannual Implementation Status

3. Internal Audit Purchasing Card Report

4. Internal Audit DMU Maintenance Program Report

IV. Executive Session of Chapter 551 of the Texas Government Code:

   Section 551.074 for Personnel Matters - Performance Review, Vice President Internal Audit.
V.  Items for Future Discussion:

VI. Adjournment

ADA Compliance

Reasonable modifications and equal access to communications are provided upon request. Please call (512) 369-6040 or email ed.easton@capmetro.org if you need more information.

BOARD OF DIRECTORS: Wade Cooper, Chair; Delia Garza, Vice Chair; Terry Mitchell; Rita Jonse; Ann Kitchen, Jeffrey Travillion, Pio Renteria and Eric Stratton.

The Board of Directors may go into closed session under the Texas Open Meetings Act. In accordance with Texas Government Code, Section 551.071, consultation with attorney for any legal issues, under Section 551.072 for real property issues; under Section 551.074 for personnel matters, or under Section 551.076, for deliberation regarding the deployment or implementation of security personnel or devices; arising regarding any item listed on this agenda.
Approval of revisions to Capital Metro’s Reserves and Budgetary Policy. The revision is to update the policy with current practices and reserves.
SUBJECT:
Approval of revisions to Capital Metro’s Reserves and Budgetary Policy. The revision is to update the policy with current practices and reserves.

FISCAL IMPACT:
This action has no fiscal impact.

STRATEGIC PLAN:
Strategic Goal Alignment:
5. Finance

Strategic Objectives:
Exhibit good stewardship of public funds and resources.
5.1 Continue improvement of the financial systems of the agency

EXPLANATION OF STRATEGIC ALIGNMENT:
Adequate reserves ensure the financial health and sustainability of the agency.

BUSINESS CASE:
Sound governmental practices require the creation and maintenance of financial reserve and contingency accounts to help stabilize the budget when needed, or to accumulate funds for future spending requirements. Periodic review and updates to policies adopted by the Board of Directors are prudent in order to ensure they meet the ongoing needs of the Authority.

COMMITTEE RECOMMENDATION:
This agenda item was presented and recommended for approval by the Finance, Audit and Administration Committee on January 16, 2019.

EXECUTIVE SUMMARY:
Attached is a copy of recommended revisions to Capital Metro’s Reserves Policy, which are primarily intended to allow for additional reserves and to reflect current practices. Also attached is a clean copy of the new policy document. The recommended revisions include the following:

- Allows for the creation of additional reserves at the discretion of the Chief Executive Officer, to set aside funds for specific future purposes.
- With the budget stabilization reserve now fully funded to equal one month of annual average operating expenses, the requirement to also reserve excess sales tax revenues is not required.
• The reporting requirement of budget transfers was updated from monthly to quarterly to reflect current practice.

• The discretionary use terms of the capital project contingency was updated to match the terms of the operating contingency account. i.e., that the contingency can be used at the discretion of the Board of Directors or the Chief Executive Officer.

DBE/SBE PARTICIPATION: Does not apply.

PROCUREMENT: Does not apply.

RESPONSIBLE DEPARTMENT: Finance
RESOLUTION
OF THE
CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY
BOARD OF DIRECTORS

STATE OF TEXAS
COUNTY OF TRAVIS

RESOLUTION (ID # AI-2019-952)
Approval of revisions to Capital Metro’s Reserves and Budgetary Contingencies Policy

WHEREAS, Pursuant to Sec. 451.053 of the Texas Transportation Code, the Board of Directors is responsible for the management, operation and control of an authority and its property; and

WHEREAS, Sound and prudent governmental financial practices require the accumulation and maintenance of reserves and contingencies to help stabilize the budget when needed; and

WHEREAS, it is prudent to periodically review and update policies to ensure they continue to meet the needs of the Authority.

NOW, THEREFORE, BE IT RESOLVED by the Capital Metropolitan Transportation Authority Board of Directors that the attached revisions to the Reserves and Budgetary Contingencies Policy are approved.

________________________
Date: _____________________
Secretary of the Board
Reserves and Budgetary Contingencies Policy

Sound governmental practices require the creation and maintenance of financial reserve and contingency accounts to help stabilize the budget when needed, or to accumulate funds for future spending requirements. These accounts may be used to address funding issues that may occur periodically, such as temporary cash flow shortages, emergencies or other unforeseen events, long-term capital needs, and one-time opportunities.

It is the policy of the Capital Metro Board of Directors to establish conservative reserve and contingency targets consistent with the strategic plan, the long-range financial forecast, and State of Texas statutory requirements. Subdividing total reserves and contingencies into separate special purpose accounts for specific strategic purposes helps to provide guidance and structure when it becomes necessary to utilize these funds for appropriate needs.

Section 451.134 of the Texas Transportation Code establishes minimum reserve requirements for Capital Metro. The minimum reserve requirement is not less than an amount equal to actual operating expenses for two months based on actual operating reserves for the 12 months preceding the annual adjustment to the reserve.

Capital Metro will maintain the following reserve and budgetary contingency accounts in addition to any cash balances that must be maintained to support current spending requirements. The Board of Directors recognizes that a period of time may be required to reach these balances. Capital Metro management will report annually to the Board of Directors as part of budget development and long-range planning processes on progress made to achieve these goals.

- A statutory operating reserve equal to at least two months of operating expenses. The prior fiscal year’s actual audited operating expenses will be used when calculating the allocation. The statutory operating reserve is to be used at the discretion of the Board of Directors only if the Board of Directors considers the expenditure necessary to address circumstances that could not have been planned or anticipated. Expenditures from the reserve should provide temporary financing for emergencies or unforeseen extraordinary needs.

- A capital project reserve equal to at least 10 percent of the five year annual average capital expenditure of the adopted Five Year Capital Improvement Plan, but not less than $2,000,000. The capital reserve is to be used at the discretion of the Board of Directors or the Chief Executive Officer for needed capital costs not already included in Capital Metro’s budget for a given year.

- A budgetary operating contingency account equal to two percent of the prior fiscal year actual operating expenses, but not less than $1,000,000. The operating contingency account is to be used at the discretion of the Board of Directors or the Chief Executive Officer to provide for unforeseen needs that arise during the year, including new service needs that are identified after the budget process. Transfers to and from the contingency account of $150,000 or more should be reported to the Board of Directors quarterly.
• A self-insurance reserve equal to at least 25 percent of the prior fiscal year actual claim payments. The self-insurance reserve is to be used at the discretion of the Board of Directors only to fund claims not already included in Capital Metro’s budget for a given year.

• A budget stabilization reserve (“rainy day fund”) equal to one month of annual average operating expenses. The budget stabilization reserve is to be used at the discretion of the Board of Directors for use in times of unexpected revenue shortfall caused by events such as significant economic downturns.

• Additional reserves may be created by the agency to set aside funds for specific future purposes. These reserves are to be used at the discretion of the Chief Executive Officer.

The reserve and budgetary contingency balances are to be reviewed annually during the budget development process to reflect the most recent financial information available. The allocations budgeted for these reserves will be published in the annual budget document and posted online, including the following information: (a) the balance at the end of the fiscal year, (b) deposits, (c) expenditures, and (d) interest income, if applicable.
Reserves and Budgetary Contingencies Policy

Sound governmental practices require the creation and maintenance of financial reserve and contingency accounts to help stabilize the budget when needed, or to accumulate funds for future spending requirements. These accounts may be used to address funding issues that may occur periodically, such as temporary cash flow shortages, emergencies or other unforeseen events, long-term capital needs, and one-time opportunities.

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Section 451.134 of the Texas Transportation Code establishes minimum reserve requirements for Capital Metro. The minimum reserve requirement is not less than an amount equal to actual operating expenses for two months based on actual operating reserves for the 12 months preceding the annual adjustment to the reserve.

Capital Metro will maintain the following reserve and budgetary contingency accounts in addition to any cash balances that must be maintained to support current spending requirements. The Board of Directors recognizes that a period of time may be required to reach these balances. Capital Metro management will report annually to the Board of Directors as part of budget development and long-range planning processes on progress made to achieve these goals.

- A statutory operating reserve equal to at least two months of operating expenses. The prior fiscal year’s actual audited operating expenses will be used when calculating the allocation. The statutory operating reserve is to be used at the discretion of the Board of Directors only if the Board of Directors considers the expenditure necessary to address circumstances that could not have been planned or anticipated. Expenditures from the reserve should provide temporary financing for emergencies or unforeseen extraordinary needs.

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Reserves and Budgetary Contingencies Policy

Issued: September 24, 2010
Revised: January 28, 2019
Approved by: Board of Directors

Finance

Deleted: February 23, 2015
Deleted: only
Deleted: monthly
A self-insurance reserve equal to at least 25 percent of the prior fiscal year actual claim payments. The self-insurance reserve is to be used at the discretion of the Board of Directors only to fund claims not already included in Capital Metro’s budget for a given year.

A budget stabilization reserve (“rainy day fund”) equal to one month of annual average operating expenses. The budget stabilization reserve is to be used at the discretion of the Board of Directors for use in times of unexpected revenue shortfall caused by events such as significant economic downturns.

Additional reserves may be created by the agency to set aside funds for specific future purposes. These reserves are to be used at the discretion of the Chief Executive Officer.

The reserve and budgetary contingency balances are to be reviewed annually during the budget development process to reflect the most recent financial information available. The allocations budgeted for these reserves will be published in the annual budget document and posted online, including the following information: (a) the balance at the end of the fiscal year, (b) deposits, (c) expenditures, and (d) interest income, if applicable.
Approval of a resolution affirming the Charter Statement for the Finance, Audit and Administration Committee.
SUBJECT:
Approval of a resolution affirming the Charter Statement for the Finance, Audit and Administration Committee.

FISCAL IMPACT:
This action has no fiscal impact.

STRATEGIC PLAN:
Strategic Goal Alignment:
4. Human Capital

Strategic Objectives:
4.2 Enhance employee recognition/ reward programs

EXPLANATION OF STRATEGIC ALIGNMENT:
Capital Metro’s two board committees assist the Board of Directors in providing strong governance and play a key advisory role to the full board. Their expertise and in-depth look at issues before the board is vital to our long-term strategic planning.

BUSINESS CASE:
Does not apply.

COMMITTEE RECOMMENDATION:
This agenda item was presented and is recommended for approval by the Finance, Audit and Administration Committee on January 16, 2019.

EXECUTIVE SUMMARY:
In 2010, each of the committees of the Board of Directors adopted Committee Charter Statements defining their areas of responsibility. A periodic review of these charters was requested by the board upon adoption and allows the committees to ensure that the charters still meet the needs and parameters of each committee. This charter was last reviewed by the board in January, 2017. At this time there are no changes proposed for the charter.

DBE/SBE PARTICIPATION: Does not apply.

PROCUREMENT: Does not apply.

RESPONSIBLE DEPARTMENT: Board of Directors
RESOLUTION
OF THE
CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY
BOARD OF DIRECTORS

STATE OF TEXAS
COUNTY OF TRAVIS

RESOLUTION (ID # AI-2018-947)
Review of the Finance, Audit and Administration Committee Charter

WHEREAS, the Board of Directors has established committees made up of members of
the Board to consider specified areas of interest to the Authority; and

WHEREAS, the Board of Directors has adopted Committee Charter Statements that
define the roles and responsibilities of each of these committees; and

WHEREAS, the Board of Directors desires to review the Committee Charter Statement
to ensure that it reflects current roles and responsibilities.

NOW, THEREFORE, BE IT RESOLVED that the Capital Metropolitan Transportation
Authority Board of Directors hereby affirms the attached Committee Charter Statement
for the Finance, Audit and Administration Committee.

__________________________________________
Secretary of the Board

Date: _________________________________
CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY
FINANCE, AUDIT AND ADMINISTRATION COMMITTEE CHARTER

PURPOSE
To assist the Capital Metropolitan Transportation Authority (Capital Metro) Board of Directors in fulfilling its oversight responsibilities for accounting and financial reporting processes, the system of internal controls, the audit processes, and systems for monitoring compliance with laws, regulations, and the Capital Metro Code of Ethics.

Executive management is responsible for preparing complete and accurate financial statements, managing business and financial risk, and for monitoring internal controls and compliance with all applicable laws, regulations, and internal policies and procedures. The Board of Directors has oversight responsibility in these areas and is charged with establishing and supporting an adequate control environment within the organization for ensuring accountability and demonstrating proper stewardship over public funds.

AUTHORITY
The Finance, Audit and Administration (FAA) Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Ensure the independence of any registered public accounting firm employed by Capital Metro.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Provide oversight and direction of the internal audit function.
- Use independent counsel, accountants, auditors, or others to advise the FAA Committee or to assist in the conduct of an investigation.
- Seek any information it requires from employees—all of whom are directed to cooperate with FAA Committee requests—or external parties.

MEMBERSHIP
The FAA Committee shall consist of at least three members of the Board of Directors. The Board will appoint FAA Committee members and the FAA Committee Chairperson. Each member of the FAA Committee must be financially literate, as the Board interprets such qualification in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment. In addition, one member of the FAA Committee must be a metropolitan planning organization appointee with at least 10 years of experience as a financial or accounting professional.

Committee members shall be free of any relationship that would interfere with his or her individual exercise of independent judgment.

EDUCATION
Capital Metro executive management is responsible for providing the FAA Committee with educational resources related to accounting principles and procedures, risk management, ethics, and other information that may be requested by the FAA Committee. Capital Metro executive management shall assist the FAA Committee in maintaining appropriate financial and compliance literacy.
MEETINGS
The FAA Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All meetings will be conducted in accordance with the Texas Open Meetings Act. FAA Committee members are expected to attend each meeting. The FAA Committee may direct members of management, auditors, or others to attend meetings and provide pertinent information, as necessary.

RESPONSIBILITIES
The FAA Committee will carry out the following responsibilities:

Financial & Other Reporting: The FAA Committee shall provide reasonable assurance to the Board that financial information reported by management substantively portrays Capital Metro’s financial condition, results of operations, plans, and long-term commitments. The FAA Committee may review other reports requiring Board approval prior to submission to public sector entities. The FAA Committee will:

- Review fiscal, investments, and other financial management policies and practices including but not limited to:
  - Operating & Capital Budgeting
  - Procurement and contracting
  - Revenue (e.g., grants, fare structure, new revenue opportunities including partnerships with external entities)
  - Debt and investments
  - Disadvantaged Business Enterprise (DBE) Program
  - Insurance and risk management
- Review financial statements, including interim financial statements, auditor’s opinions and management letters and consider whether they are complete, consistent with information known to FAA Committee members, and reflect appropriate accounting principles.

Internal Control: The FAA Committee shall understand Capital Metro’s key financial reporting risk areas and the internal control structure. The FAA Committee will:

- Consider the effectiveness of Capital Metro’s internal control systems, including information technology security and control.
- Understand the scope of internal and external auditors’ review of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management’s responses.
- Review and provide oversight for technology investments and processes that support the Authority’s strategic financial goals and objectives.
- Review the reports and results of internal and external audits.

Internal Audit: The FAA Committee shall provide direct oversight of Capital Metro’s internal audit function. To facilitate the effectiveness and independence of the internal audit function, the internal audit function is ultimately accountable to the Board of Directors and the FAA Committee. The FAA Committee will:

- Make recommendations to the full Board of Directors regarding the appointment and removal of the Chief Audit Executive (CAE).
- Review annually with management and the CAE the charter, audit plans, activities, staffing, and organizational structure of the internal audit function.
• Ensure there are no unjustified restrictions or limitations on the internal audit function
  Review audit results, reports, and recommendations and ensure adequate management
  follow-up and resolution.
• Meet with the CAE to discuss any matters that the FAA Committee or internal audit believes
  should be discussed.
• Request internal auditors to perform special studies, investigations, or other services in
  matters of interest or concern to the FAA Committee or Board that may be outside the scope
  of the approved Audit Services Plan. Such projects could include investigation of areas of
  high control risk, potential or suspected fraud or other irregularities, compliance with laws,
  regulations, policies and procedures, or evaluation of external auditors.
• Conduct an annual performance review and evaluation of the CAE.
• Review the effectiveness of the internal audit function through periodic external quality
  assurance reviews.

External Audit: The FAA Committee shall assure independence in fact and in appearance of all
external financial assurance services. External auditors are ultimately accountable to the Board
of Directors and the FAA Committee. The FAA Committee will:

• Review the external auditors’ proposed audit scope and approach, including coordination of
  audit effort with internal audit.
• Consider the facts and circumstances of each case in order to determine if firm or audit
  partner rotation is needed in order to ensure an independent financial audit.
• Approve in advance any non-audit services by external auditors or their consulting
  practice/affiliates.
• External auditors shall not (1) provide non-audit services that involve performing
  management functions or making management decisions and (2) audit their own work or
  provide non-audit services that are significant or material to the subject matter of the audits.
• Meet with the external auditors to discuss any matters that the FAA Committee or auditors
  believe should be discussed in detail.
• Review with management and the external auditors the results of the audit, including any
  serious difficulties or disputes with management encountered during assurance work.

Compliance: The FAA Committee shall provide reasonable assurance to the Board of Directors
that its policies are being carried out and that systems are in place to ensure compliance with
laws and regulations. The FAA Committee will:

• Review the effectiveness of the system for monitoring compliance with laws and regulations
  and the results of management's investigation and follow-up (including disciplinary action) of
  any instances of noncompliance.
• Review the findings of any examinations by regulatory agencies, and any auditor
  observations.
• Review the process for communicating the Code of Ethics to company personnel and for
  monitoring compliance therewith.
• Obtain regular updates from the Board Ethics Officer and the Staff Ethics Officer regarding
  ethics and compliance matters.

Reporting Responsibilities: The FAA Committee will:
• Report and recommend action, as appropriate to the Board of Directors about FAA
  Committee activities, issues, and related recommendations.
• Provide an open avenue of communication between internal audit, the external auditors, and
  the Board of Directors.
• Review any other reports Capital Metro issues that relate to FAA Committee responsibilities.

Other Responsibilities:  *The FAA Committee will:*

• Perform other activities related to this charter as requested by the Capital Metro Board of Directors.
• Review and assess the adequacy of the FAA Committee Charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
• Confirm annually that all responsibilities outlined in this charter have been carried out.

**History:**
See most recent FAA Committee approvals at:
2015-56
[DOCUMENT_RECORDS_MGT-#335187-2009 Board Resolutions Nos. 057-068](Resolution CMTA-2009-60 p. 23/29)
[DOCUMENT_RECORDS_MGT-#209034-2007 Board Resolution November Nos. 084-089](Attachment: 2017 Finance, Audit and Admin Committee Charter  (4306 : F/A/A Committee Charter Review))
Approval of a resolution approving of the Fiscal Year 2018 performance review of the Vice President of Internal Audit.
SUBJECT:
Approval of a resolution approving the Fiscal Year 2018 performance review of the Vice President of Internal Audit.

The Committee's review of the performance of Terry Follmer, Vice President of Internal Audit, for Fiscal Year 2018 has resulted in a performance rating of _____.

FISCAL IMPACT:
Funding for this action is available in the FY2019 Operating Budget.

STRATEGIC PLAN:
Strategic Goal Alignment:
4. Human Capital

Strategic Objectives:
4.1 Enhance organizational development

EXPLANATION OF STRATEGIC ALIGNMENT:
As a leader in the organization, the performance review is used for improving the organizational development of the Internal Audit department and the Vice President.

BUSINESS CASE:
Completing performance reviews are needed to assess the employee's performance throughout the fiscal year, provide input for improvement and to use for establishing the annual merit review.

EXECUTIVE SUMMARY:
By statute, Capital Metro's Vice President of Internal Audit reports directly to the Board of Directors. The Board has delegated development of the performance plan and the performance review process for the Vice President of Internal Audit to the Finance, Audit, and Administration Committee.

The Committee's review of the performance of the Vice President of Internal Audit for Fiscal Year 2018 has resulted in a performance rating of _______.

DBE/SBE PARTICIPATION: Does not apply.

PROCUREMENT: Does not apply.

RESPONSIBLE DEPARTMENT: Human Resources
WHEREAS, the Vice President of Internal Audit reports to the Board of Directors; and
WHEREAS, the annual review of the Vice President of Internal Audit’s performance has been delegated by the Board to the Finance, Audit, and Administration Committee.
NOW, THEREFORE, BE IT RESOLVED that the Fiscal Year 2018 performance review of the Vice President of Internal Audit, has resulted in a performance rating of ______.

________________________
Secretary of the Board

Date: ____________________
TITLE: Internal Audit Open Audit Updates
TITLE: Internal Audit Semiannual Implementation Status
Semi-Annual Follow-up on Audit Recommendations - November 2018 (19-02)

Terry Follmer, VP of Internal Audit

Distribution List:
Capital Metro Board of Directors
Randy Clarke, President and CEO
Elaine Timbes, Deputy Chief Executive Officer and Chief Operating Officer
Kerri Butcher, EVP, Chief Counsel & Chief of Staff
Donna Simmons, EVP, Administration & EEO Officer
Todd Hemingson, EVP, Strategic Planning & Development
Reinet Marneweck, EVP, Chief Financial Officer
Dottie Watkins, VP, Bus Operations
David Dech, VP, Rail Operations
Ken Cartwright, VP, Capital Projects
Jane Schroter, Interim VP, Chief Information Officer
Shanea Davis, VP, Real Estate, Property & Asset Management
Chad Ballentine, VP, Paratransit & Innovative Mobility Solutions
Brian Carter, VP, Marketing and Communications
Gardner Tabon, VP, Safety, Risk Management, and Accessible Services
Muhammad Abdullah, Director Procurement
Lea Sandoz, Controller
Executive Summary

As part of our annual Audit Plan approved by the Capital Metro Board, we conducted the semi-annual status review of all open audit recommendations as of November 30, 2018. The audit objective and conclusion on the implementation of the corrective action plans follow.

Audit Objective & Scope

The objective of the audit was to determine whether management has successfully implemented action plans in response to the recommendations provided in internal audit reports. In order to monitor the disposition of audit recommendations, the Internal Audit Department conducts two follow-up audits (semi-annual) per fiscal year (May and November). This report reflects the status as of November 30, 2018, for the outstanding corrective action plans (CAP’s) resulting from internal audits projects.

Conclusion on Corrective Action Plans

Overall, we determined that there are three audits reports with open recommendations, and management is in the process of implementing the remaining five open recommendations. Table 1 listed below, provides a summary breakdown of management’s progress towards implementing the open recommendations.

Table 1: Summary Status of Open Recommendations

<table>
<thead>
<tr>
<th>Project #</th>
<th>Report Date</th>
<th>Project Name</th>
<th>Total # of Audit Recommendations</th>
<th>Implemented as Recommended</th>
<th>In Process of being Implemented</th>
<th>Rejected / Management has accepted the risk</th>
<th>% Implemented</th>
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<tr>
<td>16-06</td>
<td>5/11/2016</td>
<td>Investment Recovery Audit</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>80.0%</td>
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<tr>
<td>17-05</td>
<td>6/14/2017</td>
<td>Professional Services Audit</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>50.0%</td>
</tr>
<tr>
<td>18-05</td>
<td>8/9/2018</td>
<td>AX ERP System - Segregation of Duties Audit</td>
<td>3</td>
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<td>10</td>
<td>5</td>
<td>5</td>
<td>0</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

In our opinion, management has made reasonable progress in implementing the recommendations and open corrective action plans. Additional details related to all open recommendations can be found in Appendix A.

This audit was conducted by the following staff members in the Capital Metro Internal Audit Department:

Jeannette Lepe, Internal Auditor II (Project Lead)
Terry Follmer, VP of Internal Audit

We want to thank management for their support and good progress in implementing the open corrective action plans.
APPENDIX A – DETAILS OF OPEN AUDIT RECOMMENDATIONS

Prior Recommendations and Audit Results

As required by the Institute of Internal Auditors’ International Professional Practices Framework, we have reviewed all open audit recommendations. Based on our review, we identified five open recommendations directly associated with three audit engagements. Listed below are the name of the audit project and report date, original recommendation and target completion date, 11/30/18 open action plans, and revised target completion dates and updated action plans if applicable.

INVESTMENT RECOVERY AUDIT (5/11/2016 Report Issued)

RECOMMENDATION 1: Consolidate and expand guidance on surplus property disposition.

OPEN ACTION PLANS: (Procurement Department – Danny Solano, Bryan Barglsley; Finance Department – Lea Sandoz)

1b. Update Fixed Assets Capitalization and Disposal Policy and related Property Disposal Form. The Controller or her designee will modify the Fixed Asset Disposal Form and the existing “Fixed Assets Capitalization & Disposal Policy” by 1) referencing Procurement Disposal Policy and 2) eliminating any language found in the Procurement Policy. Form revisions will be complete by September 30, 2016. Policy revisions will be completed as soon as Procurement’s Disposal Policy is complete.

Management’s Updated Target Completion Date & Comments: March 31, 2019

The Fixed Assets Capitalization and Disposal Policy and related Property Disposal form is in the process of being updated and will need to be reviewed and approved by the Policy Committee.

PROFESSIONAL SERVICES AUDIT (6/14/2017 Report Issued)

RECOMMENDATION 1: Develop a process to approve, track, and monitor professional service projects that use task orders.

OPEN ACTION PLANS: (Deputy CEO/COO Elaine Timbes)

1c. Management will develop a reporting process, to be completed quarterly, that will provide the status of each Task Order driven project. Information will include Total project budget; YTD expenditures; Budget balance; List of contract deliverables; Status of deliverables; Any contract compliance issues; Final contract closeout. Target Implementation Date: 10/1/2017
Management’s Updated Target Completion Date & Comments: January 31, 2019

IT is working to create new reports to improve management visibility on the status of the task orders, in order to identify and track activity against purchase agreements.

AX ERP SYSTEM - SEGREGATION OF DUTIES AUDIT (08/09/2018 Report Issued)

RECOMMENDATION 1 (Vendor System Administrator Usage on System): Management should only provide System Administrator rights when needed, and this access should be removed once maintenance is performed. Additionally, logging and monitoring of System Administrator accounts should be in place for all accounts.

OPEN ACTION PLANS: (Ron Ledesma – System Analyst)

IT will create a Service Now ticket when providing IT Contractor Staff the System Administrator role. The ticket shall remain open until the role is removed. Target Complete Date: 08/30/2018

Management’s Updated Target Completion Date & Comments: January 31, 2019

IT is using the Service Now system to track open tickets assigned to IT Contractor Staff and is working to create a reporting mechanism to ensure timely removal of access.

RECOMMENDATION 2 (Logging & Monitoring of SOD Conflicts): Management should consider defining and implementing the necessary logging and periodic monitoring of user access to ensure that compensating controls are present to detect inappropriate transactions due to limited segregation of duties.

OPEN ACTION PLANS: (Lea Sandoz – Controller)

The controller will define and implement monitoring of SOD conflicts based on the developed list. Target Complete Date: 08/15/2018

Management’s Updated Target Completion Date & Comments: February 28, 2019

Changes were recently deployed in the AX ERP System, and Management is in the process of monitoring of SOD Conflicts identified.

RECOMMENDATION 3 (Optimizing User Access Profiles & Descriptions):
Management should consider making the following improvements to user access and security controls:
• Review users who have been assigned multiple roles and consider developing a single custom role that reflects only the need to know and need to do within the system.

• Review all users and roles that have the “setup” capability and limit this access based upon a need to know and need to do.

• Consider renaming descriptions that do not accurately reflect users capabilities in the AX system, which will help in the analysis and administration of system access.

**OPEN ACTION PLANS:** *(Lea Sandoz – Controller, GVSRK Prasad – Application Systems Analyst)*

IT will review and limit access on roles as deemed appropriate as directed by the Controller. Descriptions of roles will be updated to accurately reflect roles. Target Complete Date: 04/30/2019

**Management’s Updated Target Completion Date & Comments:** N/A – this action plan is not due until 04/30/2019.
TITLE: Internal Audit Purchasing Card Report
PURCHASING CARD PROCESS AUDIT
(19-03)

Terry Follmer, VP of Internal Audit

Distribution List:
Capital Metro Board of Directors
Randy Clark, President and CEO
Elaine Timbes, Deputy Chief Executive Officer and Chief Operating Officer
Kerri Butcher, EVP, Chief Counsel & Chief of Staff
Donna Simmons, EVP, Administration and EEO Officer
Todd Hemingson, EVP, Strategic Planning & Development
Reinet Marneweck, EVP, Chief Financial Officer
Dottie Watkins, VP, Bus Operations
David Deck, VP, Rail Operations
Ken Cartwright, VP, Capital Projects
Jane Schroter, Interim, VP, Chief Information Officer
Shanea Davis, VP, Real Estate, Property & Asset Management
Chad Ballentine, VP, Paratransit & Innovative Mobility Solutions
Brian Carter, VP, Marketing and Communications
Gardner Tabon, VP, Safety, Risk Management and Accessible Services
Executive Summary

As part of our FY2019 Audit Plan approved by the Capital Metro Board, we performed an audit of the Purchasing Card Process across the accounting and procurement departments. The overall objective is to review the P-card process and related controls. The audit results including the objective, scope, and conclusion are as follows.

Background

Capital Metro has contracted with JP Morgan Chase for the Purchasing Card (P-Card) to enable a fast, flexible, and cost-effective alternative to the existing Capital Metro “micro” purchasing process. The purpose of the P-card program is to provide an efficient and effective method of procuring and paying for micro purchases (i.e. < $2999 for goods and services) and FY2018 expenditures totaled $994,767. The P-card Program is administered by Finance Department, and the P-cards are in Capital Metro’s name and issued to specific employees (i.e. Cardholders), and all charges are billed to and paid directly by Capital Metro. As of August 31, 2018, there are 56 active Cardholders and most of the cards have a credit limit capped at $3,000. The JP Morgan Smartdata system logs all P-card activities and provides the following functionality: assign transaction limits, update and signoff on purchase transactions, submit dispute notifications, ability to use canned reports, create ad hoc reports and exports, customize fields, provide accounting allocation codes and more.

The Accounting Department has put in place various controls to monitor Cardholder activity in the Smartdata system (see Exhibit A – P-Card Process Flowchart). Cardholders are required to review their transactions in the Smartdata system and enter the accounting including description, reason and accounting code for each transaction. Cardholders are also required to submit itemized receipts and/or packing slips for each transaction on the monthly package. The monthly package includes the supporting documentation and is submitted to the Finance Department via electronic scan or hard copy. Note, the Cardholder’s manager is required to approve all transactions in the Smartdata System and by signing the hard copy of the monthly package by the 3rd business day of the following billing cycle. The Program Administrator in the Finance Department downloads the data from the Smartdata System and reviews each transaction for compliance with the agency policies. The Purchase Card Policy (Fin-103) defines responsibilities for the cardholder, the cardholder’s manager, Program Administrator, and the Procurement Department which includes some redundancy. Every two months after the billing cycle closes, the Procurement Department reviews P-card transactions for compliance with the Acquisition and FIN-103 Policies, with a focus on vendor rotation, prohibited commodities/services, bid split and/or serial purchases.
Audit Objective & Scope

The primary objective of the audit was to review the P-Card process and related controls to determine whether expenditures are allowable/appropriate and whether approvals and reviews are completed. The scope of this project included reviewing and analyzing the Smartdata from JP Morgan for the period of January 2018 – October 2018, review approved expense report and documentation, and interview program officials responsible for managing the purchase card program.

Opinion

Internal controls are in place and functioning as intended. Although, internal controls were adequate, we noted manual processes could be streamlined in the Purchasing Card policy through the following:

1. **Clarify Job Duties and Responsibilities related to P-Card Reviews**
   
   Policy Fin-103 Purchasing Card Policy defines responsibilities for the Purchasing Card Holder, the Cardholder’s manager, Program Administrator and Procurement Manager that defines processes that could be streamlined to ensure responsibilities are clarified to eliminate duplication of efforts.

2. **Automate Manual P-Card Compliance Reviews**
   
   We noted that the reviews completed in the Finance and Procurement Departments are completely manual and are not leveraging potential automated checks that could be built into the JP Morgan Smartdata system or leveraging macros in Excel to automate checks for errors, missing data and non-allowable P-card activity.

This audit was conducted in accordance with US Government Accountability Office’s Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was conducted by the following staff members in the Capital Metro Internal Audit Department and two Graduate of Accounting Students from University of Texas:

- Jeannette Lepe, Internal Auditor II (Project Lead)
- Terry Follmer, VP Internal Audit

We appreciate the cooperation and assistance provided to us throughout this audit.
Exhibit A
Current P-Card Process Flowchart

= Cardholders (Individual P-card Users, Various Departments)

= Charlie Natal, Accountant II, Finance Department (Program Administrator)

= Terri Wilson, Senior Administrative Assistant, Finance Department

= Approvers (Managers, Various Departments)

= Danny Solano, Manager Small Purchasing & Investment Recovery, Procurement Department
TITLE: Internal Audit DMU Maintenance Program Report
COMMUTER RAIL - DMU MAINTENANCE PROGRAM, OVERSIGHT OF HERZOG (19-01)

Terry Follmer, VP of Internal Audit

Distribution List:
Capital Metro Board of Directors
Randy Clarke, President and CEO
Elaine Timbes, Deputy Chief Executive Officer and Chief Operating Officer
Kerri Butcher, EVP, Chief Counsel & Chief of Staff
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Brian Carter, VP, Marketing and Communications
Gardner Tabon, VP, Safety, Risk Management, and Accessible Services
Muhammad Abdullah, Director Procurement
Lea Sandoz, Controller
Anita Deibert, Procurement Manager
Rafael Villarreal Jr., Director of Contract Oversight – Bus and Paratransit Services
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EXECUTIVE SUMMARY

As part of our FY2017–2018 Audit Plan approved by the Capital Metro Board, we performed an audit of the DMU Vehicle Maintenance Program, to ensure critical contractual obligations are being performed according to contract specifications, and to determine if the Authority’s quality assurance oversight effectively monitors Herzog’s maintenance activities to ensure the safety and reliability of commuter rail vehicles. The audit results including the objective, scope, and conclusion are as follows.

Background

In March 2010, Capital Metro began commuter rail service on the Red Line between Downtown Austin and the City of Leander, TX. Capital Metro has contracted out the responsibility for operating the commuter rail service, as well as the preventive maintenance activities, to Herzog Transportation Services, Inc. The current Commuter Rail Operations Contract No. 137666 commenced on October 1, 2015, has a term of seven years for an award amount of $117,580,749. Under this fixed cost contract, Herzog is responsible for providing maintenance and overhaul services for the company’s Diesel Multiple Unit (DMU) Fleet and locomotives, dispatching, operations, and signals. They are also responsible maintenance for the overhauls of the original fleet of six DMU was scheduled to go through their first major overhaul during FY16-17 at a total cost of $4,942,195 which was completed in FY18.

Capital Metro has put in place a very specific and detailed contract covering Herzog’s required activities (i.e., Scope of Services), and compliance with the contract is critical to the success of the rail program. Another contractual tool that Capital Metro has put in place to ensure Herzog performance under this fixed cost contract is Performance Deficiency Credits (PDC – similar to liquidated damages) that covers more than 24 different areas and allows Capital Metro to assess a penalty (see Appendix A) and discount the monthly Herzog fixed cost payment for any deficiencies in performance. Rail Operations is responsible for overseeing and assessing these PDC’s. To ensure these contractual provisions are performed adequately, a Contract Monitoring Plan (CMP) has been developed by Capital Metro to identify the critical contractual terms and assign monitoring responsibilities, frequency, and methods to ensure satisfactory contractor performance. The CMP covers the monitoring, testing and oversight activities that Capital Metro performs and documents to validate that key contractual terms are being followed by Herzog.

Capital Metro has put in place various roles to help ensure the oversight, check and balances related to the monitoring of Herzog’s work. The critical role within the CMP is the Project Managers (PM) who are responsible for contract deliverables by Herzog. These positions are responsible for defining metrics, conducting measurements, and analyzing results. Additionally, the measurements and observations are used as a criterion in determining the success of contract management and are to be reviewed by the Director and Vice president, of Rail Operations. According to the CMP, the PM’s are to measure the contract quality by defining and performing the following:

1. Ensure contract monitoring are implemented.
2. Define how contract quality will be managed.
3. Define quality assurance activities.
4. Define acceptable monitoring standards.
There is a Contracting Officer Technical Representative (COTR) as defined in the June 11, 2018 letter (see Appendix F) sent to Herzog, and this role has been assigned to the Director of Rail Operations. The Director of Rail Operations also provides oversight of all Capital Metro Rail Operations and Maintenance contracts, with a focus on contract management, schedules, estimates, costs controls, documentation control and quality assurance/quality control. As the COTR, she also evaluates contractor performance as directed by the Contracting Officer (CO) and acts as a final review official for issues concerning contractor’s performance. The Contracting Officer listed in the COTR is the Director of Procurement. Also, within Procurement a Contract Administrator (CA) has been assigned to this contract which is to “certify invoices with contractual terms and conditions” per the CA job description. The Director of Rail Operations (COTR) also has several positions (i.e., Program Managers covering Rail Transportation, Rail Fleet Services and Maintenance) who help her in the oversight and monitoring of the Herzog contract. The majority of the Capital Metro Rail Operations management team is new and has turned over in the last year.

Herzog is required to use Capital Metro systems to plan and document the performance of their work. The main Capital Metro systems used by Herzog are as follows: Spear asset management system (AMS); Railcom System used for dispatching; Microsoft SharePoint to save all reports and documents required by the contract; Microsoft Office 365 for email, etc. In regard to the maintenance of Capital Metro’s DMU fleet, the primary system used is Spear which supports the process of deploying, operating, maintaining, upgrading, and disposing of assets. Herzog utilizes the AMS system, to create work orders, part orders, record defects and repair information, view work performed service history, close work order, etc.. The contractor uses the AMS to record the inspections and detail any conditions found during the inspections. Herzog is required to record all inspection and repair part activity in the AMS, which creates monthly reports for FRA test compliance.

**Audit Objective & Scope**

The primary objective of this audit is to determine whether the DMU Vehicle Maintenance Program performed by Herzog follows contract terms and expenditures are allowable and appropriate. Additionally, the oversight and monitoring of contractor performance by Capital Metro was evaluated to ensure that controls in place and operating effectively to verify that the contractor is fulfilling key responsibilities and complying with contract terms.

The audit scope was limited to DMU maintenance on contract #137666 awarded to Herzog Transit Services, Inc. on July 8, 2015, with the effective date October 1, 2015, and those responsibilities directly delegated to this contractor, either implicitly or explicitly. The scope of this project covered Herzog’s maintenance, quality assurance activities, and related billings for the fourteen-month period from May 2017 through June 2018.

We are displaying in Figure 1. Functional Relationships among CMTA departments and Herzog’s Commuter Rail Operations Contract.
Figure 1. Functional Relationships among CMTA Departments and Herzog’s

Source: Internal Audit analysis of CMTA information

Opinion

Internal controls require improvement in the following areas: contract monitoring plan (CMP) and documentation of Herzog performance monitoring; improving controls over invoice certification and ensuring all eligible incentives and disincentives are being assessed; revise job descriptions to support the Contract Monitoring Plan and drive compliance with the Herzog contract’s Scope of Services; and increased oversight needed of the spare part prices and quantities in the asset management system. This is the first internal audit of the DMU maintenance program and management within Rail Operations has turned over significantly in the last year which we believe is a contributing cause to the weaknesses identified. The new Rail Operations team is committed to improving internal controls and oversight of Herzog, but the implementation of the FRA required Positive Train Control system will continue to be the top priority until 2019.

This audit was conducted in accordance with US Government Accountability Office’s Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was conducted by the following staff members in the Capital Metro Internal Audit Department:

- Satish Parikh, Internal Auditor II (Project Lead)
- Terry Follmer, VP of Internal Audit
Recommendations to strengthen controls and improve accountability were provided to management. Management agrees with the internal audit recommendations and has provided target completion dates which are included in the detailed audit report below. A follow-up audit is performed semi-annually (i.e. May and November) to ensure management action plans for all issued audit reports are completed timely.

We appreciate the cooperation and assistance provided to us throughout this audit.
## Issues & Risk

### 1. CONTRACT INCENTIVES & DISINCENTIVES — TRACKING AND APPROVALS

Exhibit H (see attached Appendix A) of the Herzog contract covers incentives and penalties based upon Herzog’s performance. There are more than 24 different types of payment adjustments covering everything from required maintenance (i.e., preventive, track, signal, etc.), on-time performance, reporting, and accidents, with disincentives ranging from $300 per incident to $1,000 per day for non-performance. The incentive and disincentives are meant to be adjustments made to the monthly fixed cost billings received from Herzog. We reviewed the controls related to Exhibit H (Payment Adjustments) and noted the following weaknesses:

- There is no checklist or documentation to show that all incentives and disincentives have been reviewed and taken by Capital Metro on the monthly invoice.
- There are no delegated approval levels for disincentives identified and not taken, and decisions are made solely within Rail Operations.
- Various reports on the required CDRL list (Appendix B) have not been received including annual audited financial statements and complete NTD reports for 2015 to current.
- The design of controls to ensure that PDC’s are being identified evaluated are taken is not present.
- Our review of transactions identified a month whereby a considerable Performance Deficiency Credit was identified but not taken. The former VP of Rail approved the deduction omittance on this invoice, but there is no written justification as to why the deduction was not taken.
- There is no separate general ledger account to track incentives and performance deficiency credits. Instead, these adjustments are just netted against the invoice payment which minimizes transparency and analysis.

### Recommendation

The VP of Rail, COO and CFO will develop the following internal control enhancements:

- **a)** A monthly Performance Deficiency Credit Checklist (PDC) will be designed that lists each type of PDC.
- **b)** The Monthly PDC Checklist will identify all eligible PDC’s, and if there is a difference between eligible PDC’s and PDC’s deducted from the invoice, there will be tiered authority levels based upon the materiality that may require approval from Legal, COO, CFO, and President.
- **c)** Rail Operations will prepare this monthly PDC Checklist which will be reviewed and approved by the COTR and submitted to Accounting with Herzog invoice for appropriate payment adjustment and record filing.
- **d)** Separate general ledger accounts should be created to track the incentive and PDC’s that either increase or decrease the amount paid to the contractor. Finance will enter the data into the AX system based upon the review sheets to be provided by Rail Operations.

### Management Action Plan

Management agrees with the recommendations.

**Target Completion Date:**

1/30/19
<table>
<thead>
<tr>
<th>Issues &amp; Risk</th>
<th>Recommendation</th>
<th>Management Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2. INVOICE CERTIFICATION</strong></td>
<td>The Controller and Director of Rail Operations will improve internal controls over payments as follows:</td>
<td>Management agrees with the recommendations.</td>
</tr>
<tr>
<td>The monthly invoice from Herzog is a quite large fixed price (i.e., &gt; $1 million) and complex covering various items in the scope of services. We noted that all invoices paid had the proper electronic approvals in the AX ERP system, but no one with detailed knowledge of the activity was officially certifying the invoice. We noted that there were some DMU Overhaul charges that were inadvertently billed and paid in advance of the work being performed, but when this was discovered by Rail Operations and Procurement, this was not communicated to the Accounting Department for proper accounting treatment as a prepaid expense. During FY18 all prepaid DMU overhaul maintenance was completed and there is no balance due as of 9/30/18.</td>
<td>a) An Invoice Certification form (see Appendix E for example) will be developed stating material and services billed have been received.</td>
<td><strong>Target Completion Date:</strong> 1/30/2019</td>
</tr>
<tr>
<td>b) Invoice certification form will be signed monthly by the COTR (i.e., Director of Rail Operations), and then submitted with invoice and Monthly PDC Checklist to Accounting for payment.</td>
<td>c) An example of an Invoice Certification form is in Appendix E that Capital Metro may consider for prototyping their own form.</td>
<td></td>
</tr>
</tbody>
</table>
### Issues & Risk

#### 3. COMPLIANCE WITH CONTRACT MONITORING PLAN

The Contract Monitoring Plan (CMP) “provides assurances of compliance” for the rail operations, dispatch, and maintenance performed by Herzog. The purpose of the CMP is to define and manage contract monitoring controls covering quality. We reviewed the CMP and noted the following weaknesses:

- There are six specific positions listed as Project Managers which serves as the key control position in the CMP functioning as quality assurance, however monitoring activities are not being documented as follows: all meetings are to be documented; “CMP random sampling forms” have not been created; routine inspections are to be documented; and the preventive maintenance “sampling database” had some quarters in FY18 with no documented testing by the Program Manager of Rail Fleet Services.
- An Audit Inspection Report form (see Appendix C) has been developed to evidence contract compliance and quality controls as part of the CMP. We noted that this one-page form is not being used every quarter and has not been designed to capture sufficient audit inspection details. At the time of the audit, there was limited written documentation to evidence the execution of the CMP and related quality assurance activities.
- The quality of Herzog’s Preventive Maintenance (PM) work was not evaluated and metrics were not developed to measure consistency.
- Cap Metro Rail Operation does not have written policy and procedures for the department performance activities.
- Rail Operations is over reliant on data provided by Herzog and is not documenting their oversight functions.
- The CMP is to be reviewed and updated annually, but the CMP we received at the beginning of the audit was dated 6/1/16.

A contributing factor to the conditions noted above is the fact that the Rail Operations Department had significant personnel vacancies and turnover in the last year.

### Recommendation

The Director of Rail Operations will implement the following CMP improvements:

- a) Provide clarity in the CMP as to who are the Project Managers, and how this oversight will be split between the individuals responsible for rail operations, dispatch, signaling, and maintenance.
- b) An improved Audit Inspection Report form will be developed and implemented covering contract compliance and quality assurance monitoring activities. The types of inspections and how often this form should be completed and filed will be defined and implemented.
- c) Develop Rail Operation Policies and Procedures that are specific to the Herzog contract covering: quality performance review and sampling requirements; preventive maintenance and DMU overhauls; asset management and recordkeeping including part costs in accordance with the contract; safety; invoice certification; and how to use the Audit Inspection Report.
- d) The CMP will be redesigned to ensure appropriate contractual internal controls and data is being recorded, managed, and monitored to oversee contract compliance effectively.
- e) The CMP will be reviewed and updated annually.

### Management Action Plan

Management agrees with the recommendations.

**Target Completion Date:**

6/30/19
## JOB DESCRIPTIONS & CONTRACTOR OVERSIGHT

We reviewed the job descriptions for contractor oversight for both Rail Operations and Procurement, and compared to the Contract Monitoring Plan (CMP), COTR Letter and noted the following weaknesses:

- The Contract Administrator (CA) job descriptions in Procurement are listed with the responsibility of “certifying invoices agree with the contractual terms and conditions,” but they do not have the day to day oversight to perform this function adequately.

- The job descriptions and CMP listed Rail Operation positions do not mention certifying invoices or escalating contract compliance issues to Procurement (i.e. Contract Administrator and Contracting Officer) for resolution.

- The CA job description has the responsibility to monitor contract performance by examining invoices, contract terms, CMP to ensure contractor compliance; develop and monitor corrective actions for audit exceptions; but the CA position is not listed or described in the CMP and there is no continuous quality assurance reporting from the PM’s to the CA.

### Recommendation

The VP of Rail Operations and the Director of Procurement should implement the following improvements:

- Review Herzog contract Scope of Services, with a detailed focus on the CDRL, PDC’s and monitoring plan. Using this information develop a RACI Matrix (example in Appendix D) for each line item and show who is Responsible, Accountable, Consulted, Informed (RACI) between the various positions in Capital Metro Rail Operations, Procurement, and Herzog.

- The roles and responsibilities of those who perform, and monitor contract and oversight activities of Herzog should be clearly defined in the job descriptions, CMP and/or RACI Matrix.

- The audit check list should be revised for quality performance review and clear oversight of monitoring performed.

- Define, assign, and document the roles and responsibilities of the key officials responsible for managing and oversight the Herzog contract.

### Management Action Plan

Management agrees with the recommendations.

**Target Completion Date:**

6/30/19
## Issues & Risk

<table>
<thead>
<tr>
<th>Contractor Staffing Changes &amp; Reporting</th>
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<tbody>
<tr>
<td>We noted the Monthly Staffing Report received from Herzog shows headcount for approximately 89 employees broken out by area (e.g., DMU maintenance; transportation, dispatch, etc.), but the report does not have columns to reflect new employees and terminations, and it is not shared with the IT Department. This additional information is necessary to ensure Capital Metro IT employees make the appropriate user access account changes for hiring and terminations. Discussions with the IT Service Desk disclosed that the required online Access Request form to be completed for all personnel changes is not being completed timely by Herzog. Therefore system access changes are being delayed creating unnecessary risk.</td>
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## Recommendation

<table>
<thead>
<tr>
<th>The VP of Rail will work with Herzog to achieve the following staff reporting changes:</th>
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<tbody>
<tr>
<td>a) The Monthly Staffing Report will include a column showing new hires and terminations and will be sent to the IT Service Desk and Security Departments to ensure all Herzog personnel changes for the month have been made.</td>
</tr>
<tr>
<td>b) Herzog will submit staffing changes in real time directly to the IT Service Desk, Security and Rail Operations. An IT Access Request form will be submitted for any new hires, terminations or requested access changes to systems.</td>
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</table>

## Management Action Plan

<table>
<thead>
<tr>
<th>Management agrees with the recommendations.</th>
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<td><strong>Target Completion Date:</strong> 12/31/2018</td>
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</tbody>
</table>
6. **SPEAR ASSET MANAGEMENT SYSTEM & RECORDKEEPING**

Capital Metro uses an asset management system called Spear to maintain all asset records related to rail, bus, spare parts, and other assets. Spear supports the process of deploying, operating, maintaining, and upgrading and disposing of assets. The contact with Herzog requires them to make all updates in the Spear system for any changes in assets and maintenance performed. Herzog uses Spear to create work orders, parts orders, record inspections, and defects repair records, view service history, close work orders, etc. We noted the following issues/weaknesses:

- Although spare parts are owned by Herzog, we noted that crucial information like part prices and quantities on hand are not monitored by Capital Metro. Additionally, there is no oversight of any physical inventories performed by Herzog. However, the contract clearly states that Capital Metro “reserves the right” to buy back the parts from Herzog at the end of the contract “at the purchase price entered into the asset management system.” Furthermore, and deficiency in the record keeping and oversight will make the valuation of this inventory impossible if the Herzog contract is terminated.

- Knowledge of spare parts usage and prices is necessary to help in future contract negotiations with Herzog.

- We noted terminated employees whose access to the Spear system was not timely removed (see audit issue #5 above).

- Watco is mainly a maintenance jobber, who sends the rail equipment to third parties to perform the repairs and overhauls. Ensuring maintenance records are accurately updated for third party work performed requires more attention.

- Different accounting treatment as to the $2.9 million in DMU parts and $2.3 million Signal & Rail Parts given to Herzog on 10/1/15, which is being amortized over 5 years, versus the $2 million in spare parts purchased and delivered to Herzog in September 2018 with the 4 new DMU’s which is being expensed as it is being consumed each month.

- The Spear System will be replaced with the Infor system during FY19, so all asset management records need to be accurate for this implementation.

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<thead>
<tr>
<th>Issues &amp; Risk</th>
<th>Recommendation</th>
<th>Management Action Plan</th>
</tr>
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<tbody>
<tr>
<td><strong>The VP and Director of Rail Operations should consider the following internal control improvements:</strong></td>
<td></td>
<td>Management agrees with the recommendations.</td>
</tr>
<tr>
<td>a) For multiple reasons, Capital Metro has a vested interest in ensuring that the Herzog spare part records are accurate in both quantity and price. The highest risk is the parts previously provided by Cap Metro to Herzog, and management has a new position called Program Manager, Inventory Management to monitor these parts. All other parts are purchased by Herzog who has the risk of loss. At least once a year management should consider assurance services related to physical inventories and/or cycle counts to ensure the completeness and accuracy of the inventory.</td>
<td></td>
<td><strong>Target Completion Date:</strong></td>
</tr>
<tr>
<td>b) Personnel changes at Herzog must be reported timely to the IT Help Desk so that user access changes can be made within 24 hours.</td>
<td></td>
<td>1/31/2019</td>
</tr>
<tr>
<td>c) Evaluate controls to ensure that maintenance and repairs performed by third parties subcontracting with Herzog are timely and accurately updated into the Spear system.</td>
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<td></td>
</tr>
<tr>
<td>d) Accounting treatment for spare parts given to Herzog is not consistent.</td>
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<tr>
<td>e) Ensure all fixed asset and spare parts data is complete and accurate in the Spear system before conversion/implementation to the Infor system.</td>
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</tbody>
</table>
7. **Evaluate Resource Management & Staffing for Proper Oversight of Herzog**

The Rail Operations staff has a very large statement of work with responsibility for oversight of Herzog activities (89 plus employees) related to DMU maintenance and overhauls, operations, dispatching, signals as well as Watco (20 plus employees) activities related to rail freight revenue and track maintenance. Additionally, Positive Train Control (PTC) is an additional project that Rail Operations are working to implement and the post implementation staffing to support PTC needs to be evaluated. In light of the findings (#1 to 6) in the report above, resource management should be evaluated for CA and Rail Operations staffing in order to address the other recommendations made in this audit report.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Management Action Plan</th>
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<tbody>
<tr>
<td>In concert with implementing the recommendations noted above (#1 to 6), the COO, VP of Rail and CFO should discuss resource management, staffing, and required skill sets to properly manage Herzog and other rail related contractors (i.e., Watco, MRS, etc.).</td>
<td>Management agrees with the recommendation.</td>
</tr>
</tbody>
</table>

**Target Completion Date:** 4/30/2019
Appendix A

Exhibit H of Herzog contract covering Incentive & Disincentives

CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY

EXHIBIT H Revised - 1
PAYMENT ADJUSTMENTS

Summary of Performance Goals, Performance Incentives and Disincentives

The following performance matrix sets forth the performance goals that will be used by Capital Metro to measure performance under this contract. Certain incentives and disincentives will be applied based on performance by Contractor.

"Incentives" are defined as additional compensation allowed Contractor under the contract for meeting or exceeding the requirements. "Disincentives" or "PDC(s)" are defined as performance deficiency credits against amounts owing to Contractor for failure to meet contract requirements. Incentives and Disincentives shall be applied to the total invoiced amount on a monthly basis. Incentives and Disincentives are applied one month in arrears. Performance goals, Incentives and Disincentives are set forth below.

Accidents. An accident is any contact with an object, vehicle or person which results in property damage or injury.

Passenger accidents are calculated as the total number of reported passenger accidents by the risk management department monthly, divided by the total passenger miles reported by the planning department monthly, times 10,000 miles.

<table>
<thead>
<tr>
<th>Passenger Accident Rate</th>
<th>Disincentive/Incentive</th>
</tr>
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<tbody>
<tr>
<td>0</td>
<td>0.25%</td>
</tr>
<tr>
<td>.25 - .01</td>
<td>0.00%</td>
</tr>
<tr>
<td>.26 - 2</td>
<td>-0.25%</td>
</tr>
<tr>
<td>2.01 and Above</td>
<td>-0.50%</td>
</tr>
</tbody>
</table>

Vehicle accidents are calculated as the total number of vehicle accidents, reported by risk management monthly. For the purpose of disincentives the contractor performance must be determined to be a contributing factor to the cause of the accident.

<table>
<thead>
<tr>
<th>Total Vehicle Accidents</th>
<th>Disincentive/Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0.25%</td>
</tr>
<tr>
<td>2 - 1</td>
<td>0.00%</td>
</tr>
<tr>
<td>3 - 5</td>
<td>-0.25%</td>
</tr>
<tr>
<td>6 and Above</td>
<td>-0.50%</td>
</tr>
</tbody>
</table>

Mean Distance Between Failures (MDBF). This performance goal will be measure by the total monthly vehicle miles provided by Capital Metro Planning Department, divided by the total number mechanical failures. All mechanical failures logged in the Capital Metro asset management system database regarding DMUs.

<table>
<thead>
<tr>
<th>MDBF</th>
<th>Disincentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,000 – 25,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>12,000 - 14,999</td>
<td>-0.25%</td>
</tr>
</tbody>
</table>
### Customer Complaints

This performance goal will be measured per 20,000 passengers as measured by monthly counts of documented customer complaints. Ridership will be provided by the Capital Metro Planning Department. All complaints logged in the Capital Metro Customer Service database regarding Contractor’s service will be counted in this measure.

<table>
<thead>
<tr>
<th>Complaint Rate</th>
<th>Disincentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0 and below</td>
<td>0.0%</td>
</tr>
<tr>
<td>5.1 – 8.0</td>
<td>-0.25%</td>
</tr>
<tr>
<td>8.1 and Above</td>
<td>-0.50%</td>
</tr>
</tbody>
</table>

### On Time Performance

An on time trip is one that departs 0 minutes early and no more than 5 minutes and 59 seconds late departing from designated station, missed stations or annulled stations/trips.

<table>
<thead>
<tr>
<th>On-Time Performance Level</th>
<th>Disincentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>96.00% and above</td>
<td>0.0%</td>
</tr>
<tr>
<td>90.00% - 95.99%</td>
<td>-0.25%</td>
</tr>
<tr>
<td>89.99% and Below</td>
<td>-0.53%</td>
</tr>
</tbody>
</table>

### Requirement | Incident | Disincentive/PDC |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Maintenance (all)</td>
<td>Failure to complete major repair work within the 30 calendar working days</td>
<td>A PDC of $1000 per day until all repairs are completed and verified by Capital Metro</td>
</tr>
<tr>
<td>On Time Performance</td>
<td>Delay of freight or excursion rail operation.</td>
<td>A PDC of $1,000 per incident the freight or excursion operation is delayed</td>
</tr>
<tr>
<td>Preventive Maintenance</td>
<td>Failed to perform Preventive maintenance (PM) inspections as required for all revenue vehicles.</td>
<td>A PDC of $1,000 per day per inspection performed later than scheduled</td>
</tr>
<tr>
<td>Customer Complaints</td>
<td>Failure to respond to complaints within four (4) working days of receipt</td>
<td>A PDC of $300 per day for each occurrence of a complaint response that fails to meet the response timeline</td>
</tr>
<tr>
<td>Vehicle Condition</td>
<td>Failure to remove a vehicle from service with out of service criteria.</td>
<td>A PDC of $1000 per incident for each day a vehicle is operated with out of service criteria.</td>
</tr>
<tr>
<td>Category</td>
<td>Description</td>
<td>Penalty</td>
</tr>
<tr>
<td>-------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Bridge Maintenance</td>
<td>Failure to maintain bridges at a load capacity of 286,000 pounds or better</td>
<td>A PDC will be assessed in the amount of $5000 for each bridge that is not maintained load capacity of 286,000 pounds or better.</td>
</tr>
<tr>
<td>Bridge Maintenance</td>
<td>Failure to maintain bridges at CMTA level 3 or better in accordance with the Bridge Management Safety Program</td>
<td>A PDC will be assessed in the amount of $5000 for each bridge that is not maintained at CMTA level 3 or better.</td>
</tr>
<tr>
<td>Cleanliness</td>
<td>Failure to maintain clean maintenance work areas (maintenance shop and Service Island)</td>
<td>A PDC of $300 for each incident Contractor fails to clean facilities as required.</td>
</tr>
<tr>
<td>Cleanliness</td>
<td>Failure to clean revenue vehicles according to standards at least 2 hours prior to peak departure times</td>
<td>A PDC of $300 will be assessed for each incident in which Contractor fails to clean vehicles as required. (applies to both AM and PM peak)</td>
</tr>
<tr>
<td>Track Maintenance</td>
<td>Failure to maintain track at CMTA Class IV or better</td>
<td>A PDC $20,000 will be for each track segment per week until the track is restored to CMTA Class IV or better.</td>
</tr>
<tr>
<td>Track Maintenance</td>
<td>Failure to corrected temporary speed restrictions within 30 days from the date imposed.</td>
<td>A PDC of $1000 per day for every location where a slow order remains over 30 days.</td>
</tr>
<tr>
<td>Right of Way (ROW) Maintenance</td>
<td>Failure to remove trash, debris and graffiti, from the right of way</td>
<td>A $500 PDC will be assessed per day for each location ROW defect remains after 24 hours.</td>
</tr>
<tr>
<td>Right of Way (ROW) Maintenance</td>
<td>Failure to remove vegetation and obstructions from the ROW within 5 days.</td>
<td>A $1000 PDC will be assessed per day for each location ROW defect remains after 5 days of notification.</td>
</tr>
<tr>
<td>Right of Way (ROW) Maintenance</td>
<td>Failure to remove scrap rail from ROW within 30 days.</td>
<td>A $1000 PDC will be assessed per day for each location ROW rail after 30 days.</td>
</tr>
<tr>
<td>Signal Maintenance</td>
<td>Failure to maintain less than 5 signal defects within 7 consecutive days.</td>
<td>A PDC of $1000 will be assessed per defect greater than 5 within 7 days.</td>
</tr>
<tr>
<td>Signal Maintenance</td>
<td>More than 3 repeat defects within 30 consecutive days.</td>
<td>A PDC of $2500 will be assessed per repeat defect greater than 3 within 30 consecutive days.</td>
</tr>
<tr>
<td>Signal Maintenance</td>
<td>Failure to correct defects within 30 days from FRA, TxDOT or CMTA.</td>
<td>Contract will pay any associated fines plus PDC of $1000 per day until defect is corrected past 30 days.</td>
</tr>
<tr>
<td>Staffing</td>
<td>Failure to fill vacated positions with Capital Metro approved persons within forty-five thirty (45 30) of its becoming vacant</td>
<td>Capital Metro shall be issued a rebate for each day over 45 days, equal to the salary and benefit cost of the staff member which position is not filled, plus PDC of $1,000 per day for the general manager and $500 per day for all other key staff.</td>
</tr>
</tbody>
</table>
### CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY

<table>
<thead>
<tr>
<th>Section</th>
<th>Violation Description</th>
<th>Penalty Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dress Code</td>
<td>Failure to comply with Capital Metro’s dress code</td>
<td>A PDC of $300 for each incident in which a public-facing employee fails to wear the approved uniform while performing duties under this contract</td>
</tr>
<tr>
<td>Reporting</td>
<td>Contractor shall submit all reports required in this agreement on time</td>
<td>A PDC of $1,000 per day for each incident of failure to submit reports on time</td>
</tr>
<tr>
<td>Reporting</td>
<td>Failure to provide accurate reporting of all data</td>
<td>A PDC of $1,000 for each incident in which the Contractor has inaccurately reported missed mileage, or fails to report a missed trip, or fails to report a mechanical breakdown</td>
</tr>
<tr>
<td>Training</td>
<td>Failure to ensure all employees complete the training requirements specified in the contract</td>
<td>A PDC of $1,500 per day for each incident involving an employee that is assigned to work and has not completed the required training, as verified by a review of the employee's training file.</td>
</tr>
<tr>
<td>Proper PPE</td>
<td>Failure to wear or provide proper PPE.</td>
<td>A PDC of $500 per incident and per day for failure to provide and wear proper PPE.</td>
</tr>
</tbody>
</table>
Appendix B

Contract Data Requirements List CDRL reports required

<table>
<thead>
<tr>
<th>Section</th>
<th>Report Type</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.13.4</td>
<td>Audit Summary Report</td>
<td>Quarterly</td>
</tr>
<tr>
<td>22.1</td>
<td>Transportation Staffing Report</td>
<td>Daily</td>
</tr>
<tr>
<td>22.2</td>
<td>Track Outage Report</td>
<td>Weekly</td>
</tr>
<tr>
<td>23.2</td>
<td>Maintenance Production Report</td>
<td>Weekly</td>
</tr>
<tr>
<td>23.3</td>
<td>System-wide Service Property Inspection Report</td>
<td>Weekly</td>
</tr>
<tr>
<td>12.26.4</td>
<td>Maintenance Report</td>
<td>Weekly</td>
</tr>
<tr>
<td>22.3</td>
<td>Dispatcher Turnover</td>
<td>3Xs Daily</td>
</tr>
<tr>
<td>6.15.6</td>
<td>Monthly Staffing Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>4.8</td>
<td>Job Site Safety Inspections</td>
<td>Monthly</td>
</tr>
<tr>
<td>10.22.1.1</td>
<td>Supervisory Track and Right-of-Way Inspection Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>10.22.2</td>
<td>Summary Track Inspection Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>11.29.1</td>
<td>Signal and Train Control Tests and Inspection Reports</td>
<td>Monthly</td>
</tr>
<tr>
<td>13.1</td>
<td>FTA Operations Testing Plan Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>22.4.3</td>
<td>Accident/Incident Report Summary</td>
<td>Monthly</td>
</tr>
<tr>
<td>22.4.4</td>
<td>Maintenance Report of Vehicle, Track, Bridges, Signals and Communications</td>
<td>Monthly</td>
</tr>
<tr>
<td>16.7a</td>
<td>Long-Term Out-of-Service Status Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>16.9.3.4</td>
<td>DMU Service Vehicle MDBF Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>22.4.8</td>
<td>Training Schedule</td>
<td>Monthly</td>
</tr>
<tr>
<td>13.1.3.14.7</td>
<td>Training Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>22.4.9</td>
<td>NTID Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>15.5.8</td>
<td>Customer Comment and Complaint Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>6.4.1</td>
<td>Organization Chart</td>
<td>Quarterly</td>
</tr>
<tr>
<td>22.5.2</td>
<td>Special Bridge Inspections</td>
<td>Quarterly</td>
</tr>
<tr>
<td>22.5.3</td>
<td>MOW Service Plan</td>
<td>Quarterly</td>
</tr>
<tr>
<td>4.16.2.10</td>
<td>Safety Performance Report</td>
<td>Quarterly</td>
</tr>
<tr>
<td>5.9.3</td>
<td>Security Issue and Incident Report</td>
<td>Quarterly</td>
</tr>
<tr>
<td>7.4</td>
<td>Transportation Service Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>22.6.2</td>
<td>On-Time Performance Analysis Report</td>
<td>Annually</td>
</tr>
<tr>
<td>22.6.3</td>
<td>Railroad Improvement Recommendation List</td>
<td>Annually</td>
</tr>
<tr>
<td>22.6.4</td>
<td>Grade Crossing Improvement Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>22.6.5</td>
<td>Flood Prone Locations and Mitigation Measures</td>
<td>Annually</td>
</tr>
<tr>
<td>22.6.6</td>
<td>NTP Annual Report</td>
<td>Annually</td>
</tr>
<tr>
<td>10.28.1</td>
<td>Bridge Maintenance and Repair Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>10.27.1</td>
<td>Structure Inspection Report</td>
<td>Annually</td>
</tr>
<tr>
<td>10.17.1</td>
<td>Maintenance-of-Way Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>12.26.1</td>
<td>Rail Vehicle Maintenance Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>11.11.6</td>
<td>Signal System Failure Reduction Plan</td>
<td>Annually</td>
</tr>
</tbody>
</table>

Table J - Mobilization/Transition Plan
# Appendix C

CMTA Audit Form referenced in the Contract Monitoring Plan

<table>
<thead>
<tr>
<th>CMTA Auditor</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>Date</td>
</tr>
<tr>
<td>Contractor</td>
<td>Herzog</td>
</tr>
<tr>
<td>Subdivision</td>
<td>West</td>
</tr>
<tr>
<td>Destination</td>
<td>ROW</td>
</tr>
<tr>
<td>Platform</td>
<td>Train</td>
</tr>
<tr>
<td>Milepost</td>
<td>Speed</td>
</tr>
<tr>
<td>Description</td>
<td></td>
</tr>
</tbody>
</table>

**Notes**

<table>
<thead>
<tr>
<th>Preventative</th>
<th>Predictive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>Yes</td>
</tr>
<tr>
<td>Contractor Records</td>
<td>Yes</td>
</tr>
<tr>
<td>Inspected</td>
<td></td>
</tr>
<tr>
<td>Contractor Records Notes</td>
<td></td>
</tr>
</tbody>
</table>

| Corrective Action | Yes | No |
| Corrective Action Notes |     |
| Documentation Attached | Yes | No |

<table>
<thead>
<tr>
<th>Follow-up Inspection Required</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>
Appendix D

Example of generic RACI Matrix

Responsible – Accountable – Consulted – Informed
Appendix E

Appendix E – Example of generic Invoice Certification form

Certification:

I certify that:

- I have reviewed the Herzog Contract No. 137666 Commuter Rail - Operations, Dispatch & Maintenance operating agreement and all the items invoiced are defined in the operating agreement or current modifications; no additional modifications or clarifications are needed.

- I have obtained and reviewed all appropriate supporting documentation from the Herzog Transit Services, Inc. (HTSI); I have compared the HTSI railroad supporting documentation to Capmetro reports and data.

- I have recalculated the invoice and made appropriate reductions/additions to the invoice based on supporting evidence and documentation.

- I reviewed the Monthly PDC Checklist and identify all eligible PDC’s, and if there is a difference between eligible PDC’s and PDC’s deducted from the invoice, there will be tiered authority levels based upon the materiality that may require approval from Legal, COO, CFO and President.

- I have saved an electronic copy of the invoice, all supporting documentation, and audit checklist to the Rail Operations department SharePoint.

- I approve payment of this invoice.

________________________________________  _____________
Director, Rail Operations, Capmetro            Date

Note: Any exceptions to the Invoice Review Process, including invoiced items not audited and explain in detail. Otherwise, write N/A for not applicable.
Appendix F

Appendix F – COTR Letter to Herzog

June 11, 2016

Mr. Lance Davis
General Manager
Herzog Transit Services, Inc.
9316-A McNeill Road
Austin, TX 78758

via email: ldavis@htsi.com

RE: Contracting Officer’s Technical Representative (COTR) on Contract 137685

Dear Mr. Davis:

The letter shall serve as notice that Ms. Muriel Friday will replace Mr. Danny Bailey as the Contracting Officer’s Technical Representative (COTR) for Contract 137685 effective today. Ms. Friday’s duties and responsibilities are as follows:

- Acts as the Authority’s focal point for all correspondence and discussions with Herzog, referred to hereafter as the Contractor, concerning technical direction; issues all technical directions that provide specific details and milestones.
- Ensures that all technical directions are properly documented to avoid misunderstandings and disagreements, avoid unnecessary costs, and generally to maintain proper control of the contract.
- Ensures that appropriate action is taken on technical correspondence pertaining to the contract and maintaining adequate files.
- Ensures that changes in the scope of work and any impact to delivery schedules are executed by contract modifications signed by the Contracting Officer (CO) before the Contractor proceeds with the changes.
- Ensures prompt review of draft and final reports so distribution of these reports can be made within the specified completion date of the contract, and assures prompt inspection and acceptance or rejection of other deliverables or services.
- Informs the CO immediately of any indications that Contractor is behind schedule and coordinates corrective actions with the CO.
- Provides suggestions to the CO for improvements and changes that would facilitate better work performance or streamline processes to the advantage of the Authority and/or Contractor.
- Furnishes to the CO a copy of Authority-Contractor conference reports and correspondence, including coordinating with the CO on the content of any contractually significant correspondence addressed to the Contractor in order to prevent possible misunderstandings or the creation of a condition that may be the basis of a later claim.
- Reviews the Contractor’s invoices to ensure they accurately reflect the work completed in accordance with the requirements of the contract, including validating and certifying acceptance of deliverables.
- Negotiates changes for the Authority and presents the negotiated settlement to the CO for final approval and issuance of a Contract Modification.
- Furnishes the CO a notice of satisfactory or unsatisfactory completion of delivery or performance of the contract or any modification thereto.
- Tracks and reports equipment and system downtime to the CO.
- Reports promptly and directly to the Authority’s Ethics Officer and the CO, any suspected procurement fraud, bribery, conflicts of interest, and other improper conduct.
- Reviews and submits recommendations to the CO on subcontracts, considers the privileges of the contract that exist between the prime contractor and subcontractor.
- Recommends to the CO approval/disapproval of the Contractor’s requests for public release of information regarding work being performed under the contract.
- Notifies the CO of inventions made by the Contractor during the performance of the contract.
DMU Maintenance – Review of Cap Metro’s Oversight and Management of Herzog

Furnishes the CO a formal request for contract termination, when required.

Evaluates Contractor performance as directed by the CO and provides support to the CO and acts as final review official in subsequent issues concerning the Contractor’s performance.

Notifies the security office at contract completion for the timely collection of security badges.

Ms. Friday is prohibited from taking the following actions:

- Making commitments or promises to any Contractor relating to a contract.
- Writing contract requirements around the product or capacity of one source.
- Soliciting proposals.
- Modifying any of the slated terms of the contract.
- Issuing instructions (oral or written) to Contractor to start or stop work.
- Approving items of cost not specifically authorized by the contract.
- Directing changes (oral or written).
- Signing supplemental agreements.
- Taking any action with respect to termination, except to notify the CO that the action is desired and to assist with the process as requested.
- Authorizing delivery or disposition of Authority-furnished property.
- Giving guidance, either orally or in writing, that might be interpreted as a change in scope or terms of the contract.

Ms. Friday can be reached at Muriel.Friday@capmetro.org. If you have any questions concerning any of the elements of this letter please contact me.

Respectfully,

Muhammad Abdullah
Procurement Director

Contracting Officer

cc:  Mr. David Dech, VP Rail Operations
     Ms. Muriel Friday, Program Manager, Rail Operations
     Ms. Anita Delbart, Procurement Manager
     Mr. Kirk Perry, Contracts Administrator