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Agenda - Final

Wednesday, February 16, 2022

1:30 PM

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Finance, Budget and Audit Committee

*Kathryn Barger, Chair
Paul Krekorian, Vice Chair
Mike Bonin
Fernando Dutra
Holly Mitchell
Tony Tavares, non-voting member

Stephanie Wiggins, Chief Executive Officer*

METROPOLITAN TRANSPORTATION AUTHORITY BOARD RULES

(ALSO APPLIES TO BOARD COMMITTEES)

PUBLIC INPUT

A member of the public may address the Board on agenda items, before or during the Board or Committee's consideration of the item for one (1) minute per item, or at the discretion of the Chair. A request to address the Board must be submitted electronically using the tablets available in the Board Room lobby. Individuals requesting to speak will be allowed to speak for a total of three (3) minutes per meeting on agenda items in one minute increments per item. For individuals requiring translation service, time allowed will be doubled. The Board shall reserve the right to limit redundant or repetitive comment.

The public may also address the Board on non agenda items within the subject matter jurisdiction of the Board during the public comment period, which will be held at the beginning and/or end of each meeting. Each person will be allowed to speak for one (1) minute during this Public Comment period or at the discretion of the Chair. Speakers will be called according to the order in which their requests are submitted. Elected officials, not their staff or deputies, may be called out of order and prior to the Board's consideration of the relevant item.

Notwithstanding the foregoing, and in accordance with the Brown Act, this agenda does not provide an opportunity for members of the public to address the Board on any Consent Calendar agenda item that has already been considered by a Committee, composed exclusively of members of the Board, at a public meeting wherein all interested members of the public were afforded the opportunity to address the Committee on the item, before or during the Committee's consideration of the item, and which has not been substantially changed since the Committee heard the item.

In accordance with State Law (Brown Act), all matters to be acted on by the MTA Board must be posted at least 72 hours prior to the Board meeting. In case of emergency, or when a subject matter arises subsequent to the posting of the agenda, upon making certain findings, the Board may act on an item that is not on the posted agenda.

CONDUCT IN THE BOARD ROOM - The following rules pertain to conduct at Metropolitan Transportation Authority meetings:

REMOVAL FROM THE BOARD ROOM The Chair shall order removed from the Board Room any person who commits the following acts with respect to any meeting of the MTA Board:

- a. Disorderly behavior toward the Board or any member of the staff thereof, tending to interrupt the due and orderly course of said meeting.
- b. A breach of the peace, boisterous conduct or violent disturbance, tending to interrupt the due and orderly course of said meeting.
- c. Disobedience of any lawful order of the Chair, which shall include an order to be seated or to refrain from addressing the Board; and
- d. Any other unlawful interference with the due and orderly course of said meeting.

INFORMATION RELATING TO AGENDAS AND ACTIONS OF THE BOARD

Agendas for the Regular MTA Board meetings are prepared by the Board Secretary and are available prior to the meeting in the MTA Records Management Department and on the Internet. Every meeting of the MTA Board of Directors is recorded and is available at www.metro.net or on CD's and as MP3's for a nominal charge.

DISCLOSURE OF CONTRIBUTIONS

The State Political Reform Act (Government Code Section 84308) requires that a party to a proceeding before an agency involving a license, permit, or other entitlement for use, including all contracts (other than competitively bid, labor, or personal employment contracts), shall disclose on the record of the proceeding any contributions in an amount of more than \$250 made within the preceding 12 months by the party, or his or her agent, to any officer of the agency, additionally PUC Code Sec. 130051.20 requires that no member accept a contribution of over ten dollars (\$10) in value or amount from a construction company, engineering firm, consultant, legal firm, or any company, vendor, or business entity that has contracted with the authority in the preceding four years. Persons required to make this disclosure shall do so by filling out a "Disclosure of Contribution" form which is available at the LACMTA Board and Committee Meetings. Failure to comply with this requirement may result in the assessment of civil or criminal penalties.

ADA REQUIREMENTS

Upon request, sign language interpretation, materials in alternative formats and other accommodations are available to the public for MTA-sponsored meetings and events. All requests for reasonable accommodations must be made at least three working days (72 hours) in advance of the scheduled meeting date. Please telephone (213) 922-4600 between 8 a.m. and 5 p.m., Monday through Friday. Our TDD line is (800) 252-9040.

LIMITED ENGLISH PROFICIENCY

A Spanish language interpreter is available at all Committee and Board Meetings. All other languages must be requested 72 hours in advance of the meeting by calling (213) 922-4600 or (323) 466-3876. Live Public Comment Instructions can also be translated if requested 72 hours in advance.



323.466.3876

x2 *Español (Spanish)*

x3 *中文 (Chinese)*

x4 *한국어 (Korean)*

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x6 *日本語 (Japanese)*

x7 *русский (Russian)*

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TDD line (800) 252-9040

NOTE: ACTION MAY BE TAKEN ON ANY ITEM IDENTIFIED ON THE AGENDA

Live Public Comment Instructions:

Live public comment can only be given by telephone.

The Committee Meeting begins at 1:30 PM Pacific Time on February 16, 2022; you may join the call 5 minutes prior to the start of the meeting.

Dial-in: 888-251-2949 and enter
English Access Code: 8231160#
Spanish Access Code: 4544724#

Public comment will be taken as the Board takes up each item. To give public comment on an item, enter #2 (pound-two) when prompted. Please note that the live video feed lags about 30 seconds behind the actual meeting. There is no lag on the public comment dial-in line.

Instrucciones para comentarios publicos en vivo:

Los comentarios publicos en vivo solo se pueden dar por telefono.

La Reunion de la Junta comienza a las 1:30 PM, hora del Pacifico, el 16 de Febrero de 2022. Puedes unirse a la llamada 5 minutos antes del comienzo de la junta.

Marque: 888-251-2949 y ingrese el codigo
Codigo de acceso en ingles: 8231160#
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Los comentarios del público se tomaran cuando se toma cada tema. Para dar un comentario público sobre una tema ingrese # 2 (Tecla de numero y dos) cuando se le solicite. Tenga en cuenta que la transmisión de video en vivo se retrasa unos 30 segundos con respecto a la reunión real. No hay retraso en la línea de acceso telefónico para comentarios públicos.

Written Public Comment Instruction:

Written public comments must be received by 5PM the day before the meeting.
Please include the Item # in your comment and your position of "FOR," "AGAINST," "GENERAL COMMENT," or "ITEM NEEDS MORE CONSIDERATION."
Email: BoardClerk@metro.net
Post Office Mail:
Board Administration
One Gateway Plaza
MS: 99-3-1
Los Angeles, CA 90012

CALL TO ORDER

ROLL CALL

9. SUBJECT: INVESTMENT POLICY

[2021-0807](#)

RECOMMENDATION

CONSIDER:

- A. ADOPTING the Investment Policy in Attachment A;
- B. APPROVING the Financial Institutions Resolution authorizing financial institutions to honor signatures of LACMTA Officials, Attachment B; and
- C. DELEGATING to the Treasurer or his/her designees, the authority to invest funds for a one-year period, pursuant to California Government Code ("Code") Section 53607.

Attachments: [Attachment A - Investment Policy](#)
 [Attachment B - Financial Institution Resolution](#)

10. SUBJECT: PROPOSITION A AND PROPOSITION C COMMERCIAL PAPER/SHORT-TERM BORROWING PROGRAMS

[2021-0797](#)

RECOMMENDATION

ADOPT:

- A. a resolution that authorizes the Chief Executive Officer and/or other Designated Officers to renew and/or replace the existing direct-pay letter of credit ("LOC") with respect to the Proposition A ("Prop A") commercial paper ("CP") and short-term borrowing program, Attachment A; and
- B. a resolution that authorizes the Chief Executive Officer and/or other Designated Officers to renew and/or replace the existing direct purchase revolving credit facility with respect to the Proposition C ("Prop C") revolving credit facility ("RCF") and short-term borrowing program, Attachment B.

(REQUIRES SEPARATE, SIMPLE MAJORITY VOTE OF THE BOARD)

Attachments: [Attachment A - Proposition A Authorizing Resolution](#)
 [Attachment B - Proposition C Authorizing Resolution](#)
 [Attachment C - Bank Recommendation Summary](#)

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11. **SUBJECT: FISCAL YEAR 2023 BUDGET DEVELOPMENT PROCESS** [2021-0815](#)

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2023 (FY23) Budget Development Process.

Attachments: [Attachment A - Federal Stimulus Funding](#)
[Attachment B - Public Engagement and Outreach Forums](#)

12. **SUBJECT: MANAGEMENT AUDIT SERVICES FY 2022 SECOND QUARTER REPORT** [2022-0026](#)

RECOMMENDATION

RECEIVE AND FILE the Management Audit Services FY 2022 second quarter report.

Attachments: [Attachment A - FY 2022 Second Quarter Report Presentation](#)

13. **SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JULY 1, 2021 TO SEPTEMBER 30, 2021** [2021-0801](#)

RECOMMENDATION

RECEIVE AND FILE Office of the Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of July 1, 2021 to September 30, 2021.

Attachments: [Attachment A - Audit of Misc Exp. 7.1.21-9.30.21 \(Report No. 22-AUD-04\) Presentation](#)

- SUBJECT: GENERAL PUBLIC COMMENT** [2022-0069](#)

RECEIVE General Public Comment

Consideration of items not on the posted agenda, including: items to be presented and (if requested) referred to staff; items to be placed on the agenda for action at a future meeting of the Committee or Board; and/or items requiring immediate action because of an emergency situation or where the need to take immediate action came to the attention of the Committee subsequent to the posting of the agenda.

COMMENTS FROM THE PUBLIC ON ITEMS OF PUBLIC INTEREST WITHIN COMMITTEE'S SUBJECT MATTER JURISDICTION

Adjournment



Board Report

File #: 2021-0807, **File Type:** Policy

Agenda Number: 9.

**FINANCE, BUDGET AND AUDIT COMMITTEE
FEBRUARY 16, 2022**

SUBJECT: INVESTMENT POLICY

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

CONSIDER:

- A. ADOPTING the Investment Policy in Attachment A;
- B. APPROVING the Financial Institutions Resolution authorizing financial institutions to honor signatures of LACMTA Officials, Attachment B; and
- C. DELEGATING to the Treasurer or his/her designees, the authority to invest funds for a one-year period, pursuant to California Government Code ("Code") Section 53607.

ISSUE

Section 53646 of the Code requires that the board review and approve the Investment Policy on an annual basis and at a public meeting. Section 53607 of the Code requires that the Board delegate investment authority to the Treasurer on a yearly basis.

Section 10.8 of the Investment Policy requires that the Treasurer submit the Financial Institutions Resolutions to the Board annually for approval.

BACKGROUND

Metro's investment policy allows temporary idle funds to be invested consistent with Board approved investment policy guidelines. The policy is updated on an annual basis and was last updated on February 25, 2021.

DISCUSSION

The Board approves the objectives and guidelines that direct the investment of operating funds.

Changes to the Investment Policy have been made to incorporate updates to the California Government Code. A redlined version of the investment policy is presented in Attachment A.

Financial Institutions require Board authorization to establish custody, trustee, and commercial bank accounts. A redlined version of the resolution is presented in Attachment B. Changes reflect position title changes.

To streamline this board report, the following reference materials may be found on the Internet:

Current Metro Investment Policy:

<https://cdn.beta.metro.net/wp-content/uploads/2021/12/02111807/2021-Investment-Policy-Final.pdf>

California Government Code: Sections 53600 to 53609, Section 53646, Section 53652, Sections 16429.1 to 16429.4:

http://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=2.&title=5.&part=1.&chapter=4.&article=1

DETERMINATION OF SAFETY IMPACT

Approval of this recommendation will not have an impact on Metro's Safety standards.

FINANCIAL IMPACT

The funds required to update the Investment Policy are included in the FY22 budget in cost center 5210 and project number 610340.

Impact to Budget

The sources of funds budgeted to manage assets in accordance with the Investment Policy are Proposition A, Proposition C, Measure R, Measure M and TDA administration funds. Some of these funds are eligible for bus and rail operating and capital expenses.

EQUITY PLATFORM

This recommendation will not have any direct equity impacts. However, the proposed investment policy provides the guidelines for Metro's internally and externally managed investment portfolios. Four firms are under contract to invest Metro's external portfolio. Among them, Chandler Asset Management is a woman-founded firm and LM Capital Management is minority owned. We will also direct staff and external managers to include socially responsible considerations as they invest in

securities that comply with our investment policy and CA Gov't code.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports strategic plan goal #5 "Provide responsive, accountable and trustworthy governance within the Metro organization".

ALTERNATIVES CONSIDERED

The Investment Policy and California Government Code require an annual review and adoption of the Investment Policy, delegation of investment authority, and approval of Attachment B - Financial Institutions Resolution. Should the Board elect not to delegate the investment authority annually or approve the resolution, the Board would assume daily responsibility for the investment of working capital funds and the approval of routine administrative actions.

NEXT STEPS

Upon Board approval, distribute the Investment Policy to external investment managers and broker-dealers. Issue copies of the Investment Policy and the Financial Institutions Resolution to our financial institutions.

ATTACHMENTS

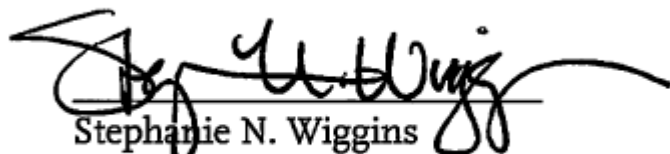
Attachment A - Investment Policy

Attachment B - Financial Institutions Resolution

Prepared by: Jin Yan, Manager, Finance (213) 922-2127

Mary E. Morgan, DEO, Finance, (213) 922-4143

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Stephanie N. Wiggins
Chief Executive Officer

ATTACHMENT A

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Los Angeles County Metropolitan Transportation Authority

INVESTMENT POLICY

Approved on February ~~25~~²⁴, 202~~1~~²

INVESTMENT POLICY

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1.0 Policy

It is the policy of the Los Angeles County Metropolitan Transportation Authority (LACMTA) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings, and conforming to state and local statutes governing the investment of public funds.

This investment policy conforms to the California Government Code ("Code") as well as to customary standards of prudent investment management. Investments may only be made as authorized by the Code, Section 53600 et seq., Sections 16429.1 through 16429.4 and this investment policy. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this investment policy. Changes to the Code that are less restrictive than this investment policy may be adopted by the Board of Directors (Board).

2.0 Scope

- 2.1 This investment policy sets forth the guidelines for the investment of surplus General, Special Revenue, Capital Projects, Enterprise (excluding cash and investments with fiscal agents), Internal Service, and any new fund created by the Board, unless specifically exempted. Excluded from this investment policy are guidelines for the investment of proceeds related to debt financing, defeased lease transactions, Agency (Deferred Compensation, 401K, and Benefit Assessment District), Other Post Employment Benefit (OPEB) Trust funds and Pension Trust Funds.
- 2.2 Internal and external portfolio managers may be governed by Portfolio Guidelines that may on an individual basis differ from the total fund guidelines outlined herein. The Treasurer is responsible for monitoring and ensuring that the total funds subject to this investment policy remain in compliance with this investment policy, and shall report to the Board regularly on compliance.

3.0 Investment Objectives

- 3.1 The primary objectives, in priority order, of investment activities shall be:
 - A. Safety: Safety of principal is the foremost objective of the investment program. The investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The LACMTA shall seek to ensure that capital losses are avoided whether from institutional default, broker-dealer default, or erosion of market value. Diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 - B. Liquidity: The investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.
 - C. Return on Investments: The LACMTA shall manage its funds to maximize the return on investments consistent with the two objectives above, with the goal of exceeding the performance benchmarks (Section 12.0) over a market cycle (typically a three to five year period).
- 3.2 It is policy to hold investments to maturity. However, a security may be sold prior to its maturity and a capital gain or loss recorded if liquidity needs arise, or in order to improve the quality, or rate of return of the portfolio in response to market conditions and/or LACMTA risk preferences.

Internal and external investment managers shall report such losses to the Treasurer and Chief Financial Officer immediately.

3.3

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing LACMTA funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent investor acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

3.4

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy, written portfolio guidelines and procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in the quarterly investment report to the Board, and appropriate action is taken to control adverse developments.

4.0 Delegation of Authority

4.1

The Board shall be the trustee of funds received by the LACMTA. In accordance with Code Section 53607, the Board hereby delegates the authority to invest or reinvest the funds, to sell or exchange securities so purchased and to deposit securities for safekeeping to the Treasurer for a one year period, who thereafter assumes full responsibility for such transactions and shall make a monthly report of those transactions to the Board. Subject to review by the Board, the Board may renew the delegation of authority each year.

4.2

The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy, including establishment of appropriate written agreements with financial institutions. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Treasurer may engage independent investment managers to assist in the investment of its financial assets.

4.3

No person may engage in an investment transaction except as provided under the terms of this investment policy and the procedures established by the Treasurer.

4.4

Officers and employees involved in the investment process shall be governed by the standards regarding ethical behavior and conflicts of interest established in the Los Angeles County Metropolitan Transportation Authority Ethics Policy and annually shall file a Statement of Economic Disclosure with the Ethics Office.

5.0 Permitted Investments

5.1

All funds which are not required for immediate cash expenditures shall be invested in income producing investments or accounts, in conformance with the provisions and restrictions of this investment policy as defined in Section 5.1A and as specifically authorized by the Code, (Sections 53600, et seq.). Securities held by the LACMTA's custodial bank must be in compliance with Section 5.0 Permitted Investments at the time of purchase.

- 5.2 In order to reduce overall portfolio risk, investments shall be diversified among security type, maturity, issuer and depository institutions. See Section 5.1A for specific concentration limits by type of investment.
- A. Percentage limitations where listed are only applicable at the date of purchase.
 - B. In calculating per issuer concentration limits commercial paper, bankers' acceptances, medium term notes, asset-backed securities, placement service assisted deposits, and negotiable certificates of deposit shall be included; deposits collateralized per Section 7.3 of this investment policy are excluded from this calculation.
 - C. Credit requirements listed in this investment policy indicate the minimum credit rating (or its equivalent by any nationally recognized statistical rating organization) required at the time of purchase without regard to modifiers (e.g., +/- or 1,2,3), if any.
- 5.3 Maturities of individual investments shall be diversified to meet the following objectives:
- A. Investment maturities will be first and foremost determined by anticipated cash flow requirements.
 - B. Where this investment policy does not state a maximum maturity in Section 5.1A, no investment instrument shall be purchased which has a stated maturity of more than five years from the date of purchase, unless the instrument is specifically approved by the Board or is approved by the Board as part of an investment program and such approval must be granted no less than three months prior to the investment. The Board hereby grants express authority for the purchase of new issue securities with a 5 year stated maturity with extended settlement of up to 30 days from date of purchase.
 - C. The average duration of the externally managed funds subject to this investment policy shall not exceed 150% of the benchmark duration. The weighted average duration of the internal portfolios shall not exceed three (3) years.
- 5.4 State and local government sponsored Investment Pools and money market mutual funds as authorized by this investment policy are subject to due diligence review prior to investing and on a continual basis as established in Section 5.1A, #11 and #12.
- 5.5 This investment policy specifically prohibits the investment of any funds subject to this investment policy in the following securities:
- A. Derivative securities, defined as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments, financial futures and options, and mortgage derived interest or principal only strips. Callable or putable securities with no other option features, securities with one interest rate step-up feature, and inflation indexed securities meeting all other requirements of this investment policy are excluded from this prohibition, as are fixed rate mortgage-backed securities and asset-backed securities.
 - B. Reverse repurchase agreements and securities lending agreements.

6.0 Selection of Depository Institutions, Investment Managers and Broker-Dealers

- 6.1 To minimize the risk to the overall cash and investment portfolio, prudence and due diligence as outlined below shall be exercised with respect to the selection of Financial Institutions in which funds are deposited or invested. The LACMTA's Financial Advisor (FA) will conduct competitive processes to recommend providers of financial services including commercial banking, investment management, investment measurement and custody services.
- A. In selecting Depositories pursuant to Code Sections 53630 (et seq.), the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency. The main depository institutions will be selected on a periodic and timely basis.
 - B. Deposits which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the collateralization requirements of Section 7.3 of this investment policy, at the Treasurer's discretion. A written waiver of securitization shall be executed, provided to the Depository Institution, and kept on file in the Treasury Department.
 - C. The Treasurer shall seek opportunities to deposit funds with disadvantaged business enterprises, provided that those institutions have met the requirements for safety and reliability and provide terms that are competitive with other institutions.
- 6.2 In selecting external investment managers and brokers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost within the parameters of this investment policy and the Code shall be considered. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor Act of 1940.
- 6.3 Pursuant to Code Section 53601.5, the LACMTA and its investment managers shall only purchase statutorily authorized investments either from the issuer, from a broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.
- A. Internal investment manager will only purchase or sell securities from broker-dealers that are Primary Dealers in U.S. Government Securities or are a direct affiliate of a Primary Dealer. Internal investment manager will only purchase securities from broker-dealers who have returned a signed Receipt of Investment Policy and completed the Broker-Dealer Questionnaire, and have been approved by the Treasurer (see Appendices B and C). A current copy of the Broker-Dealer's financial statements will be kept on file in the Treasury Department. Should market conditions limit access to inventory, the Treasurer may approve executing transactions through non-Primary Dealers who meet all of the criteria listed below:
 - a. The broker dealer must qualify under Securities Exchange Commission rule 15C3-1 (Uniform Net Capital Rule);

- b. Must be licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations Code or a member of a federally registered securities exchange (i.e. FINRA, SEC, MSRB);
- c. Have been in operation for more than five years; and
- d. Have a minimum annual trading volume of \$100 billion in money market instruments or \$500 billion in U.S. Treasuries and Agencies.

B. In addition to Primary Dealers in U.S. Government Securities and direct affiliates of a Primary Dealer, external investment managers may purchase or sell securities from non-Primary Dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and provided that the dealer is a member of the Financial Industry Regulatory Authority. External investment managers shall submit, at least quarterly, a list of the non-Primary Dealers used during the period.

C. External investment managers must certify in writing that they will purchase securities in compliance with this investment policy, LACMTA Procedures, and applicable State and Federal laws.

6.4 Financial institutions and external investment managers conducting investment transactions with or for LACMTA shall sign a Certification of Understanding. The Certification of Understanding (see Appendix A) states that the entity:

- A. Has read and is familiar with the Investment Policy and Guidelines as well as applicable Federal and State Law;
- B. Meets the requirements as outlined in this investment policy;
- C. Agrees to make every reasonable effort to protect the assets from loss;
- D. Agrees to notify the LACMTA in writing of any potential conflicts of interest.

Completed certifications shall be filed in the Treasurer's Office. Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by that financial institution, or investment manager and/or the rescission of any and all authority to act as an agent to purchase or invest funds.

6.5 All broker-dealers who do business with the LACMTA's internal investment managers shall sign a Receipt of Investment Policy. The Receipt of Investment Policy (see Appendix B) states that the broker dealer:

- A. Has received, read, and understands this investment policy;
- B. Has communicated the requirements of this investment policy to all personnel who may select investment opportunities for presentation.

Failure to submit a Receipt of Investment Policy shall preclude the LACMTA from purchasing or selling securities from such broker-dealer. Completed receipts shall be filed in the Treasurer's Office.

7.0 Custody and Safekeeping of Securities and LACMTA Funds

- 7.1 A Master Repurchase Agreement must be signed with the bank or dealer before any securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the LACMTA in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the LACMTA and the bank. Specific collateralization levels are defined in Section 5.1A.
- 7.2 All investment transactions shall be settled "delivery vs. payment", with the exception of deposits, money market mutual fund investments, and Local Agency Investment Fund or other Local Government Investment Pools. Delivery may be physical, via a nationally recognized securities depository such as the Depository Trust Company, or through the Federal Reserve Book Entry system.
- 7.3 Funds deposited shall be secured by a Depository in compliance with the requirements of Code Section 53652. Such collateralization shall be designated and agreed to in writing.

8.0 Reports and Communications

- 8.1 The Treasurer is responsible for ensuring compliance with all applicable Local, State, and Federal laws governing the reporting of investments made with public funds. All investment portfolios will be monitored for compliance. Non-compliance issues will be included in the quarterly Board report as stated in Section 8.3 of this investment policy.
- 8.2 The Treasurer shall annually submit a statement of investment policy to the Board for approval. The existing approved investment policy will remain in effect until the Board approves the recommended statement of investment policy.
- 8.3 The Treasurer shall render a quarterly cash, investment, and transaction report to the CEO and Board, and quarterly to the Internal Auditor within 30 days following the end of the quarter covered by the report. The report shall include a description of LACMTA's funds, investments, or programs that are under the management of contracted parties, including lending programs. The report shall include as a minimum:
 - A. Portfolio Holdings by Type of Investment and Issuer
 - B. Maturity Schedule and Weighted Average Maturity (at market)
 - C. Weighted Average Yield to Maturity
 - D. Return on Investments versus Performance Benchmarks on a quarterly basis
 - E. Par, Book and Market Value of Portfolio for current and prior quarter-end
 - F. Percentage of the portfolio represented by each investment category
 - G. Total Interest Earned
 - H. Total Interest Received
 - I. A statement of compliance with this investment policy, or notations of non-compliance.

J. At each calendar quarter-end a subsidiary ledger of investments will be submitted with the exception listed in 8.3K.

K. For investments that have been placed in the Local Agency Investment Fund, in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in National Credit Union Administration insured accounts in a credit union, in a county investment pool, or in shares of beneficial interest issued by a diversified management company that invest in the securities and obligations as authorized by this investment policy and the Code, the most recent statement received from these institutions may be used in lieu of the information required in 8.3 J.

L. At each calendar quarter-end the report shall include a statement of the ability to meet expenditure requirements for the next six months.

M. A quarterly gain or loss report on the sale or disposition of securities in the portfolio.

8.4 Internal and external investment managers shall monitor investments and market conditions and report on a regular and timely basis to the Treasurer.

A. Internal and external investment managers shall submit monthly reports to the Treasurer, such reports to include all of the information referenced in Section 8.3, items A-J of this investment policy. Portfolios shall be marked-to-market monthly and the comparison between historical cost (or book value) and market value shall be reported as part of this monthly report.

B. Internal and external investment managers shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Treasurer in writing within 24 hours of the event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this investment policy, the investment manager shall also make a written recommendation to the Treasurer as to whether this security should be held or sold.

C. External and internal investment managers shall immediately inform the Treasurer, or the Chief Financial Officer in writing of any major adverse market condition changes and/or major portfolio changes. The Chief Financial Officer or the Treasurer shall immediately inform the Board in writing of any such changes.

D. External investment managers shall notify the LACMTA internal managers daily of all trades promptly, via fax or via email.

E. Internal investment managers will maintain a file of all trades.

9.0 Portfolio Guidelines

Portfolio Guidelines are the operating procedures used to implement this investment policy approved by the Board. The Treasurer may impose additional requirements or constraints within the parameters set by this investment policy.

10.0 Internal Control

10.1 The Treasurer shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee or third party error, misrepresentation of third parties, unanticipated

changes in financial markets, or imprudent actions by employees or agents. Such internal controls shall be approved by the Chief Financial Officer and shall include authorizations and procedures for investment transactions, custody/safekeeping transactions, opening and dosing accounts, wire transfers, and clearly delineate reporting responsibilities.

- 10.2 Treasury personnel and LACMTA officials with signature authority shall be bonded to protect against possible embezzlement and malfeasance, or at the option of the governing board self-insured.
- 10.3 Electronic transfer of funds shall be executed upon the authorization of two official signatories.
- 10.4 Transaction authority shall be separated from accounting and record keeping responsibilities.
- 10.5 All investment accounts shall be reconciled monthly with custodian reports and broker confirmations by a party that is independent of the investment management function. Discrepancies shall be brought to the attention of the investment manager, the Treasurer and Deputy Executive Officer, Finance in the Treasury Department, the Controller, and if not resolved promptly, to the Chief Financial Officer.
- 10.6 The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide independent confirmation of compliance with policies and procedures.
- 10.7 The Treasurer is responsible for the preparation of the cash flow model. The cash flow model shall be updated monthly based upon the actual and projected cash flow.

Annually, the Treasurer shall notify the external investment managers of the cash flow requirements for the next twelve months. The Treasurer shall monitor actual to maximum maturities within the parameters of this investment policy.

- 10.8 The Treasurer shall annually submit the Financial Institutions Resolution to the Board for approval. The existing resolution will remain in effect until the Board approves the recommended resolution.

11.0 Purchasing Guidelines

- 11.1 Investment managers shall purchase and sell securities at the price and execution that is most beneficial to the LACMTA. The liquidity requirements shall be analyzed and an interest rate analysis shall be conducted to determine the optimal investment maturities prior to requesting bids or offers. Investments shall be purchased and sold through a competitive bid/offer process. Bids/offers for securities of comparable maturity, credit and liquidity shall be received from at least three financial institutions, if possible.
- 11.2 Such competitive bids/offers shall be documented on the investment managers' trade documentation. Supporting documentation from the Wall Street Journal, Bloomberg or other financial information system shall be filed with the trade documentation as evidence of general market prices when the purchase or sale was effected.

12.0 Benchmarks

Internal and external investment managers' performance shall be evaluated against the following agreed upon benchmarks. If the investment manager does not meet its benchmark over a market cycle (3 to 5 years), the Treasurer shall determine and set forth in writing reasons why it is in the best interests of the LACMTA to replace or retain the investment manager.

Portfolio
Intermediate Duration Portfolios

Investment Benchmarks
ICE Bank of America/Merrill Lynch AAA-A
1-5 year Government & Corporate Index
(BV10)

Short Duration Portfolios

Three month Treasury

Los Angeles County Metropolitan Transportation Authority
Section 5.1A
Statement of Investment Policy ^a

* The percentage of portfolio authorized is based on market value.

Investment Type	Maximum Maturity	Maximum Allowable Percentage of Portfolio *	Minimum Quality and Other Requirements
Bonds Issued by the LACMTA	5 years ^b	100%	None
U.S. Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for payment of principal and interest	5 years ^b	100%	None
Registered state warrants or treasury notes or bonds of the other 49 states in addition to California.	5 years ^b	25%	Such obligations must be rated "A1" or better short term; or "AA" or better long term, by a nationally recognized statistical rating organization
Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California	5 years ^b	25%	Such obligations must be rated "A1" or better short term; or "AA" or better long term, by a nationally recognized statistical rating organization
Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government –sponsored enterprises	5 years ^b	50 100% ^d	See Footnote d None
Bills of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances	180 days	40% ^c	The issuer's short-term debt must have the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization
Commercial paper or "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization	270 days	25 40% ^e ^d	See Footnote e
Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state licensed branch of a foreign bank, or a federally licensed branch of a foreign bank.	5 years ^b	30% ^c	See Footnote f

Commented [YJ1]: California Government Code removed the maximum 50% of portfolio limit and made no limit. This change provides more investment opportunities in government-backed securities.

Commented [YJ2]: California Government Code removed the 15% of Portfolio per single issue on Agencies and made no limit. This change provides more investment opportunities in government-backed securities.

Commented [YJ3]: California Government Code changed the maximum 25% of portfolio limit and made it no more than 40% for local agencies that have one hundred million dollars or more of investment assets. This change provides more investment opportunities in "prime" quality commercial papers.

Commented [YJ4]: California Government Code changed the single issuer limit on commercial paper and medium-term notes from 10% each to 10% in the combination of commercial paper and medium-term notes. This change reduces the risk exposure in one issuer that issues commercial paper and medium-term notes.

Placement Service Assisted Deposits	5 years b	30% c	See Footnote g
Investments in repurchase agreements	90 days	20%	Limited to no more than 90 days. See Footnote h
United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank.	5 years b	30% c	Maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments shall be rated "AA" or better by a nationally recognized statistical rating organization and shall not exceed 30% of the portfolio.
Medium-term notes issued by corporations organized and operating within the United States, or by depository institutions licensed by the United States or any state and operating within the United States	5 years b	30% c, d	Must be rated "A" or better by a nationally recognized statistical rating organization. If rated by more than one rating agency, both ratings must meet the minimum credit standards.
Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission, as authorized by Code Section 53601	Not applicable	20% c	See Footnote i
State of California Local Agency Investment fund (LAIF) Code Section 16429.1 through 16429.4 or other Local Government Investment Pool (LGIP) established by public California entities pursuant to Section 53684	Not applicable	Set by LAIF and LGIP	See Footnote j
Asset-backed Securities	5 years b	15% combined with mortgage-backed securities	See Footnote k
Mortgage-backed Securities	5 years b	15% combined with asset-backed securities	See Footnote l

Commented [YJ5]: California Government Code changed the single issuer limit on commercial paper and medium-term notes from 10% each to 10% in the combination of commercial paper and medium-term notes.
This change reduces the risk exposure in one issuer that issues commercial paper and medium-term notes.

**Los Angeles County Metropolitan Transportation Authority
Statement of Investment Policy**

Footnotes for Section 5.1A Statement of Investment Policy	
Aa	Sources: California Government Code Sections 16429.1, 53601, 53601.8, 53635 and 53638
Bb	Maximum maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to the purchase. New issue securities with a stated 5 year maturity can be purchased in the primary market with extended settlements of up to 30 days from the date of purchase.
Cc	Limited to no more than 10% of the portfolio in any one issuer (i.e. bankers' acceptances, commercial paper, negotiable certificates of deposit, medium-term notes, and money market funds)
Dd	No more than 15% of portfolio in any one Federal Agency or government-sponsored issue. Limited to no more than 510% of the portfolio in the commercial paper and the medium-term notes of any one issuer.
Ee	Eligible paper is further limited to 10% of the outstanding paper of an issuing corporation, the issuing corporation must be organized and operating within the United States as a general corporation and having total assets in excess of \$500,000,000 and have an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by a nationally recognized statistical rating organization. Issuing corporations that are organized and operating within the United States as a special purpose corporation, trust, or limited liability company, and have programwide credit enhancements including but not limited to overcollateralization, letters of credit, or a surety bond, and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided by a nationally recognized statistical rating organization. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2): (1) The entity meets the following criteria: Is organized and operating in the United States as a general corporation; Has total assets in excess of five hundred million dollars (\$500,000,000); Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization. (2) The entity meets the following criteria: Is organized within the United States as a special purpose corporation, trust, or limited liability company; Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond; Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating organization.
Ff	The legislative body of the local agency, the treasurer or other official of the local agency having custody of the money are prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any other specified city officer or employee also serves on the board of directors or certain committees of that credit union
Gg	Investments in placement services assisted deposits is authorized under Sections 53601.8, 53635.8, and 53601 (i) of the California Government Code.
Hh	Repurchase agreements shall be executed through Primary Broker-Dealers. The repurchase agreement must be covered by a master repurchase agreement. Repurchase agreements shall be collateralized at all times. Collateral

Commented [YJ6]: Removed reference to commercial paper and medium-term notes as they are covered now in footnote d.

Commented [MM7]: To conform this section of the investment policy to California Government Code.

Commented [YJ8]: To conform this section of the investment policy to California Government Code.

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	shall be limited to obligations of the United States and Federal Agencies with an initial margin of at least 102% of the value of the investment, and shall be in compliance if brought back up to 102% no later than the next business day. Collateral shall be delivered to a third party custodian in all cases. Collateral for term repurchase agreements shall be valued daily by the LACMTA's investment manager (for internal funds) or external investment manager. Investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. The LACMTA shall obtain a first lien and security interest in all collateral
hi	Companies must have either 1) the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized statistical rating organizations, or (2) retained an investment advisor registered or exempt with the Securities and-Exchange Commission, with no less than five years experience investing in the securities and obligations authorized by California Government Code §53601 a-k inclusive and m-o inclusive and with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price may not include any commissions charged by these companies
fi	Maximum investment per individual pool limited to the amount for LAIF as set by the State Treasurer's Office. Limit does not include funds required by law, ordinance, or statute to be invested in pool. Each pool must be evaluated and approved by the Treasurer, as to credit worthiness, security, and conformity to state and local laws. An evaluation should cover, but is not limited to establishing, a description of who may invest in the program, how often, what size deposit and withdrawal; the pool's eligible investment securities, obtaining a written statement of investment policy and objectives, a description of interest calculations and how it is distributed; how gains and losses are treated; a description of how the securities are safeguarded and how often the securities are priced and the program audited. A schedule for receiving statements and portfolio listings. A fee schedule, when and how fees are assessed
kk	Limited to senior class securities with stated maturities of no more than 5 years. Further limited to securities rated in a rating category of "AA" or its equivalent or better as provided for by a nationally recognized statistical rating organization. Further limited to fixed rate, publicly offered, generic credit card, automobile receivables, and equipment receivables only. Deal size must be at least \$250 million, and tranche size must be at least \$25 million
li	Pass-Through securities: Limited to Government Agency or Government Sponsored issuers, fixed rate, stated maturity no more than 5 years. CMOS: Limited to Government Agency or Government Sponsored Issuers and Planned Amortization Classes (PAC) only. Securities eligible for investment under this category shall be rated "AA" or its equivalent or better by a nationally recognized statistical rating organization. The following are prohibited: ARMS, floaters, interest or principal (IOs, POs), Targeted Amortization Classes, companion, subordinated, collateral classes, or zero accrual structures

APPENDIX A

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

CERTIFICATION OF UNDERSTANDING

The Los Angeles County Metropolitan Transportation Authority (LACMTA) Investment Policy as approved by the Board of Directors requires that all Financial Institutions and Investment Managers' conducting investment transactions with or for LACMTA sign a Certification of Understanding acknowledging that:

1. *You have read and are familiar with the LACMTA's Investment Policy as well as applicable Federal and State laws.*
2. *You meet the requirements as outlined in Investment Policy.*
3. *You agree to make every reasonable effort to protect the assets from loss.*
4. *You agree to notify the LACMTA in writing of any potential conflicts of interest.*
5. *You agree to notify the LACMTA in writing of any changes in personnel with decision-making authority over funds within 24 hours of such event.*

Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by the financial institution or investment manager and the immediate revocation of any rights to act as an agent of the LACMTA for the purchase of securities or investment of funds on behalf of LACMTA.

The Board of Directors is committed to the goals of the Community Reinvestment Act (CRA). As part of the certification process for depository institutions, it is requested that you remit evidence of your most recent CRA rating.

SIGNED: _____ DATE: _____
Print Name and Title _____

After reading and signing this Certification of Understanding please return with *any* supporting documentation to:

LACMTA
Treasury Department
Attention: Treasurer
One Gateway Plaza
Los Angeles, CA 90012-2932

LACMTA use only:

Approved: _____ Disapproved: _____ Date: _____

Signature: _____

LACMTA Treasurer

APPENDIX B

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY

BROKER-DEALER RECEIPT OF INVESTMENT POLICY

We are in receipt of the Los Angeles County Metropolitan Transportation Authority's (LACMTA) Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespersons covering LACMTA's account will be made aware of this policy and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to LACMTA.

Signed _____
Name Name

Title	Title
-------	-------

Firm Name

Date	Date
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After reading and signing this Receipt of Investment Policy, please return with supporting documentation to:

LACMTA
Treasury Department
Attention: Treasurer
One Gateway Plaza
Los Angeles, CA 90012-2932

LACMTA use only:

Approved: _____ Disapproved: _____ Date: _____

Signature: _____

LACMTA Treasurer

APPENDIX C

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION
AUTHORITY

BROKER/DEALER QUESTIONNAIRE

1. Name of Firm_____

2. Address_____

(Local)

(National Headquarters)

3. Telephone No. () _____ Telephone No. () _____

(Local)

(National Headquarters)

4. Primary Representative Manager/Partner-in-Charge

Name_____ Name_____

Title_____ Title_____

Telephone No._____ Telephone No._____

No. of Yrs. in Institutional Sales_____ No. of Yrs. in Institutional Sales_____

Number of Years with Firm_____ Number of Years with Firm_____

5. Are you a Primary Dealer in U.S. Government Securities? [] YES [] NO

If NO, Is the parent company or its subsidiary a Primary Dealer in U.S. Government Securities? Provide proof of certification.

[] YES [] NO

Please explain your firm's relationship to the Primary Dealer below:

Please provide proof certification from the National Association of Securities Dealer.

6. Are you a Broker instead of Dealer, i.e., you DO NOT own positions of Securities?

[] YES [] NO

7. What is the net capitalization of your Firm? _____

8. What is the date of your Firm's fiscal year-end? _____

9. Is your Firm owned by a Holding Company? If so, what is its name and net capitalization?

10. Please provide your Wiring and Delivery Instructions.

11. Which of the following instruments are offered regularly by your local desk?

☐ T-Bills ☐ Treasury Notes/Bonds ☐ Discount Notes ☐ NCD's
☐ Agencies (specify) _____
☐ BA's (Domestic) ☐ BA's (Foreign) ☐ Commercial Paper
☐ Med-Term Notes ☐ Repurchase Agreements

12. Does your Firm specialize in any of the instruments listed above?

13. Please identify your comparable government agency clients in the LACMTA's geographical area.

<u>Entity</u>	<u>Contact Person</u>	<u>Telephone No.</u>	<u>Client Since</u>
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14. What reports, confirmations, and other documentation would LACMTA receive? Please include samples of research reports or market information that your firm regularly provides to government agency clients.

15. What precautions are taken by your Firm to protect the interests of the public when dealing with government agencies as investors?

16. Have you or your Firm been censored, sanctioned or disciplined by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities within the past five years? ☐ YES ☐ NO

17. If yes, please explain

18. Please provide your most recent audited financial statements within 120 days of your fiscal year-end.

19. Please indicate the current licenses of the LACMTA representatives:

Agent: _____ License or registration: _____

APPENDIX D
LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
INVESTMENT POLICY GLOSSARY

ASKED: The price at which securities are offered from a seller.

BANKERS' ACCEPTANCE (BA): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (or issuer - the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BID: The price offered by a buyer of securities.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable (marketable or transferable).

COLLATERAL: Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities at a discount. Commercial paper is negotiable, although it is typically held to maturity. The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.

CUSTODY or SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: Delivery of securities with a simultaneous exchange of money for the securities.

FEDERAL AGENCIES AND U.S. GOVERNMENT SPONSORED ENTERPRISES (AGENCIES): U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). They include:

- ◆ Federal Home Loan Banks (FHLB)
- ◆ Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
- ◆ Federal National Mortgage Association (FNMA or "Fannie Mae")
- ◆ Federal Farm Credit Banks (FFCB)
- ◆ Tennessee Valley Authority (TVA)

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Interest bearing, continuously offered debt, issued in the 9 month to ten year maturity range. Deposit notes, like Certificates of Deposit, actually represent an interest bearing deposit at a bank or other depository institution.

OFFER: The price asked by a seller of securities.

PAR VALUE: The face value, or principal amount payable at maturity.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight.

QUALIFIED INSTITUTIONAL BUYER (QIB): Defined in SEC 144A as a class of investors that can be conclusively assumed to be sophisticated and in little need of the protection afforded by the Securities Act's Registration Provisions. They must own and invest on a discretionary basis at least 100 million in securities of issuers that are not affiliated with such a qualified institutional buyer. This includes any institutional investors included in the accredited investor definition, provided they satisfy the \$100 million threshold.

Commented [Y39]: To conform with SEC rule.

REPURCHASE AGREEMENT (RP OR REPO): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, whereby the security "buyer" in effect lends the "seller" money for the period of the agreement, and the difference between the purchase price and sale price determining the earnings. Dealers use RP extensively to finance their positions.

SECURITIES & EXCHANGE COMMISSION (SEC): An agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY NOTES AND BONDS: Long-term U.S. Treasury securities having initial maturities of 2 to 30 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ATTACHEMENT B

FINANCIAL INSTITUTIONS RESOLUTION

RESOLVED, that any financial institutions, including all banks and their correspondent banks doing business with the Los Angeles County Metropolitan Transportation Authority (LACMTA), are hereby authorized, requested and directed to honor all checks, drafts, wires, or other orders for payment of money drawn in the LACMTA’s name on its account(s) (including those drawn on the individual order of any person or persons whose names appear thereon as a signer or signers thereof) when bearing the original and/or facsimile signature of the Chair; Chief Executive Officer; Chief Financial Officer; Treasurer; Deputy Executive Officer, Finance in Treasury Department; ~~St. Director in Treasury~~, or Assistant Treasurer (collectively, LACMTA Officials). LACMTA Officials are the only representatives empowered to open, close or authorize changes to accounts on behalf of LACMTA. LACMTA Officials may designate individuals as Official Signatories for financial accounts. The duties of Official Signatories shall be limited to check signing, wire or fund transfers, balance reporting and/or monitoring of bank processes.

And, those financial institutions, including correspondent banks, currently doing business with LACMTA shall be entitled to honor and charge LACMTA for all such checks, drafts, wires, or other orders for the payment of money, regardless of by whom or by what means when the actual or facsimile signature or signatures resemble the specimens filed with those financial institutions by the Secretary or other officer of LACMTA.

CERTIFICATION

The undersigned, duly qualified and acting as Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on _____.

Dated: _____
(SEAL) Board ~~Secretary-Clerk~~

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Board Report

File #: 2021-0797, File Type: Resolution

Agenda Number: 10.

FINANCE, BUDGET AND AUDIT COMMITTEE FEBRUARY 16, 2022

SUBJECT: PROPOSITION A AND PROPOSITION C COMMERCIAL PAPER/SHORT-TERM BORROWING PROGRAMS

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

ADOPT:

- A. a resolution that authorizes the Chief Executive Officer and/or other Designated Officers to renew and/or replace the existing direct-pay letter of credit ("LOC") with respect to the Proposition A ("Prop A") commercial paper ("CP") and short-term borrowing program, Attachment A; and
- B. a resolution that authorizes the Chief Executive Officer and/or other Designated Officers to renew and/or replace the existing direct purchase revolving credit facility with respect to the Proposition C ("Prop C") revolving credit facility ("RCF") and short-term borrowing program, Attachment B.

(REQUIRES SEPARATE, SIMPLE MAJORITY VOTE OF THE BOARD)

ISSUE

The Prop A and Prop C Commercial Paper/Short-Term Borrowing programs have proven to be flexible, cost-effective methods of short-term financing for Metro's capital program. The Prop A LOC provided by Barclays Bank PLC and the Prop C RCF with Wells Fargo Bank, N.A., expire in April 2022.

BACKGROUND

The Board established the Prop A short-term borrowing program in January 1991 to provide interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received. Under the Proposition A short-term borrowing program, Metro is authorized to issue and have outstanding at any one time up to \$350 million in CP notes. An LOC, which guarantees payment of the maturing CP Notes, is a required feature of the CP program.

The Board established the Prop C short-term borrowing program in June 1993 to provide interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received.

Under the Proposition C short-term borrowing program, Metro is authorized to issue and have outstanding at any one time up to \$150 million in CP notes or revolving credit obligations.

DISCUSSION

CP is a short-term debt instrument that can be issued with maturities from 1 to 270 days. As notes mature, new notes are simultaneously issued (i.e. “rolled over”). The LOC provides guaranteed liquidity to investors when their notes mature and are a required component of the program. Additionally, the LOC provides a safety net to Metro in the form of a term loan in the unlikely event the notes cannot be remarketed, protecting Metro from incurring an obligation to immediately repay the entire amount of maturing CP Notes using funds on hand. The CP will be backed by a subordinate pledge of 75% of Prop A sales tax revenues. Metro can issue either tax-exempt or taxable CP under the Prop A CP program. The borrowing costs under the CP program have been just under 1.00% over the past three years.

Under the Prop C RCF program, the selected bank will provide short-term revolving loans directly to Metro in an aggregate amount of up to \$150 million outstanding at any one time. The loans provided under the Prop C RCF will bear interest at variable interest rates based on an index of 80% of 1-month SOFR for tax-exempt loans and 100% of 1-month SOFR for taxable loans, plus the bank’s applicable fee. The Prop C RCF will be backed by a subordinate pledge of 80% of Prop C sales tax revenues. The borrowing costs for the Wells Fargo RCF have been approximately 1.80% over the past three years.

A request for proposals was sent to 19 banks by Metro’s municipal advisor, Backstrom McCarley Berry & Co. LLC (“BMcB”). Under Metro’s Debt Policy, the municipal advisor conducts a competitive process to select financial product providers, including letters of credit. The request for proposal required banks to have short-term ratings of at least P-1, A-1 or F-1 from at least two of the three following rating agencies: Moody’s Investors Service, Standard & Poor’s and Fitch Ratings, respectively to respond. Evaluation criteria included pricing, any rate penalties investors may impose on a particular bank, the status of a bank’s credit approval, and willingness to execute our form of agreement. Overall program objectives include low cost and maximizing access to borrowing capacity achieved through diversification of products and providers. Twelve proposals were received for commitment amounts ranging from \$100 million to \$350 million for both programs. The selection group was composed of Treasury staff and BMcB. The selection group ranked each proposer and recommended Bank of America, N.A. for the Prop A LOC and Bank of the West for the Prop C RCF, both for 3-year terms (See Attachment C).

Costs will vary depending on the amount of tax-exempt and taxable debt Metro issues under the Prop A and Prop C programs. Additional fees and interest may be incurred under certain extreme circumstances. None of Metro’s CP notes have failed to be remarketed to date.

DETERMINATION OF SAFETY IMPACT

Approval of this report will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

Funding of \$11.5 million for the Prop A and Prop C programs are included in the FY2022 budget in Cost Center #0521, Treasury Non-Departmental, under project #610306, task 03.01 and project #611309, task 01 for Prop A and project #610307, task 03.01 for Prop C. The cost center manager and the Chief Financial Officer will be accountable for budgeting the cost in future years.

Impact to Budget

The funding sources of Prop A and Prop C are eligible for bus & rail operations and capital projects.

EQUITY PLATFORM

Approval of this item will maintain liquidity support and/or borrowing capacity for Metro's Prop A and Prop C short-term borrowing programs that facilitate planned financing for Metro's capital program. At this time, there are no equity concerns anticipated due to this action.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports the following Metro Strategic Plan Goal(s):

Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

ALTERNATIVES CONSIDERED

The Board could choose not to approve the recommended credit support or facility for the Prop A CP or the Prop C RCF programs or could direct a reduction below the current capacity for each program. A reduction of the capacity of the programs would reduce our ability to quickly provide low cost, interim financing when needed. A decision to cancel the programs and not replace the letter of credit support or credit facility would result in the need to refund all of the outstanding short-term debt (\$97.5 million for Prop A and approximately \$30 million for Prop C) with a higher cost fixed rate financing. These alternatives are not recommended.

NEXT STEPS

- Negotiate final terms and conditions with the recommended banks.
- If satisfactory terms cannot be agreed upon with one or both of the recommended banks, negotiate with the next highest -ranked proposers for the applicable program (Prop A or Prop C, as applicable) to obtain the best combination of terms and pricing.
- Prepare agreements and documentation to implement the replacement LOC and RCF, including, among others, notices, reimbursement agreements, fee agreements, reimbursement notes, credit agreements, revolving obligation notes, supplemental trust agreements and offering memoranda.
- Obtain credit ratings for the CP notes based on the credit ratings of the selected bank.
- Execute documents prior to the expiration date of the current agreements in April of 2022.

ATTACHMENTS

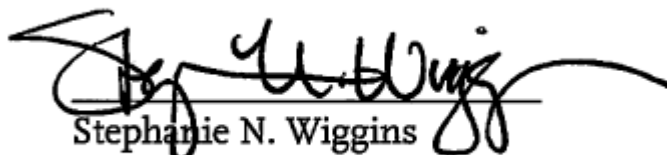
Attachment A - Proposition A Authorizing Resolution

Attachment B - Proposition C Authorizing Resolution

Attachment C - Bank Recommendation Summary

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Stephanie N. Wiggins
Chief Executive Officer

Proposition A Authorizing Resolution

RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY APPROVING AND AUTHORIZING THE
EXECUTION AND DELIVERY OF A REIMBURSEMENT AGREEMENT AND
CERTAIN OTHER DOCUMENTS RELATED TO THE PROPOSITION A
COMMERCIAL PAPER PROGRAM AND AUTHORIZING OTHER RELATED
MATTERS

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA"), as successor to the Los Angeles County Transportation Commission (the "Commission"), is authorized, under Chapter 5 of Division 12 of the California Public Utilities Code (the "Act"), to issue bonds, including but not limited to notes, to finance and refinance the acquisition, construction or rehabilitation of facilities to be used as part of a countywide transportation system; and

WHEREAS, pursuant to the provisions of Section 130350 of the California Public Utilities Code, the Commission is authorized to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County of Los Angeles (the "County") subject to the approval of the voters of the County; and

WHEREAS, the Commission, by Ordinance No. 16 adopted August 20, 1980 ("Ordinance No. 16"), imposed a 1/2 of 1% retail transactions and use tax upon retail sales of tangible personal property and upon the storage, use or other consumption of tangible personal property in the County, the proceeds of the tax to be used for public transit purposes (the "Proposition A Tax"), and such tax was approved by the electors of the County on November 4, 1980; and

WHEREAS, the revenues received by the LACMTA from the imposition of the Proposition A Tax are, by statute, directed to be used for public transit purposes, which purposes include a pledge of such tax to secure any bonds issued pursuant to the Act and include the payment or provision for the payment of the principal of such bonds and any premium, interest on such bonds and the costs of issuance of such bonds; and

WHEREAS, the LACMTA, on an on-going basis, is planning and engineering a County-wide public transportation system (the "Public Transportation System") to serve the County and on an on-going basis is constructing portions of the Public Transportation System; and

WHEREAS, to facilitate the development and construction of the Public Transportation System, as authorized by the Act, the LACMTA by resolution adopted January 23, 1991 (the "1991 Authorizing Resolution"), authorized and implemented a program of commercial paper (the "Program") involving the issuance from time to time of the Second Subordinate Sales Tax Revenue Commercial Paper Notes, Series A (the "Notes") for the purpose of providing for the financing of the acquisition of real and personal property and the construction of the Public Transportation System, provided that the aggregate principal amount of Notes and Reimbursement Obligations (as defined in such 1991 Authorizing Resolution) outstanding at any time shall not exceed \$350,000,000; and

WHEREAS, the Notes and other obligations incurred in connection with the Program are issued under and secured by the Subordinate Trust Agreement, dated as of January 1, 1991 (the "Subordinate Agreement"), by and between the LACMTA (as successor to the Commission) and U.S. Bank Trust National Association, as successor to BancAmerica Trust Company, as successor to

Security Pacific National Trust Company (New York), as trustee (the “Trustee”); the First Supplemental Subordinate Trust Agreement, dated as of January 1, 1991, as amended (the “First Supplemental Trust Agreement”), by and between the LACMTA and the Trustee; the Second Supplemental Subordinate Trust Agreement, dated as of January 1, 1994 (the “Second Supplemental Trust Agreement”), by and between the LACMTA and the Trustee; the Third Supplemental Subordinate Trust Agreement, dated as of December 1, 1996 (the “Third Supplemental Trust Agreement”), by and between the LACMTA and the Trustee; the Fourth Supplemental Subordinate Trust Agreement, dated as of December 1, 1996 (the “Fourth Supplemental Trust Agreement”), by and between the LACMTA and the Trustee; the Fifth Supplemental Subordinate Trust Agreement, dated as of May 1, 2004 (the “Fifth Supplemental Trust Agreement”), by and between the LACMTA and the Trustee; the Sixth Supplemental Subordinate Trust Agreement, dated as of September 24, 2009 (the “Sixth Supplemental Trust Agreement”); and the Seventh Supplemental Subordinate Trust Agreement, dated as of September 1, 2010 (the “Seventh Supplemental Trust Agreement” and collectively with the Subordinate Agreement, the First Supplemental Trust Agreement, the Second Supplemental Trust Agreement, the Third Supplemental Trust Agreement, the Fourth Supplemental Trust Agreement, the Fifth Supplemental Trust Agreement and the Sixth Supplemental Trust Agreement, the “Trust Agreement”), by and between the LACMTA and the Trustee; and

WHEREAS, the LACMTA has determined that it is necessary and desirable to have the Notes secured by one or more letters of credit (the “Letter of Credit,” or the “Letters of Credit”) that are delivered pursuant to the terms of one or more reimbursement agreements (a “Reimbursement Agreement,” or the “Reimbursement Agreements”) each between one or more providers of a Letter of Credit (a “Letter of Credit Provider,” or the “Letter of Credit Providers”) that sets forth the terms and conditions for the repayment by the LACMTA of Reimbursement Obligations; and

WHEREAS, the Notes are currently secured by a Letter of Credit (the “Barclays Letter of Credit”) provided by Barclays Bank PLC (“Barclays”), in the stated amount of \$199,999,988, which expires on April 22, 2022; and

WHEREAS, Barclays issued the Barclays Letter of Credit pursuant to the Reimbursement Agreement, dated as of April 1, 2019, between the LACMTA and Barclays; and

WHEREAS, the LACMTA now desires to (a) replace the Barclays Letter of Credit with a Letter of Credit (the “BANA Letter of Credit”) to be provided by Bank of America, N.A. (“BANA”) in the stated amount of \$163,315,069 (representing principal of up to \$150,000,000 plus interest of up to \$13,315,069), or (b) renew the Barclays Letter of Credit amount, and/or (c) replace the Barclays Letter of Credit with one or more new Letters of Credit to be issued by such other Letter of Credit Provider(s) or one or more Bank Products or Alternative Products to be provided by such financial institutions in a combined available amount not to exceed \$163,315,069 (representing principal of up to \$150,000,000 plus interest of up to \$13,315,069) that may be selected by the LACMTA from the pool of respondents to the LACMTA’s “Request for Proposals to Provide Replacement Direct Pay Letter of Credit and/or Bank Product and/or Alternative Products” (the “Bank RFP”) distributed to potential respondents on December 15, 2021 (each, an “Other Letter of Credit Provider”);

WHEREAS, so long as the Program is active, the LACMTA deems it necessary and desirable to have one or more Letters of Credit securing the payment of principal of and interest on the Notes as they mature from time to time; and

WHEREAS, Section 5922 of the Government Code of the State of California provides that in connection with, or incidental to, the issuance or carrying of bonds (which is defined to include notes) any public entity may enter into any contracts which the public entity determines to be appropriate to place the obligations represented by the bonds, in whole or in part, on the interest rate, cash flow or other basis desired by the public entity, including without limitation contracts providing for payments based on levels of, or changes in, interest rates or stock or other indices, or contracts to exchange cash flows or a series of payments, in each case to hedge payment, rate, spread or similar exposure, and may enter into credit enhancement or liquidity agreements, with payment, interest rate, currency, security, default, remedy, and other terms and conditions as the public entity determines; and

WHEREAS, pursuant to Section 5922 of the Government Code of the State of California, the LACMTA hereby finds and determines that the Reimbursement Agreements to be entered into in connection with, or incidental to, the Program, will reduce the amount and duration of interest rate risk with respect to the Notes and are designed to reduce the amount or duration of payment, rate, spread or similar risk or result in a lower cost of borrowing when used in combination with the Notes or enhance the relationship between risk and return with respect to investments; and

WHEREAS, in order to minimize debt service and maximize benefits to the LACMTA, the LACMTA will enter into one or more Reimbursement Agreements with Barclays, BANA, and/or such Other Letter of Credit Provider which will provide one or more Letters of Credit that will separately secure the payment of principal of and interest on certain designated Notes as issued and maturing from time to time, or the LACMTA will enter into one or more agreements for Bank Products or Alternative Products pursuant to the Bank RFP; and

WHEREAS, Barclays, BANA, and/or such Other Letter of Credit Provider will provide credit support for \$150,000,000 in aggregate principal amount of the Notes (which is only a portion of the \$350,000,000 authorized under the 1991 Authorizing Resolution); and

WHEREAS, forms of the following documents are on file with the Clerk of the Board of Directors of the LACMTA and have been made available to the members of the Board of Directors of the LACMTA (the “Board”):

(a) a Letter of Credit Reimbursement Agreement (the “BANA Reimbursement Agreement”), that will be entered into by the LACMTA and BANA in connection with the issuance of the BANA Letter of Credit;

(b) a Fee Agreement (the “BANA Fee Agreement”), that will be entered into by the LACMTA and BANA;

(c) a Reimbursement Note (the “BANA Reimbursement Note” and collectively, with the BANA Reimbursement Agreement and the BANA Fee Agreement, the “Documents”), that will be executed and delivered by the LACMTA to evidence its reimbursement obligations under the BANA Reimbursement Agreement and the BANA Fee Agreement; and

(d) a Commercial Paper Offering Memorandum (the “Offering Memorandum”), to be used in connection with the offer and sale of the Notes; and

WHEREAS, the LACMTA has been advised by its Bond Counsel that such documents are in appropriate form, and the LACMTA hereby acknowledges that said documents are subject to

modification to reflect the various details applicable to the Program and the Notes and the results of negotiation with BANA (or Barclays or an Other Letter of Credit Provider, as the case may be); and

WHEREAS, in the event the LACMTA decides that it is in its best interests to renew the Barclays Letter of Credit or replace such Letter of Credit with one or more Letters of Credit to be issued by one or more Other Letter of Credit Provider(s) other than BANA, the LACMTA will (a) enter into one or more Reimbursement Agreements with the Other Letter of Credit Provider(s), (b) will enter into one or more fee agreements with the Other Letter of Credit Provider(s), (c) execute and deliver one or more reimbursement notes relating to such Reimbursement Agreement or Agreements, and (d) revise and deliver the Offering Memorandum relating to such Letters of Credit and Other Letter of Credit Provider(s); and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Trust Agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

Section 1. Findings. The foregoing recitals are true and correct and the LACMTA so finds and determines.

Section 2. Approval of Documents; Authorization for Execution. The LACMTA hereby approves the appointment of BANA and/or Barclays and/or such Other Letter of Credit Provider selected and appointed by a Designated Officer (as defined below), as the providers of the Letters of Credit (in a combined stated amount of up to \$163,315,069 (representing principal of up to \$150,000,000 plus interest of up to \$13,315,069)) with respect to the Program and the Notes. The form, terms and provisions of the Documents are in all respects approved and the Chief Executive Officer of the LACMTA, the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Executive Officer, Finance of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer, or any such officer serving in an acting or interim capacity, and any written designee of any of them (each, a "Designated Officer"), and any one or more thereof, are hereby authorized, empowered and directed to execute, acknowledge and deliver each of the Documents including counterparts thereof, in the name and on behalf of the LACMTA. The Documents, as executed and delivered, shall be in substantially the forms now on file with the Clerk of the Board and made available to the Board and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the Board's approval of any and all changes or revisions therein from the forms of the Documents now on file with the Clerk of the Board and made available to the Board; and from and after the execution and delivery of the Documents, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Documents.

If a Designated Officer determines that it is in the LACMTA's best interests to replace the Barclays Letter of Credit with one or more Letters of Credit to be issued by one or more Other Letter of Credit Provider(s), instead of BANA, the Designated Officers are hereby authorized to (a) (i) enter into one or more Reimbursement Agreements with one or more Other Letter of Credit Provider(s) (each an "Alternate Reimbursement Agreement"), (ii) enter into one or more fee agreements with one or more Other Letter of Credit Provider(s) (each an "Alternate Fee Agreement") and (iii) execute and deliver one or more reimbursement notes (each an "Alternate Reimbursement Note") or (b) enter into

documents relating to a Bank Product or Alternate Product pursuant to the Bank RFP (each an “Alternate Product,” and collectively with the Alternate Reimbursement Agreement, the Alternate Fee Agreement and the Alternate Reimbursement Note, the “Alternate Documents”). The Alternate Documents, as executed and delivered, may be substantially similar to the forms of the Documents now on file with the Clerk of the Board and made available to the Board and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the Board’s approval of any and all changes or revisions therein from the forms of the Documents now on file with the Clerk of the Board and made available to the Board; and from and after the execution and delivery of the Alternate Documents, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Alternate Documents.

The LACMTA hereby determines that entering into one or more Reimbursement Agreements with BANA, Barclays, and/or such Other Letter of Credit Provider pursuant to Section 5922 of the Government Code of the State of California would be designed to reduce the LACMTA’s cost of borrowing for the Notes. In addition to the provisions set forth in the previous paragraph, no Designated Officer shall enter into a Reimbursement Agreement with BANA, Barclays, and/or such Other Letter of Credit Provider unless (a) such Reimbursement Agreement is designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, or (ii) to result in a lower cost of borrowing when used in combination with the issuance of the Notes, (b) the term of such Reimbursement Agreement or Alternate Product does not exceed the Program Termination Date; and (c) the amounts payable by the LACMTA with respect to such Reimbursement Agreements shall be payable solely and exclusively from Net Pledged Revenues. In accordance with Section 5922 of the Government Code of the State of California, the LACMTA hereby finds and determines that the Reimbursement Agreements entered into in accordance with this Resolution and consistent with the requirements set forth herein is designed to reduce the amount or duration of payment, interest rate, spread or similar risk or result in a lower cost of borrowing when used in combination with the Notes.

Section 3. Offering Memorandum. The distribution by any of the Dealers of an Offering Memorandum in connection with the offering and sale of the Notes from time to time in substantially the form on file with the Clerk of the Board and made available to the Board, with such changes therein as shall be approved by a Designated Officer, is hereby authorized and approved. Each Offering Memorandum so distributed shall first be approved by a Designated Officer pursuant to the terms of the Dealer Agreements. The Dealers are hereby authorized to distribute Offering Memoranda in final form to market the Notes from time to time, and are hereby authorized to distribute copies of the LACMTA’s most recent annual audited financial statements and such other financial statements of the LACMTA as a Designated Officer shall approve.

Section 4. Additional Authorization. The Designated Officers and all officers, agents and employees of the LACMTA, for and on behalf of the LACMTA, be and they hereby are authorized and directed to do any and all things necessary to effect the execution and delivery of the Documents and/or the Alternate Documents and to carry out the terms thereof. The Designated Officers and all other officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, to execute all papers, documents, certificates and other instruments and take all other actions that may be required in order to carry out the authority conferred by this Resolution or the provisions of the Documents and/or the Alternate Documents or to evidence said authority and its exercise. In connection with the execution and delivery of the Documents and the delivery of the BANA Letter of Credit and/or the execution and delivery of the Alternate Documents and/or the

issuance of a new Letter of Credit by an Other Letter of Credit Provider, the LACMTA is hereby authorized and directed to prepare and cause to be distributed, from time to time, one or more commercial paper offering memoranda with respect to the Notes. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

Section 5. Severability. The provisions of this Resolution are hereby declared to be severable, and, if any section, phrase or provision shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

Section 6. Effective Date. This Resolution shall be effective upon adoption by the Board.

CERTIFICATION

The undersigned, duly qualified and acting as Board Clerk of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of the Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on February 24, 2022.

By _____
Board Clerk, Los Angeles County Metropolitan
Transportation Authority

Dated: _____, 2022

Proposition C Authorizing Resolution

RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF ONE OR MORE REVOLVING CREDIT AGREEMENTS AND CERTAIN OTHER DOCUMENTS RELATED TO THE PROPOSITION C REVOLVING OBLIGATIONS, THE EXECUTION AND DELIVERY OF ONE OR MORE REIMBURSEMENT AGREEMENTS AND CERTAIN OTHER DOCUMENTS RELATED TO THE PROPOSITION C COMMERCIAL PAPER PROGRAM AND AUTHORIZING OTHER RELATED MATTERS

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA"), as successor to the Los Angeles County Transportation Commission (the "Commission"), is authorized, under Chapter 5 of Division 12 of the California Public Utilities Code (the "Act"), to issue indebtedness and securities of any kind or class, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other obligations ("Bonds"), to finance and refinance the acquisition, construction, rehabilitation or equipping of facilities to be used as part of a countywide transportation system; and

WHEREAS, pursuant to the provisions of Section 130350 of the California Public Utilities Code, the Commission is authorized to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County of Los Angeles (the "County") subject to the approval of the voters of the County; and

WHEREAS, the Commission, by Ordinance No. 49 adopted August 28, 1990 ("Ordinance No. 49"), imposed a 1/2 of 1% retail transactions and use tax upon retail sales of tangible personal property and upon the storage, use or other consumption of tangible personal property in the County, the proceeds of the tax to be used for public transit purposes (the "Proposition C Tax"), and such tax was approved by the electors of the County on November 6, 1990; and

WHEREAS, the revenues received by the LACMTA from the imposition of the Proposition C Tax are, by statute, directed to be used for public transit purposes, which purposes include a pledge of such tax to secure any Bonds issued pursuant to the Act and include the payment or provision for the payment of the principal of such Bonds and any premium, interest on such Bonds and the costs of issuance of such Bonds; and

WHEREAS, the LACMTA, on an on-going basis, is planning and engineering a County-wide public transportation system (the "Public Transportation System") to serve the County and on an on-going basis is constructing portions of the Public Transportation System; and

WHEREAS, to facilitate the development and construction of the Public Transportation System, as authorized by the Act, the LACMTA by resolution adopted June 23, 1993 (the "1993 CP Authorizing Resolution"), authorized and implemented a commercial paper program (the "CP Program") involving the issuance, from time to time, of the Subordinate Proposition C Sales Tax Revenue Commercial Paper Notes, Series A (the "CP Notes") for the purpose of providing for the financing of the acquisition and construction of the Public Transportation System, provided that the aggregate principal amount of CP Notes and Reimbursement Obligations (as defined in the 1993 CP Authorizing Resolution) outstanding at any time shall not exceed \$150,000,000; and

WHEREAS, the CP Notes and other obligations incurred in connection with the CP Program are issued under and secured by the Subordinate Trust Agreement, dated as of June 1, 1993 (the “Subordinate Trust Agreement”), by and between the LACMTA and U.S. Bank National Association, as successor to Bank of America National Trust and Savings Association, as trustee (the “Trustee”), and the First Supplemental Subordinate Trust Agreement, dated as of June 1, 1993 (the “Original First Supplemental Subordinate Trust Agreement”), by and between the LACMTA and the Trustee, as amended by Amendment No. 1 to First Supplemental Subordinate Trust Agreement, dated as of October 16, 1995 (the “First Amendment”), by and between the LACMTA and the Trustee, Amendment No. 2 to First Supplemental Subordinate Trust Agreement, dated as of July 1, 1996 (the “Second Amendment”), by and between the LACMTA and the Trustee, Amendment No. 3 to First Supplemental Subordinate Trust Agreement, dated as of June 1, 1998 (the “Third Amendment”), by and between the LACMTA and the Trustee, Amendment No. 4 to First Supplemental Subordinate Trust Agreement, dated as of May 1, 2002 (the “Fourth Amendment”), by and between the LACMTA and the Trustee, Amendment No. 5 to First Supplemental Subordinate Trust Agreement, dated as of January 1, 2008 (the “Fifth Amendment”), by and between the LACMTA and the Trustee, Amendment No. 6 to First Supplemental Subordinate Trust Agreement, dated as of September 1, 2010 (the “Sixth Amendment” and collectively with the Original First Supplemental Subordinate Trust Agreement, the First Amendment, the Second Amendment, the Third Amendment, the Fourth Amendment, the Fifth Amendment and the Sixth Amendment, the “First Supplemental Subordinate Trust Agreement”), the Second Supplemental Subordinate Trust Agreement, dated as of April 1, 2013 (the “Second Supplemental Subordinate Trust Agreement”), the Third Supplemental Subordinate Trust Agreement, dated as of March 1, 2016 (the “Third Supplemental Subordinate Trust Agreement”), and the Fourth Supplemental Subordinate Trust Agreement, dated as of April 1, 2019 (the “Fourth Supplemental Subordinate Trust Agreement” and together with the Subordinate Trust Agreement, the First Supplemental Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement, and the Third Supplemental Subordinate Trust Agreement, the “Existing Subordinate Trust Agreement”), each by and between the LACMTA and the Trustee; and

WHEREAS, the LACMTA has previously determined that it is necessary and desirable to have the CP Notes secured by one or more letters of credit (the “Letter of Credit,” or the “Letters of Credit”) that are delivered pursuant to the terms of one or more reimbursement agreements (a “Reimbursement Agreement,” or the “Reimbursement Agreements”) each between the LACMTA and one or more providers of a Letter of Credit (a “Letter of Credit Provider,” or the “Letter of Credit Providers”) that sets forth the terms and conditions for the repayment by the LACMTA of Reimbursement Obligations; and

WHEREAS, currently, no CP Notes are outstanding; and

WHEREAS, Section 5922 of the Government Code of the State of California provides that in connection with, or incidental to, the issuance or carrying of bonds (which is defined to include notes) any public entity may enter into any contracts which the public entity determines to be appropriate to place the obligations represented by the bonds, in whole or in part, on the interest rate, cash flow or other basis desired by the public entity, including without limitation contracts providing for payments based on levels of, or changes in, interest rates or stock or other indices, or contracts to exchange cash flows or a series of payments, in each case to hedge payment, rate, spread or similar exposure and may enter into credit enhancement or liquidity agreements, with payment, interest rate, currency, security, default, remedy, and other terms and conditions as the public entity determines; and

WHEREAS, pursuant to Section 5922 of the Government Code of the State of California, the LACMTA hereby finds and determines that any Reimbursement Agreement(s) to be entered into in connection with, or incidental to, the CP Program, will reduce the amount and duration of interest rate risk with respect to CP Notes issued under the CP Program and are designed to reduce the amount or duration of payment, rate, spread or similar risk or result in a lower cost of borrowing when used in combination with such CP Notes or enhance the relationship between risk and return with respect to investments; and

WHEREAS, in addition to the authority to issue CP Notes, pursuant to the terms of the Subordinate Trust Agreement and the Second Supplemental Subordinate Trust Agreement, the LACMTA is authorized to issue and/or incur, from time to time, Subordinate Obligations in the form of Subordinate Proposition C Sales Tax Revenue Revolving Obligations (the “Subordinate Revolving Obligations”); and

WHEREAS, the Subordinate Revolving Obligations are issued and/or incurred in the form of one or more revolving lines of credit (a “Revolving Line of Credit”) provided by one or more providers of such Revolving Lines of Credit (a “Line of Credit Provider”); and

WHEREAS, a Revolving Line of Credit (the “Existing Revolving Line of Credit”) is currently provided by Wells Fargo Bank, National Association (“Wells Fargo”) pursuant to the Second Amended and Restated Revolving Credit Agreement, dated as of April 1, 2019, by and between the LACMTA and Wells Fargo, which is scheduled to expire on April 24, 2022; and

WHEREAS, the LACMTA now desires to replace the Existing Revolving Line of Credit with either (i) a replacement Revolving Line of Credit with Bank of the West (“BOTW”), or (ii) one or more replacement Revolving Lines of Credit to be provided by such other Line of Credit Provider(s) that may be selected by the LACMTA from the pool of respondents pursuant to the Bank RFP (defined below) (each, an “Other Line of Credit Provider”), or (iii) CP Notes secured by one or more Letters of Credit, pursuant to one or more Reimbursement Agreements with one or more Letter of Credit Providers that may be selected by the LACMTA from the pool of respondents to the LACMTA’s “Request for Proposals to Provide Replacement Direct Pay Letter and/or Bank Product and/or Alternative Products” (the “Bank RFP”) distributed to potential respondents on December 15, 2021; and

WHEREAS, the replacement Revolving Line of Credit (the “Replacement Revolving Line of Credit”) will be provided to the LACMTA by BOTW or such Other Line of Credit Provider, as applicable, pursuant to a revolving credit agreement (each, a “Credit Agreement”) to be entered into by and between the LACMTA and BOTW or such Other Line of Credit Provider, as applicable, whereby the LACMTA will be allowed to request Advances (as defined in the applicable Credit Agreement), from time to time, in an aggregate principal amount not to exceed \$150,000,000 at any one time outstanding to finance or refinance on either a reimbursement or forward funding basis the acquisition, construction, rehabilitation or equipping of facilities authorized under the Act and Ordinance No. 49 (including, but not limited to facilities to be used as part of a Public Transportation System), to finance certain costs of issuance and for any other financing needs of the LACMTA authorized under the Act and Ordinance No. 49 (including, but not limited to, the refunding and restructuring of existing indebtedness of the LACMTA); and

WHEREAS, the Advances, the Revolving Loans (as defined in the applicable Credit Agreement) and the Term Loans (as defined in the applicable Credit Agreement) will be incurred

pursuant to the Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement (as amended, including as amended by the Fifth Supplemental Subordinate Trust Agreement, as defined below) and the applicable Credit Agreement; and

WHEREAS, the obligations incurred by the LACMTA pursuant to the terms of the Credit Agreement (including, but not limited to, the Advances, the Revolving Loans and the Term Loans) will be limited obligations of the LACMTA, secured by, and payable from, Net Pledged Revenues and such other funds and accounts as provided in the Subordinate Trust Agreement and the Second Supplemental Subordinate Trust Agreement and will be evidenced by one or more promissory notes; and

WHEREAS, the Advances, the Revolving Loans and the Term Loans may be incurred under the Credit Agreement whereby the interest paid by the LACMTA on such Advances, Revolving Loans and Term Loans may be (i) excluded from the gross income of the recipients thereof under the varying provisions of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or related thereto (collectively, the “Code”) and/or (ii) included in the gross income of the recipients thereof under the Code; and

WHEREAS, forms of the following documents are on file with the Clerk of the Board of Directors of the LACMTA and have been made available to the members of the Board of Directors of the LACMTA (the “Board”) with respect to the Replacement Revolving Line of Credit:

(a) a Fifth Supplemental Subordinate Trust Agreement (the “Fifth Supplemental Subordinate Trust Agreement”) by and between the LACMTA and the Trustee, which among other things, further amends the Second Supplemental Subordinate Trust Agreement;

(b) a Revolving Credit Agreement (the “BOTW Credit Agreement”), to be entered into by the LACMTA and BOTW, in connection with the Replacement Revolving Line of Credit; and

(c) a Tax-Exempt Note and a Taxable Note (the “BOTW Revolving Obligation Notes,” and together with the BOTW Credit Agreement, the “Revolving Obligations Documents”), that will be executed and delivered by the LACMTA to evidence its payment and reimbursement obligations under the BOTW Credit Agreement; and

WHEREAS, the LACMTA has been advised by its Bond Counsel that such documents are in appropriate form, and the LACMTA hereby acknowledges that said documents will be modified and amended to reflect the various details applicable to the Subordinate Revolving Obligations and the Replacement Revolving Line of Credit; and

WHEREAS, in the event the LACMTA decides that it is in its best interests to replace the Existing Revolving Line of Credit with a Letter of Credit to be issued by a Letter of Credit Provider, the LACMTA will (i) enter into a Reimbursement Agreement with the Letter of Credit Provider, (ii) enter into a fee agreement with the Letter of Credit Provider and (iii) execute and deliver a reimbursement note relating to such Reimbursement Agreement; and

WHEREAS, in the event the LACMTA decides that it is in its best interests to replace the Existing Revolving Line of Credit with a Revolving Line of Credit to be provided by an Other Line of Credit Provider, instead of BOTW, the LACMTA will (i) enter into a Credit Agreement with the Other

Line of Credit Provider and (ii) execute and deliver tax-exempt and taxable notes relating to such Credit Agreement; and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Subordinate Trust Agreement, the First Supplemental Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement, and the Fifth Supplemental Subordinate Trust Agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

Section 1. Findings.

(a) The foregoing recitals are true and correct and the LACMTA so finds and determines.

(b) The issuance and/or incurrence of the Subordinate Revolving Obligations, from time to time, and the payment of certain costs related thereto, if determined by a Designated Officer (as hereinafter defined) to be in the best interest of the LACMTA, are in the public interest.

Section 2. Issuance and/or Incurrence and Terms of Subordinate Revolving Obligations. For the purposes set forth in the foregoing recitals, the LACMTA is hereby authorized to (a) issue and/or incur, from time to time, the Subordinate Revolving Obligations in the form of the Replacement Revolving Line(s) of Credit to be provided by BOTW or such Other Line of Credit Provider, as applicable, pursuant to one or more Credit Agreements (including the BOTW Credit Agreement or the Alternate Credit Agreement (as hereinafter defined)), provided that the aggregate principal amount of all Subordinate Revolving Obligations outstanding at any time shall not exceed \$150,000,000, and (b) incur the other Obligations (as defined in the applicable Credit Agreement) under each Credit Agreement, the Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement and Fifth Supplemental Subordinate Trust Agreement. The commitment by BOTW or such Other Line of Credit Provider to make Advances under the applicable Credit Agreement shall have a term not less than two years from the date of execution of the applicable Credit Agreement unless such date is earlier terminated pursuant to the terms of the applicable Credit Agreement or extended, reduced or rescinded by a subsequent resolution of the LACMTA (and approved by BOTW or such Other Line of Credit Provider, as applicable). The outstanding principal amount of each Revolving Loan and each Term Loan shall bear interest at the interest rates set forth in each Credit Agreement. Notwithstanding anything to the contrary in the previous sentence or the provisions of this Resolution, interest payable by the LACMTA on any Revolving Loan or Term Loan shall not exceed the Maximum Rate (as defined in the applicable Credit Agreement); provided, however, if the rate of interest calculated in accordance with the terms of each Credit Agreement exceeds the Maximum Rate, interest at the rate equal to the difference between the rate of interest calculated in accordance with the terms of the applicable Credit Agreement and the Maximum Rate shall be deferred until such date as the rate of interest calculated in accordance with the terms of the applicable Credit Agreement ceases to exceed the Maximum Rate, at which time the LACMTA shall pay BOTW or such Other Line of Credit Provider, as applicable, the deferred interest as provided in the applicable Credit Agreement.

The Revolving Lines of Credit are being obtained to provide funds, from time to time, to finance on either a reimbursement or forward funding basis the acquisition, construction, rehabilitation and equipping of facilities authorized under the Act and Ordinance No. 49 (including, but not limited to facilities to be used as part of a Public Transportation System), to finance certain costs of issuance and for any other financing needs of the LACMTA authorized under the Act and Ordinance No. 49 (including, but not limited to, the refunding and restructuring of existing indebtedness of the LACMTA).

The LACMTA shall be obligated to repay BOTW or such Other Line of Credit Provider, as applicable, for all Advances, Revolving Loans and Term Loans and pay all Obligations owed to BOTW or such Other Line of Credit Provider, as applicable, and such Advances, Revolving Loans, Term Loans and Obligations shall be payable, both with respect to interest and principal as provided for in the Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement, each Credit Agreement and the BOTW Revolving Obligation Notes and the Alternate Revolving Obligation Notes (as hereinafter defined, and together with the BOTW Revolving Obligation Notes, the “Subordinate Revolving Obligation Notes”). The Advances, the Revolving Loans and the Term Loans may be incurred under each Credit Agreement whereby the interest paid by the LACMTA on such Revolving Loans and Term Loans is excluded from gross income for federal income tax purposes or not excluded or part excluded and part not excluded in such combination as is acceptable to the Designated Officer authorizing the same.

The terms of each Advance shall, consistent with this Resolution and the Second Supplemental Subordinate Trust Agreement, be set forth in a Request for Advance and Revolving Loan (as described in the applicable Credit Agreement) delivered to BOTW or such Other Line of Credit Provider, as applicable, by a Designated Officer.

Section 3. Pledge to Secure the Advances, the Revolving Loans, the Term Loans, the Notes and the Obligations – Subordinate Revolving Obligations. The LACMTA hereby approves the pledge to secure the Subordinate Revolving Obligations, the Advances, the Revolving Loans, the Term Loans, the Subordinate Revolving Obligation Notes and the Obligations as set forth in the Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement, each Credit Agreement and the Subordinate Revolving Obligation Notes.

Section 4. Limited Obligations; Subordinate Obligations – Subordinate Revolving Obligations. The Subordinate Revolving Obligations, the Advances, the Revolving Loans, the Term Loans, the Subordinate Revolving Obligation Notes and the Reimbursement Obligations (as defined in the applicable Credit Agreement) shall be limited obligations of the LACMTA, secured by, have a lien on and be payable from, Net Pledged Revenues and from the funds and accounts held by the Trustee and the LACMTA under the Subordinate Trust Agreement and the Second Supplemental Subordinate Trust Agreement, as and to the extent therein described. The Subordinate Revolving Obligations, the Advances, the Revolving Loans, the Term Loans, the Subordinate Revolving Obligation Notes and the Reimbursement Obligations (as defined in the applicable Credit Agreement) shall also be secured by and be paid from such other sources as the LACMTA may hereafter provide, including, but not limited to, proceeds of additional borrowings for such purpose and any applicable state or federal grants received by the LACMTA.

The Subordinate Revolving Obligations shall be issued, from time to time, as Subordinate Obligations as provided for in Section 2.09 of the Subordinate Trust Agreement.

The Obligations (other than Reimbursement Obligations (as defined in the applicable Credit Agreement) and payment of principal of and interest on the Subordinate Revolving Obligation Notes) shall be secured by and have a lien on Net Pledged Revenues junior and subordinate in all respects to the liens on, security interest in and pledges of the Net Pledged Revenues granted to the Subordinate Obligations (including, but not limited to, the Subordinate Revolving Obligations, the Advances, the Revolving Loans, the Term Loans, the Subordinate Revolving Obligation Notes and the Reimbursement Obligations (as defined in the applicable Credit Agreement)).

Section 5. Approval of Revolving Obligations Documents; Authorization for Execution - Subordinate Revolving Obligations. The LACMTA hereby approves the appointment of BOTW, or such Other Line of Credit Provider selected and appointed by a Designated Officer, as the provider of the Revolving Line of Credit with respect to the Subordinate Revolving Obligations. The form, terms and provisions of the Fifth Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents are in all respects approved and any one or more of the Designated Officers, are hereby authorized, empowered and directed to execute, acknowledge and deliver each of the Fifth Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents, including counterparts thereof, in the name and on behalf of the LACMTA. The Fifth Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents, as executed and delivered, shall be generally in the forms now on file with the Clerk of the Board and made available to the Board and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the Board's approval of any and all changes or revisions therein from the forms of the Fifth Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents now on file with the Clerk of the Board and made available to the Board; and from and after the execution and delivery of the Fifth Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Fifth Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents.

If a Designated Officer determines that it is in the LACMTA's best interests to replace the Wells Fargo Revolving Line of Credit with a Revolving Line of Credit to be provided by an Other Line of Credit Provider, instead of by the BOTW, the Designated Officers are hereby authorized to (a) enter into a Credit Agreement with the Other Line of Credit Provider that is substantially similar to the form of the BOTW Credit Agreement (an "Alternate Credit Agreement") now on file with the Clerk of the Board and made available to the Board and approved above, and (b) execute and deliver tax-exempt and taxable notes that are substantially similar to the form of the BOTW Revolving Obligation Notes (the "Alternate Revolving Obligation Notes") and together with the Alternate Credit Agreement, the "Alternate Revolving Obligations Documents" now on file with the Clerk of the Board and made available to the Board and approved above. The Alternate Revolving Obligations Documents, as executed and delivered, shall be substantially similar to the forms of the Revolving Obligations Documents now on file with the Clerk of the Board and made available to the Board and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the Board's approval of any and all changes or revisions therein from the forms of the Revolving Obligations Documents now on file with the Clerk of the Board and made available to the Board; and from and after the execution and delivery of the Alternate Revolving Obligations Documents, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute

all such documents as may be necessary to carry out and comply with the provisions of the Alternate Revolving Obligations Documents.

Section 6. Trustee, Paying Agent and Registrar – Subordinate Revolving Obligations. U.S. Bank National Association is hereby appointed as Trustee, Paying Agent and Registrar for the Subordinate Revolving Obligations. Such appointments shall be effective upon the adoption of this Resolution and shall remain in effect until the LACMTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 7. Designated Representatives – Subordinate Revolving Obligations. The Board hereby appoints the Chair of the LACMTA, any Vice Chair of the LACMTA, the Chief Executive Officer of the LACMTA (the “CEO”), the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Executive Officer, Finance, any Deputy Executive Officer, Finance, any Assistant Treasurer of the LACMTA, or any such officer serving in an acting or interim capacity and any other persons the CEO may designate to serve, as “Designated Officers” of the LACMTA under the terms of this Resolution, the Second Supplemental Subordinate Trust Agreement and each Credit Agreement. The Designated Officers are, and each of them is, hereby authorized and are hereby directed to perform those duties set forth in the Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents or the Alternate Revolving Obligations Documents, including, without limitation, the execution of a Request for Advance and Revolving Loan (as described in the applicable Credit Agreement). The Designated Officers are, and each of them is, also authorized to make representations, certifications and warranties in connection with implementing and obtaining the Revolving Lines of Credit and the issuance and/or incurrence of Advances, Revolving Loans and Term Loans as and when required in the Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents or the Alternate Revolving Obligations Documents, and the certifications and agreements relating to the federal tax exemption with regards to certain advances. The Designated Officers are hereby further authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents or the Alternate Revolving Obligations Documents.

Section 8. Authorized Authority Representative – Subordinate Revolving Obligations. The Board hereby designates the Designated Officers, as an Authorized Authority Representative for all purposes under the Subordinate Trust Agreement, the Second Supplemental Subordinate Trust Agreement and each Credit Agreement and with respect to the Subordinate Revolving Obligations, the Revolving Lines of Credit, the Advances, the Revolving Loans, the Term Loans and the Subordinate Revolving Obligation Notes. Such appointments shall remain in effect until modified by resolution.

Section 9. Additional Authorization – Subordinate Revolving Obligations. Each Designated Officer and all officers, agents and employees of the LACMTA, for and on behalf of the LACMTA, be and they hereby are authorized and directed to do any and all things necessary to effect the execution and delivery of the Fifth Supplemental Subordinate Trust Agreement, the Revolving Obligations Documents or the Alternate Revolving Obligations Documents and to carry out the terms thereof. Each Designated Officer, each Designated Representative and all officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, to execute all papers, documents, certificates and other instruments that may be required in order to carry out the authority conferred by this Resolution, the Existing Subordinate Trust Agreement, the Fifth

Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents or the Alternate Revolving Obligations Documents or to evidence the same authority and its exercise. The foregoing authorization includes, but is in no way limited to, authorizing LACMTA staff to pay costs of issuance of implementing and obtaining the Revolving Lines of Credit and fees and costs of BOTW or such Other Line of Credit Provider, as applicable, authorizing the investment of the proceeds of the Advances in one or more of the permitted investments provided for under the Existing Subordinate Trust Agreement, and authorizing the execution by a Designated Officer, or any one of them, of one or more tax compliance certificates as required by the Second Supplemental Subordinate Trust Agreement and the Revolving Obligations Documents or the Alternate Revolving Obligations Documents for the purpose of complying with the rebate requirements of the Code. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

Section 10. Approval of Alternate CP Documents. If a Designated Officer determines that it is in the LACMTA's best interests to replace the Existing Revolving Line of Credit with a Letter of Credit to be issued by a Letter of Credit Provider, the Designated Officers are hereby authorized to (i) enter into a Reimbursement Agreement with the Letter of Credit Provider (an "Alternate Reimbursement Agreement"), (ii) enter into a fee agreement with the Letter of Credit Provider (an "Alternate Fee Agreement"), and (iii) execute and deliver a reimbursement note (the "Alternate Reimbursement Note," and collectively with the Alternate Reimbursement Agreement and the Alternate Fee Agreement, the "Alternate CP Documents"). The Alternate CP Documents, as executed and delivered, shall be in such form as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the Board's approval of any and all provisions therein consistent with this Resolution; and from and after the execution and delivery of the Alternate CP Documents, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Alternate CP Documents.

The LACMTA hereby determines that entering into one or more Reimbursement Agreements with any such Letter of Credit Provider pursuant to Section 5922 of the Government Code of the State of California would be designed to reduce the LACMTA's cost of borrowing for the CP Notes. In addition to the provisions set forth in the previous paragraph, no Designated Officer shall enter into an Alternate Reimbursement Agreement with such Letter of Credit Provider unless (a) such Alternate Reimbursement Agreement is designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, or (ii) to result in a lower cost of borrowing when used in combination with the issuance of the CP Notes, (b) the term of such Alternate Reimbursement Agreement does not exceed the Program Termination Date; and (c) the amounts payable by the LACMTA with respect to such Alternate Reimbursement Agreement shall be payable solely and exclusively from Net Pledged Revenues. In accordance with Section 5922 of the Government Code of the State of California, the LACMTA hereby finds and determines that any Alternate Reimbursement Agreement entered into in accordance with this Resolution and consistent with the requirements set forth herein is designed to reduce the amount or duration of payment, interest rate, spread or similar risk or result in a lower cost of borrowing when used in combination with the CP Notes.

Section 11. Additional Authorization – CP Program. The Designated Officers and all officers, agents and employees of the LACMTA, for and on behalf of the LACMTA, be and they hereby are authorized and directed to do any and all things necessary to effect the execution and delivery of the Alternate CP Documents and to carry out the terms thereof. The Designated Officers

and all other officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, to execute all papers, documents, certificates and other instruments and take all other actions that may be required in order to carry out the authority conferred by this Resolution or the provisions of the Alternate CP Documents or to evidence said authority and its exercise. In connection with the execution and delivery of the Alternate CP Documents and the issuance of a Letter of Credit by a Letter of Credit Provider, the LACMTA is hereby authorized and directed to prepare and cause to be distributed, from time to time, one or more commercial paper offering memoranda with respect to the CP Notes. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

Section 12. Severability. The provisions of this Resolution are hereby declared to be severable, and, if any section, phrase or provision shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

Section 13. Effective Date. This Resolution shall be effective upon adoption by the Board.

CERTIFICATION

The undersigned, duly qualified and acting as Board Clerk of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of the Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on February 24, 2022.

By _____
Board Clerk, Los Angeles County Metropolitan
Transportation Authority

Dated: _____, 2022

Bank Recommendation Summary

Proposer	Maximum Principal Commitment	Estimated First Year Cost*	Total Estimated Costs*
Letter of Credit			
Bank of America, N.A.	\$350,000,000	\$1,307,950	\$3,833,850
Barclays Bank PLC	\$200,000,000	\$1,323,500	\$3,890,500
Citigroup Global Markets, Inc.	\$100,000,000	\$1,468,500	\$4,295,500
JP Morgan Chase Bank, N.A.	\$200,000,000	\$1,735,000	\$5,115,000
Sumitomo Mitsui Banking Corporation	\$200,000,000	\$1,325,000	\$3,885,000
UBS	\$100,000,000	\$1,325,770	\$3,872,770
Revolving Credit Facility			
Bank of America, N.A.	\$150,000,000	\$1,178,269	\$3,434,808
Bank of the West	\$150,000,000	\$1,060,500	\$3,081,500
City National Bank	\$150,000,000	\$1,079,519	\$3,138,558
JP Morgan Chase Bank, N.A.	\$150,000,000	\$1,685,625	\$4,956,875
US Bank	\$150,000,000	\$1,113,984	\$3,241,951
Wells Fargo	\$150,000,000	\$1,165,500	\$3,426,500

Targeted firms are shown in bold.

Letter of Credit

Industrial and Commercial Bank of China and **TD Securities** pricings are not listed as they were provided for the Proposition C program only. Staff does not recommend a LOC facility for the Proposition C program.

Revolving Credit Facility

US Bank pricing is based on their proposed three-and-one-half year tenor as they did not provide three-year pricing.

*All Costs are based on a standardized assumption of a \$100,000,000 facility with provided pricing for a three-year tenor when available.



Board Report

File #: 2021-0815, **File Type:** Informational Report

Agenda Number: 11.

FINANCE, BUDGET, AND AUDIT COMMITTEE FEBRUARY 16, 2022

SUBJECT: FISCAL YEAR 2023 BUDGET DEVELOPMENT PROCESS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2023 (FY23) Budget Development Process.

ISSUE

This is the first of a series of monthly updates to the Board to kick-off the FY23 Budget development process, culminating in a planned May 2022 Board Adoption. This report lays the framework for the annual budget development, with the primary objective of the annual budget to achieve Metro's transit and transportation goals in a fiscally sound and financially responsible manner.

This report sets up the economic context for the upcoming fiscal year by beginning the report with the forecast of sales tax revenues and other resources, cost inflation and key program expense assumptions. An outline of the planned budget process and schedule follows to address the delivery of Metro objectives in the next fiscal year. A comprehensive and transparent public outreach program runs concurrently during the budget development process to maximize public input and ensure that Metro's stakeholders have an active role in the process.

DISCUSSION

Planning for the upcoming fiscal year, Metro faces a rare golden but one time funding opportunities, while taking on yet bigger challenges to deliver transit services and transportation infrastructure programs in terms of higher than anticipated cost increases, supply chain delivery delays, staffing shortages and the lingering negative impact of the pandemic to Metro Operations and the financial bottomline. With the potential relief from the Federal infrastructure bill and State budget surplus, Metro will pick up the pace again and continue the nation's most ambitious transit expansion plan. As the County's residents are eager to come out from under the cloud of pandemic, transit service improvements are carefully evaluated to answer the changing transit travel pattern, address staffing shortage to maintain service reliability, and meet customer expectations of higher cleaning standard and safety/security practice. The FY23 Budget Process, therefore, is designed to thoroughly weigh

the priorities in curating Metro's programs and operations in the best form for a fair share of the golden funding opportunities from Federal and State sources, while ensuring transit services remain relevant and equitable.

Sales Tax Revenue Assumptions

Metro relies on sales taxes for over 60% of its total revenues. In addition, cities and transit providers in Los Angeles County plan their operations based on our revenue projections. Local sales tax is less restrictive than many one time revenues such as Federal and State Grants; therefore, the demand for sales tax to match grant requirements, higher cost escalation in operations and transit expansion experienced in the last years can exhaust the sales tax funding faster than it can be generated. These facts necessitate a careful evaluation and forecasting of the sales tax growth rate to determine the funding levels for FY23.

Given the continuing uncertainty in the pandemic environment, careful examination of the individual economic sector performance is used to isolate and evaluate the economic changes in specific segments of the economy. The following assumptions were used to develop the model projections:

- Remaining COVID-19 restrictions will have a minimal impact on the economy by the start of FY23.
- Economic growth will slow from rapid recovery to pre-pandemic growth rates. Outside of a few hard-hit sectors, such as leisure and hospitality, revenues have reached or exceeded pre-pandemic trends, limiting continued growth.
- Stimulus funds from the American Recovery Plan Act (ARPA) will indirectly increase sales tax revenues in the same way previous Federal stimulus funding did. Conversely, continued supply chain bottlenecks and changes in consumer behavior such as purchasing more services and fewer goods will slow sales tax revenue growth.
- As measured by the Consumer Price Index (CPI), inflation will gradually fall from currently high levels to more typical growth rates throughout FY23.

A technical multiple regression analysis is then added to the economic sector performance forecast to validate the results. This technical model determines the relationship between the sales tax revenue, unemployment rate, CPI, and population in Los Angeles County. Historical actuals since FY94 are employed as observations and a regression equation is derived. Internet sales tax impact from the Wayfair decision is also factored. The FY23 sales tax revenue prediction reconciles closely with the economic sector model projection. Long term and short term historical receipts, leading professional forecasts of economic trends, and leading professional forecasts of economic trends are also considered in the sales tax growth rate development.

Figure 1 displays Metro's historical sales tax revenue actuals and latest projections for FY22 and

FY23. As the economy continues to recover, unemployment declines, COVID-19 vaccinations continue to rise, along with the fiscal stimulus and relief packages provided by the U.S. government and Federal Reserve, strong economic recovery is expected in FY22 with sales tax revenue re-estimated from the adopted budget of \$865 million to \$995 million per ordinance. Economic growth is anticipated to stabilize from the FY22 rapid recovery given multiple interest rate hike projections in 2022 and 2023, and sales tax revenue is anticipated to increase moderately at 3.7% from the FY22 Reforecast of \$995 million to \$1.03 billion per ordinance in FY23. Despite the estimated sales tax revenue growth, operating and construction cost increases are expected to outgrow as a result of the recent inflationary pressure and supply chain turmoil associated with the COVID-19 pandemic. According to the Bureau of Labor Statistics and Department of General Services (DGS), wages and salaries for private industry workers in the Los Angeles area have increased 6.5% for the 12-month period ended September 2021 and the California construction cost index has increased 13.4% from December 2020 to December 2021.

Figure 1:

		FY20 Actual	FY21 Actual	FY22 Reforecast	FY23 Assumption
1	Sales Tax Revenue per Ordinance ⁽¹⁾	\$ 824.7	\$ 911.7	\$ 995.0 ⁽²⁾	\$ 1,031.8
2	% Change	-2.6%	10.5%	9.1%	3.7%

⁽¹⁾ Proposition A , Proposition C, Measure R and Measure M. Transportation Development Act (TDA) sales tax revenue is approximately 50% of the other ordinances.

⁽²⁾ The FY22 Reforecast of \$995 million per ordinance is 15% above the FY22 Adopted Budget of \$865 million per ordinance.

Figure 2 compares Metro's historical and current budget estimates to actual receipts and leading regional forecasts. FY23 sales tax revenue projections from UCLA, Beacon Economics and Muni Services are between \$1.01 billion to \$1.06 billion per ordinance while Metro's estimate of \$1.03 billion falls within range.

Figure 2:

Sales Tax Revenue per Ordinance Forecast Comparison

(\$ in Millions)

Forecast Source	FY17	FY18	FY19	FY20	FY21	FY22	FY23
1 Actual	\$ 789.4	\$ 836.7	\$ 846.8	\$ 824.7	\$ 911.7	\$ 995.0 ⁽¹⁾	\$ -
2 Metro- Adopted	795.7	802.0	844.0	873.0	778.1	865.0	1,031.8 ⁽²⁾
3 UCLA	807.4	810.0	863.6	838.1	770.2	794.4	1,058.1
4 Beacon Economics	806.2	816.9	835.4	843.5	892.3	896.7	1,013.4
5 Muni Services	806.2	803.6	827.7	868.1	737.3	881.7	1,017.1

(1) FY22 Reforecast as shown in Figure 1.

(2) FY23 Assumption.

The growth in sales tax revenues that created a large budget-to-actual variance in FY21 has continued in FY22. Year-to-date revenues are well above projections leading to a reforecast with a similar variance. The FY23 Assumption is 19.3% above the FY22 Adopted, but only 3.7% above the FY22 Reforecast. As more economic data becomes available, these growth rates will be reviewed and adjusted during the budget development process. We will continue to monitor any COVID-19 impacts, sales tax receipts and inflation trends, updates from the economic forecast sources, and report back to the Board as needed.

Other Resource Assumptions

Toll, Advertising and Other

Toll revenues include ExpressLanes usage and violation fees from the existing I-10, I-110. Meanwhile, advertising revenue is based on new and existing contracts as well as corporate sponsorships. Other revenues include bike program, Union Station, park and ride, lease, film, Service Authority Freeway Emergencies (SAFE), auto registration fees, transit court fees, investment income, and other miscellaneous revenues. Office of Management and Budget (OMB) coordinates with the departments responsible for these functional areas on the FY23 revenue estimates and will update the Board as more information becomes available.

Passenger Fares

Passenger fares are assumed to grow as transit ridership continues to increase with the opening of schools, businesses, and resumption of fare collection. The projection is still under development as staff works to finalize the analysis based on further evaluation of ridership growth, changes occurring in various economic segments, and the various initiatives that Metro has in place for FY23.

American Rescue Plan Act (ARPA)

ARPA, the third of three Federal COVID-19 relief packages, was signed into law in March 2021. The Act provided approximately \$30 billion nationwide to transit. At the July 2021 meeting, the Metro Board approved the allocation and distribution of \$1.483 billion to transit operators throughout Los Angeles County including funding for transit, local community para-transit operators, Access Services, and Metrolink. Among these funds, Metro transit will apply its allocation of \$1.097 billion, to support Bus and Rail Transit Operations and Maintenance, including payroll. ARPA also includes additional capital funds that will be applied to Measure R and Measure M projects once those applications are approved.

State Transit Assistance (STA)/Senate Bill 1 (SB1) Revenues

STA and SB1 are sales tax revenues dependent on actual consumption and the price of diesel and gasoline. The FY23 projection will be determined around mid-February 2022 to reflect the State Controller's Office (SCO) estimates.

One-Time Revenues

Local, State and Federal grant resources are used to support Metro's transit planning, operating, State of Good Repair and construction activities. In addition to ARPA mentioned above, the recently approved Infrastructure Investment and Jobs Act (IIJA) significantly increases Federal funding from the levels in the Fixing America's Surface Transportation (FAST) Act. Over the next five years starting in FY23, it will provide up to \$108 billion nationwide for transit and up to \$365 billion for highways through existing and new formula and discretionary programs.

Governor Newsom's recently proposed budget includes \$9.1 billion in new transportation spending. However, about \$3.7 billion are IIJA funds that will be distributed through the state. These funds will be discretionary capital grants spread across a variety of programs.

While these expected increases are encouraging and welcomed, it is important to note that many of them are one-time only revenues. Most discretionary grant programs are competitive grants requiring local match funds to qualify. Also, Metro has significant commitments on the expense side to provide safe and efficient transit Operations and maintain momentum on the Measure R and M programs.

Since the state budget is not final, the IIJA provisions have not yet taken effect and the Public Employees' Pension Reform Act (PEPRA) challenge continues to work its way through the courts, staff is still working to determine how much funding will become available in time for Metro's FY23 Budget. In particular, the new programs may take time to get up and running and may only provide limited amounts in the coming fiscal year. The estimate for FY23 will be presented as we receive more information from the Federal Transit Administration (FTA), state and other local agencies. Please see Attachment A for the discussion of Federal Stimulus Relief Funding Update.

Bond Proceeds and Prior Year Carryover

Debt issuance is authorized by applicable Federal and State legislation and the local sales tax ordinances. The Board-adopted Debt Policy establishes parameters for issuing and managing debt that follow best practices and set affordability limits. New debt issuance will be used as a last resort to mitigate the shortfalls in State of Good Repair, transit construction and highway activities.

In FY22, \$1,660.1 million of debt proceeds and prior year carryover are available for transit construction, highway and State of Good Repair projects. The debt amounts for FY23 will be determined at a later stage as we finalize the FY23 expense budget and are subject to CEO approval.

Resource Assumption SummaryFigure 3:

Resources (\$ in Millions)	FY22 Adopted	FY23 Assumption	% Change
1 Sales Tax and TDA Revenues ⁽¹⁾	\$ 3,892.5	\$ 4,643.1	19.3%
2 CRRSAA/ARPA ⁽²⁾	776.4	1,097.0	41.3%
3 Subtotal Resources	\$ 4,668.9	\$ 5,740.1	22.9%
4 Toll, Advertising and Other	179.9	TBD	
5 Passenger Fares ⁽³⁾	73.2	TBD	
6 STA and SB1 Revenues ⁽⁴⁾	127.8	TBD	
7 Grant Resources ⁽⁴⁾	1,330.4	TBD	
8 Bond Proceeds and Prior Year Carryover ⁽⁴⁾	1,660.1	TBD	
9 Total Resources	\$ 8,040.2		

Note: Totals may not add due to roundings.

⁽¹⁾ Sales Tax (Propositions A, C, Measures R and M) and TDA Revenues reflect current year revenues only. The Percentage Change of 19.3% compares the FY23 Assumption of \$1.03 billion per ordinance to the FY22 Adopted of \$865 million per ordinance. The Percentage Change between the FY23 Assumption and the FY22 Reforecast of \$995 million per ordinance as indicated in Figure 1 is 3.7%. Any (estimated) prior year carryover amounts are reflected on line 8 and will continue to be revised throughout the remainder of the annual budget process.

⁽²⁾ Metro received \$776.4 million from the Federal Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act in FY22 and \$1.097 billion from the Federal ARPA in FY23.

⁽³⁾ Passenger fares are assumed to grow as transit ridership continues to increase with the opening of schools, businesses and resumption of fare collection. FY23 revenue projection is still under development.

⁽⁴⁾ The estimates for FY23 STA/SB1, Grants and Bond Proceeds and Prior Year Carryover will be updated when information becomes available.

Cost Inflation Indicator as in Consumer Price Index (CPI) and Other Expense Change Factors

On the expense side, Metro program cost and cash flow requirements are impacted by cost inflation, existing labor contracts and program guidelines. The most common indicator of cost inflation is the CPI as published by the Bureau of Labor Statistics. Accurate sales tax revenues and CPI projections

are important to provide a sound revenue and expenditure budget plan.

Historical trends, recent year's high inflation, and leading regional forecasts are taken into account when estimating cost inflation. The economic factors that most impact CPI include employment, wages, prices of goods, interest rates, and consumer confidence. Tight labor market, rising demand for consumer goods, low interest rate, and supply chain disruptions continue to push prices up to the highest in more than three decades in FY22. To tackle the uncomfortably high inflation, the Federal Reserve projects multiple interest rate hikes in 2022 and 2023. CPI rate is therefore expected to increase less drastically at 3.3% in FY23 (Figure 4). We will continue to monitor CPI trends and updates from the economic forecasts as we go through the budget process.

Figure 4:

Annual Change in Consumer Price Index (CPI)

	Forecast Source	FY17	FY18	FY19	FY20	FY21	FY22	FY23
1	Actual	2.10%	3.48%	3.40%	2.48%	2.30%	5.12% ⁽¹⁾	
2	Metro	1.85%	1.75%	2.25%	2.28%	2.30%	2.00%	3.30% ⁽²⁾
3	UCLA	2.70%	2.78%	2.42%	2.60%	2.19%	1.68%	3.78%
4	Beacon Economics	1.98%	2.00%	2.15%	1.83%	2.30%	2.07%	3.86%

(1) Reforecasted figure. FY22 Adopted Budget is 2%.

(2) FY23 Assumption.

Other Expense Assumptions

Wages and Benefits

Metro's labor and fringe benefit costs will adhere to the respective collective bargaining agreements (CBA). AFSCME, ATU, TCU, and Teamsters represented employees have valid CBAs applicable to FY23 Budget. Collective bargaining for a new contract to begin in FY23 for SMART represented employees is in progress.

Escalated Cost in Project and Service Deliveries in FY23

In November of 2021, the U.S. economy experienced the highest Consumer Price Index (CPI) increase since 1982. As the report described earlier, CPI directly impacts employment, wages, prices of goods, interest rates, and consumer confidence. Tight labor market, rising demand for goods, and supply chain disruptions continue to push prices in delivery of Metro services and projects higher than the historical average.

In addition to higher cost in delivery existing service and programs, Metro is planning to carry out Board adopted motions and is anticipating operations of two new rail lines in FY23, Crenshaw and Regional Connector. The added services will strain Metro operations, workforce and financial resources further than before. These challenges and the uncertainty caused by the on-going

pandemic have specific financial implications to the available funding for FY23. The trade offs for each program and transit services will be thoroughly reviewed in the monthly reports in the upcoming budget development.

Budget Process and Schedule

Facing the still uncertain outcome of the pandemic, uplifting but yet undefined Federal and State Grants, and the changing travel patterns and transit needs in the pandemic, the CEO has directed staff to thoroughly evaluate every part of Metro's budget. Under her new leadership, CEO is reshaping the budget process with a comprehensive review of Metro's deliverables and activities, initiating FY23 Equitable Zero-Based Budget (EZBB) process. EZBB is a new budgeting development process and cost control tool that applies an equity lens to develop a fiscally responsible budget to serve as a driving force that recenters Metro to its core focuses. The FY23 EZBB will continue Metro's core missions to improve transit services, keep transit assets in a state of good repair, fund and plan for regional transportation programs and construct transit/transportation infrastructure according to voter approved sales tax ordinances, State and Federal regulations, Board approved policies and guidelines.

The FY23 EZBB process begins with evaluating everything we do, providing flexibility to focus resources on Metro's core missions, key initiatives, and priorities. This strengthens the decision-making process when considering the forecasted resources available for the upcoming year based on the current economic environment, past historical performance, and projections from leading economic organizations. The CEO will be leading the Cabinet team to work collaboratively across the Agency to:

1. Evaluate and build the budget through several workshops
2. Align on the core focuses for FY23
3. Build consensus and alignment on key priorities

The team will also be undergoing a deep dive on cost evaluation through several task force creations. There are also efforts underway to engage all employees by submitting cost savings ideas for FY23 Budget consideration. Equity is also a top priority in these budget discussions as Metro considers how to carry out these initiatives and the impact on communities. With a focus on efficiencies and spending for a lasting sustainable growth in mind, the CEO has implemented a plan to move toward a proposed FY23 EZBB recommendation while developing accountability for cost control. Meanwhile, staff will provide regular updates to the Board, engage the public to ensure transparency of the budget in progress, and integrate the feedback to the FY23 EZBB before proceeding to the Board for final approval.

Below is a summary of the schedule of topics to be presented over the next few months, culminating in final Board Adoption in May.

Month	Topic
February	Budget Development Parameters: <ul style="list-style-type: none"> • EZBB Development Process and Schedule • Public Outreach Plan • Sales Tax Forecast, Resources Assumption • Cost Inflation Estimate • Other Expense Assumptions
March	Infrastructure Planning and Construction: <ul style="list-style-type: none"> • Transit Rail and Bus • Highway • Regional Rail • Subsidy Funding • Potential Trade Offs
April	<ul style="list-style-type: none"> • Metro Transit – Operations & Maintenance and State of Good Repair • Other Operating Programs • Potential Trade Offs
May	Public Hearing and Board Adoption: <ul style="list-style-type: none"> • Consolidated Agency-wide Expenses and FTEs Budget Proposal • Proposed Budget Book published on May 3, 2022 • Public Hearing on May 18, 2022 • Summary of Public Comment and Stakeholder Review • Final Board Adoption on May 26, 2022

Early and Expanded Public Engagement

Engaging our customers, key stakeholders and the public through an equitable, transparent, and comprehensive process is vital to fulfilling Metro's vision and mission. This year's budget outreach expanded our efforts to engage and inform customers, key stakeholders, and the public much earlier, immediately after the budget adoption of current fiscal year in September, 2021. The comments and survey results are sent to Metro staff and departments as part of the consideration to develop the FY23 Budget. With our goal of continuously improving the budget outreach process, below is a list of engagement and outreach efforts that have been accomplished in addition to those that will be conducted to continue to show how listening and learning from our customers, key stakeholders, and the public is an integral part of the budget development process.

Telephone Town Hall Meetings

At the thoughtful direction of CEO, Stephanie Wiggins, we took the extra step to engage early and hosted listening and learning sessions by conducting Telephone Hall Meetings in the fall of 2021. CEO Stephanie Wiggins, Metro Board Chair, Hilda Solis, Board Member, Katherine Barger, and the Senior Leadership Team members hosted two Telephone Town Hall meetings. The public was invited to attend to have their questions answered about the budget and Metro services. Valuable

input was received from the callers that will provide guidance towards a draft budget and will help influence how Metro will use public funds when developing the FY23 Budget. Callers provided comments pertaining to service and safety on the bus and rail system.

New Budget Survey

In a collaborative effort from a working group comprised of staff from the Office of Equity and Race, Communications, Customer Experience, and OMB, a new survey was developed and launched in early January 2022 with the goal of engaging customer and key stakeholders early in the budget development process. With this, the aim is to enhance budget outreach and education so that the Agency's budget reflects the priorities and values of riders and key stakeholders. Results from the survey will be shared with Metro departments for consideration in the development of the FY23 Budget.

Stakeholder Meetings and Outreach Efforts

Listening and learning will be paramount as we continue to conduct our public outreach for the FY23 Budget. Outreach will include tools and technologies to effectively reach our customers, represented employee union groups, Public Safety Advisory Committee (PSAC), Board appointed subcommittees, stakeholders, public interest groups and the general public. They will be provided opportunities to engage and provide feedback through public meetings, the public hearing, one-on-one meetings, the budget survey, and email. Schedules and information for public meetings and updated budget information will be provided in advance on the Finance and Budget portal at www.metrobudget.net. This early planning will accommodate people with disabilities and provide language interpretation. The FY23 Budget development process will also be advertised through multiple modes, including e-blasts, social media campaigns, traditional advertising, and advertisements aboard Metro vehicles to reach all Los Angeles County residents. See Attachment A for a list of the public forums and media channels that will be utilized.

All public meetings and budget briefings will continue to be conducted via a virtual platform in accordance with established safety guidelines that follow social distancing rules.

DETERMINATION OF SAFETY IMPACT

This recommendation will not have an impact on safety standards at Metro.

FINANCIAL IMPACT

The assumptions described above are the budget planning parameters and will guide the development of the FY23 Budget. They may be adjusted as more specific and updated information becomes available.

EQUITY PLATFORM

The FY23 EZBB process begins with evaluating everything we do by providing flexibility to focus resources on Metro's core missions, key initiatives, and priorities. Equity is also a top priority in these budget discussions as Metro considers how to carry out the many initiatives and the impact on communities. Applying an equity lens to Metro's FY23 Budget for programs, projects and initiatives means to look at all aspects of the budget. Furthermore, the FY23 Budget will align with principles that highlight how public transit can be equitable, sustainable, economically productive, safe, and accessible.

Additionally, the Metro Budget Equity Assessment Tool (MBEAT) has been incorporated in the development of the FY23 Annual Budget. Implementation of MBEAT will assess all FY23 budgetary requests for impacts to marginalized and/or vulnerable communities, help staff identify potential barriers or harms to address, and help staff consider how Metro budgets influence marginalized communities' access to opportunities and reduce potential barriers or harms. Furthermore, the annual budget is developed through a comprehensive process and supports pillars two (Listen and Learn) and three (Focus and Deliver) of the agency's Equity Platform framework.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal:

Goal # 5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

ALTERNATIVES CONSIDERED

The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro's stated goal of improving transportation in Los Angeles County.

NEXT STEPS

As described earlier in this report, Metro staff will provide regular Budget briefings to Board members and their staff starting this month. Further, we will provide receive-and-file reports on a monthly basis, as previously detailed.

ATTACHMENTS

Attachment A - Federal Stimulus Relief Funding Update

Attachment B - Public Engagement and Outreach Forums

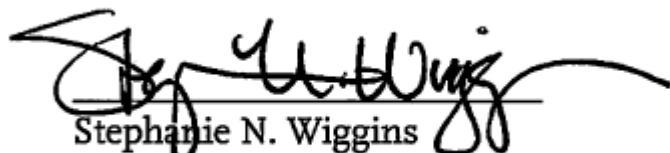
Prepared by: Jessica Lai, Director of Budget, (213) 922-3644

Timothy Mengle, Deputy Executive Officer of Finance, (213) 922-7665

Perry Blake, Senior Executive Officer of Finance, (213) 922-6171

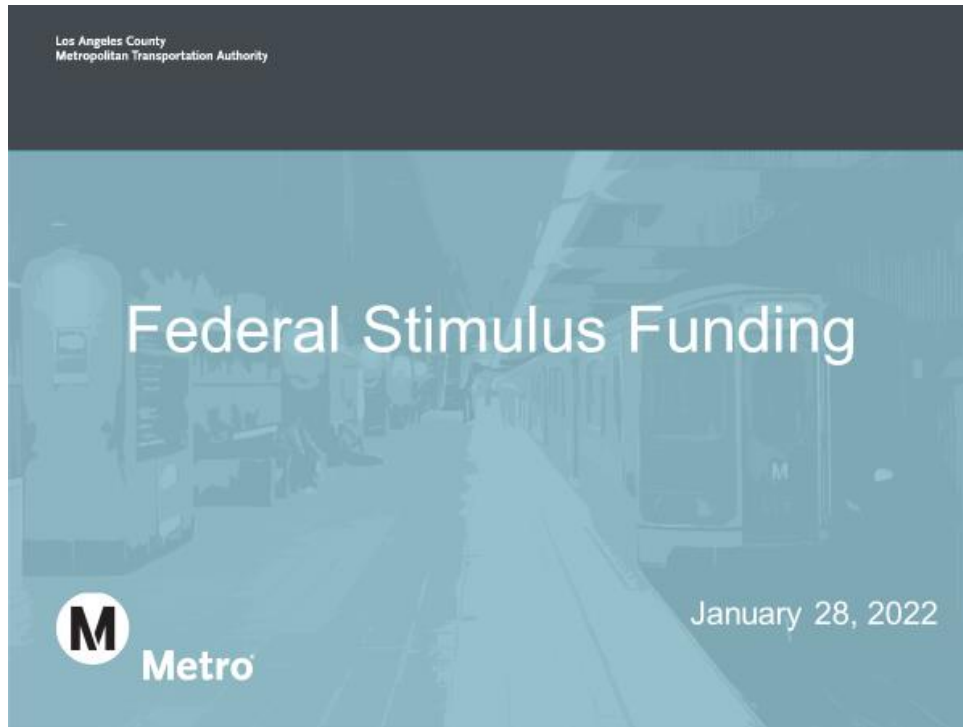
Office of Management & Budget (OMB) Staff

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088






Stephanie N. Wiggins
Chief Executive Officer

ATTACHMENT A



Stimulus Funding

			
	March 2020	December 2020	March 2021
Transit Infrastructure Grants	\$25 Billion	\$14 Billion	\$30 Billion
Los Angeles County	\$1.068 Billion	\$911.5 Million	\$1.464 Billion
Metro Transit	\$747.4 Million	\$682.5 Million	\$1.096 Billion
Apportionment Cap Relative to 2018 Operating Expenses	No	CARES + CRRSA cannot exceed 75% of UZA's 2018 operating expenses	CARES + CRRSA + ARPA cannot exceed 132% of UZA's 2018 operating expenses
	Available until expended (FTA encourage recipients to obligate and expend funds expeditiously in response to the coronavirus public health emergency)		Obligated by September 30, 2024 Disbursed by September 30, 2029

Stimulus Funding for Transit Operations



- ✓ Operating expenses of transit agencies related to the response to the coronavirus
- ✓ Reimbursement for operating costs to maintain service and lost revenue and support transit worker jobs due to coronavirus
- ✓ **Preserve jobs**
- ✓ Administrative leave for operations personnel
- ✓ Metro used 100% of the funding for Transit Operations

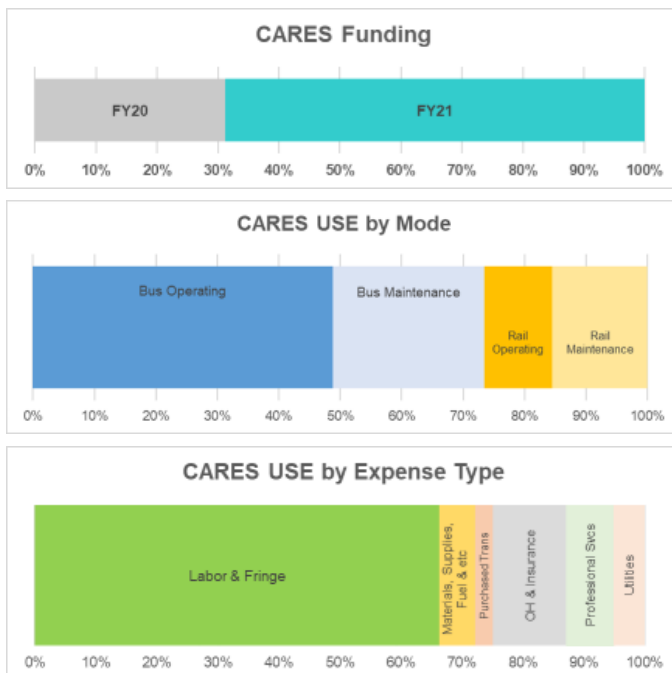
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USE of CARES Act Funding



Metro only: \$747M

- ✓ Mitigate FY20 & FY21 losses
- ✓ All CARES funding used for Transit Operations and Maintenance
- ✓ Primarily payroll
- ✓ Sept 2020: Metro 100% drawn

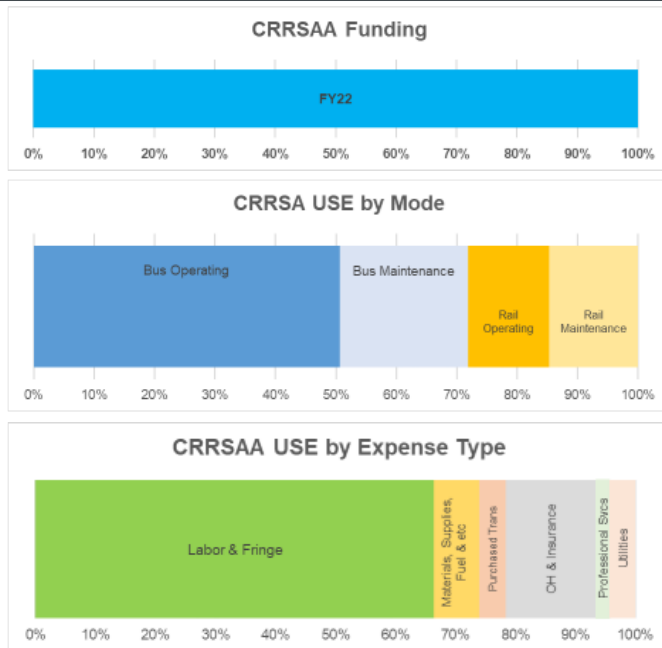


USE of CRRSA Act Funding



Metro only: \$682.5M

- ✓ Mitigate FY22 losses
- ✓ All CRRSA funding used for Transit Operations and Maintenance
- ✓ Primarily payroll
- ✓ Sept 2021: Metro 100% drawn



Board Approved ARPA Allocations



	Distribution %	CARE S	CRRSAA	ARPA
Metro	74.8794%	\$ 747,358,876	\$ 682,544,845	\$ 1,096,948,845
Municipal Operators	12.4366%	120,967,484	113,363,187	182,191,130
Eligible Operators	2.3892%	27,007,107	21,778,440	35,001,120
Tier 2 Operators	0.4543%	4,534,038	4,140,828	6,654,912
Metrolink	5.6540%	56,432,000	51,537,985	82,829,039
Access Services	3.3465%	33,500,000	30,594,742	49,170,201
Regional Paratransit/Vol. Reporters	0.8300%	8,284,094	7,565,663	12,159,121
TOTAL	100.0000%	\$998,083,598	\$ 911,525,690	\$ 1,464,954,368

Note: For comparison, the CARES Act Allocation excludes funds appropriated directly to agencies in the amount of \$69,924,888.

- ✓ Board approved July 2021
- ✓ Grant approved Jan 2022
- ✓ Mitigate FY22 -FY23 Revenue Losses (i.e. Fares and Sales Taxes)
- ✓ Preserving Jobs
- ✓ Restoring bus and rail service



ATTACHMENT B

Public Engagement and Outreach Forums

- Public Hearing - A public hearing on the Proposed FY23 Budget will be held on May 18, 2022, and the public is encouraged to participate via a virtual meeting to provide their comments on the proposed budget to the Board. Notices of the public hearing will follow the most up-to-date statutory requirements (multiple languages, published in multiple newspapers, etc.)
- Proposed FY23 Budget Briefing/Regional Service Councils - Metro's Five Service Councils are located throughout the County to allow residents more opportunities for input on service issues in their communities. Two Budget Briefings will be scheduled in late February 2022 and early April 2022 for interested residents to learn about the budget process and for Metro to obtain direct and immediate feedback from our transit riders on their transit priorities.
- The Source/El Pasajero/Facebook/Instagram/Twitter/Next Door - Staff will be using Metro's social media outlets to inform the public about the Proposed FY23 Budget survey and feedback on the proposed budget including Instagram Stories, Next Door announcement and Twitter posts.
- Budget Survey - The survey is an interactive process that will allow us to acquire feedback from the public and key stakeholders early in the Budget Development process. It was launched on January 5, 2022 through social media outlets such as E-Blast email, Facebook, Instagram, Next Door and Twitter. Results from the survey will be shared with Metro departments for consideration in the development of the FY23 Budget.
- Finance and Budget Portal - An FY23 Budget portal that can be accessed through www.metrobudget.net will provide regular updates on the budget process, budget details as they become available each month, and offer opportunity for the public to provide their comments. The website will include information on schedules of stakeholder meetings and forums for the public to fully engage in the budget process.
- E-mail - budgetcomments@metro.net has been established to allow the public an opportunity to comment outside of a public setting.
- Internal and External Stakeholder Meetings - Stakeholders range from jurisdictions and other public agencies that receive funding from Metro to community groups and other organizations throughout Los Angeles County that

promote and/or rely on Metro services. Meetings and forums scheduled in April and May 2022. These meetings include and are not limited to a Public Hearing, Metro Regional Service Councils, Council of Governments (COGS), Citizens Advisory Councils (CAC), Public Safety Advisory Committee (PSAC), Policy Advisory Committee (PAC), Technical Advisory Committee (TAC), Bus Operators Subcommittee, (BOS), Local Transit Systems Subcommittee (LTSS), and Streets and Freeways Subcommittee, Aging, Disability and Transportation Network (ADTN), Accessible Advisory Committee (AAC) and other community group meeting as requested.

FY23 Budget Development

- 1. Opportunities**
 - 2. Resources**
 - 3. Budget Process**
-

Finance & Budget Committee

February 16, 2022

Look Ahead: Opportunities and Challenges

OPPORTUNITIES

- Slightly better sales tax receipts in FY21 is available for FY23 allocation
- Golden Opportunities: Federal infrastructure bill and State budget surplus may allow us to pick up the pace, alleviate some funding gaps to continue the most ambitious transit expansion in the nation
- Federal IIJA Bill reauthorized FAST ACT adds more Formula Funding and competitive grants; \$108 billion for Transit and \$365 billion for Highway nationwide
- State Transit funding \$9.1 billion, including \$3.7 billion of IIJA for capital and infrastructure


CHALLENGES

Capital:

- New Fed IIJA and State funding are mostly for capital; leaving operating needs unaddressed and not fully closing the funding gap
- Most new funding are **one-time** only; not for sustainable operations
- New Grant funding comes with additional program, operational and local funding requirements
- Anticipating higher bid price and cost increase

Operating:

- Full ridership has not come back; Fare revenues will not reach pre pandemic level
- Higher cost escalation to deliver transit service, infrastructure programs, Access Services, Metrolink and etc. than previous estimates
- Staffing shortages and labor negotiation in progress
- Pandemic caused cost additions and new procedures continue
- Scheduled to operate two new rail lines
- Board adopted motions and initiatives have fiscal impacts to FY23 and beyond



FY23 Equitable Zero-Based Budgeting (EZBB)

**to address
opportunities and
challenges**



Equitable Zero-Based Budgeting



WHAT & HOW

- A budget development process and cost control tool while applying an equity lens; optimize Transparent Investment in Equity
- Starting from a zero base and not based on prior history; consider the scalability and efficiency of each deliverable and activity
- Prioritize the allocation of available resources based on Metro's mission, CEO core focuses, agency key initiatives, and by outcomes

WHY

- Recovery from COVID is transforming our Agency and we need to adapt
- New CEO and leadership of realigned organization structure calls for a comprehensive budget review
- Develop accountability and affordability for program and project initiatives
 - ✓ Identify and attempt to close the affordability gap due to anticipated higher operating cost escalation in the near term
 - ✓ Provide and review trade-off opportunities to foster long-term financial sustainability
- Position projects in the best form to compete for fair share of the “golden opportunity” funding

A blurred background image of a person standing at a bus stop. The bus stop shelter has signs that read 'Wilshire/Western' and a map titled '12-Minute Service'. The person is looking at the map.

Sales Tax Revenues & Other Resource Assumptions

FY23 Resource Summary - Preliminary Estimate

- FY22 sales tax reforecast to \$995M per ordinance; a 15% increase from adopted budget of \$865 million
- FY23 Sales tax revenue is anticipated to increase 3.7% from the FY22 reforecast of \$4.47 billion to \$4.64 billion in FY23
- Total reflects a 19.3% increase over FY22 adopted budget

	Resources (\$ in Millions)	FY22 Adopted	FY23 Assumption	% Change
1	Sales Tax and TDA Revenues ⁽¹⁾	\$ 3,892.5	\$ 4,643.1	19.3%
2	CRRSAA/ARPA ⁽²⁾	776.4	1,097.0	41.3%
3	Subtotal Resources	\$ 4,668.9	\$ 5,740.1	22.9%
4	Bond Proceeds and Prior Year Carryover	1,660.1	TBD	
5	Grant Resources	1,330.4	TBD	
6	Toll, Advertising and Other	179.9	TBD	
7	STA and SB1 Revenues	127.8	TBD	
8	Passenger Fares	73.2	TBD	
9	Total Resources	\$ 8,040.2		

Key Considerations:

- Bond Proceeds and prior year carryover: Debt will be used as a last resort to mitigate the shortfalls in SGR, Transit Construction and Highway activities, and will be determined as the FY23 budget is developed. Prior year carryover will adhere to funding eligibility
- Grant Resources: IIJA, Governor Newson's proposed budget (FY23 estimates are TBD)
- Toll, Advertising and Other: advertising revenues – Minimum Annual Guarantee (MAG) restored Jan. 2022
- STA and SB1: State Controllers' Office (SCO) estimates expected mid February
- Passenger Fares: closely monitoring current boardings and fare collection

Metro and Leading Forecasts in LA County

- The economic sector model was updated to project sales tax revenues in FY23 using the following assumptions:
 - Growth is projected to slow to pre-pandemic rates
 - Production and supply chain issues gradually ease
 - Stimulus funds from the American Recovery Plan Act (ARPA) will indirectly increase consumption
 - Remaining COVID-19 restrictions will have a minimal impact
- Staff also ran a multiple regression analysis of Metro sales tax receipts
- Both sets of results were compared with leading local economic forecasts

FY23 Sales Tax Revenue Projection by Economic Sector by Quarter, based on Year-over-Year Quarterly Growth

	Q1Δ	Q2Δ	Q3Δ	Q4Δ	AnnualΔ
General Retail	3.1%	2.6%	3.6%	3.0%	3.1%
Food Products	4.5%	5.2%	4.8%	3.6%	4.4%
Transportation	3.2%	4.1%	5.0%	2.6%	3.6%
Construction	5.6%	4.0%	4.0%	4.3%	4.4%
Business To Business	4.1%	3.4%	3.2%	3.7%	3.6%
Miscellaneous	4.2%	3.9%	3.8%	3.7%	3.9%
Total	3.8%	3.7%	3.9%	3.3%	3.7%

Regression Analysis Result

Fiscal Year	Estimated Unemployment Rate (in %)	Estimated CPI	Estimated LA County Population (in Thousand)	Estimated Sales Tax per Ordinance <u>before</u> Wayfair Impact (\$ in Million)	Estimated Wayfair Impact (\$ in Million)	Total Estimated Sales Tax per Ordinance <u>with</u> Wayfair Impact (\$ in Million)
FY23	8	306	10,138	\$ 888	\$ 144	\$ 1,032

Metro and Leading Forecasts in LA County

- Economists agree growth is anticipated to slow and stabilize
- Sales tax revenue is anticipated to increase moderately at 3.7% from the FY22 Reforecast of \$995 million to \$1.03 billion per ordinance in FY23
- Metro's estimate falls within the range of the leading local economic forecasts

	(\$ in Millions)	FY20 Actual	FY21 Actual	FY22 Reforecast	FY23 Assumption
1	Sales Tax Revenue per Ordinance ⁽¹⁾	\$ 824.7	\$ 911.7	\$ 995.0 ⁽²⁾	\$ 1,031.8
2	% Change	-2.6%	10.5%	9.1%	3.7%

⁽¹⁾ Proposition A , Proposition C, Measure R and Measure M. Transportation Development Act (TDA) sales tax revenue is approximately 50% of the other ordinances.

⁽²⁾ The FY22 Reforecast of \$995 million per ordinance is 15% above the FY22 Adopted Budget of \$865 million per ordinance.

Sales Tax Revenue per Ordinance Forecast Comparison

(\$ in Millions)							
Forecast Source	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Actual	\$ 789.4	\$ 836.7	\$ 846.8	\$ 824.7	\$ 911.7	\$ 995.0 ⁽¹⁾	\$ -
Metro- Adopted	795.7	802.0	844.0	873.0	778.1	865.0	1,031.8 ⁽²⁾
UCLA	807.4	810.0	863.6	838.1	770.2	794.4	1,058.1
Beacon Economics	806.2	816.9	835.4	843.5	892.3	896.7	1,013.4
Muni Services	806.2	803.6	827.7	868.1	737.3	881.7	1,017.1

⁽¹⁾ FY22 Sales Tax Revenue per Ordinance Reforecast as shown in Figure 1.

⁽²⁾ FY23 Assumption.

Labor & Other Expenses

Collective bargaining agreements (CBAs)

- Metro's labor and fringe benefit costs will adhere to CBAs
- AFSCME, ATU, TCU, and Teamsters have valid CBAs for FY23 budget
- Collective bargaining for SMART new contract to begin in FY23 is in progress

Escalated costs in projects and services in FY23

- Inflation is currently at the highest levels since 1982
- It is expected to moderate to 3.3% in FY23, but still be higher than pre-pandemic levels
- Key risks for cost increases: Tight labor market, construction cost increases, demand for products exceeding supply and continued supply chain disruptions

FY23 Budget Considerations

- Carry out Board adopted motions
- Operate new rail lines – Crenshaw and Regional Connector
- New service will strain Metro operations, workforce and finances
- Continued uncertainties related to the pandemic
- Rising construction costs leading to higher bid prices





One-Time Relief Funding



Metro only: \$1.097B

- ✓ Board approved: Jul 2021
- ✓ Grant approved: Jan 2022
- ✓ Sept 2022: Anticipate 100% draw down

Board Approved ARPA Allocations

	Distribution %	CARES	CRRSAA	ARPA
Metro	74.8794%	\$ 747,358,876	\$ 682,544,845	\$ 1,096,948,845
Municipal Operators	12.4366%	120,967,484	113,363,187	182,191,130
Eligible Operators	2.3892%	27,007,107	21,778,440	35,001,120
Tier 2 Operators	0.4543%	4,534,038	4,140,828	6,654,912
Metrolink	5.6540%	56,432,000	51,537,985	82,829,039
Access Services	3.3465%	33,500,000	30,594,742	49,170,201
Regional Paratransit/Vol. Reporters	0.8300%	8,284,094	7,565,663	12,159,121
TOTAL	100.0000%	\$ 998,083,598	\$ 911,525,690	\$ 1,464,954,368

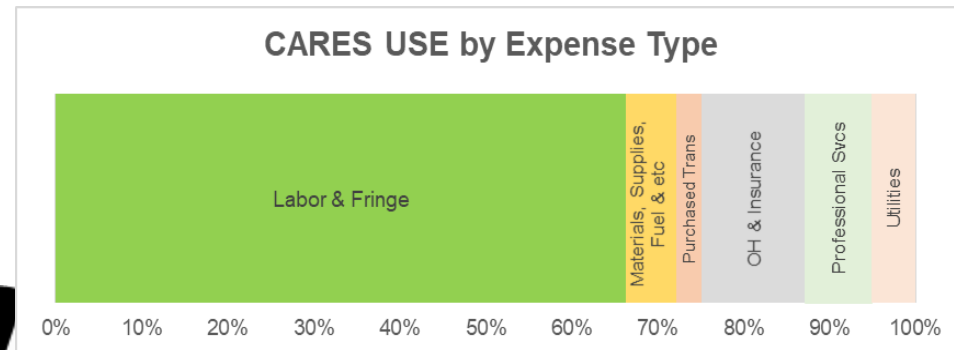
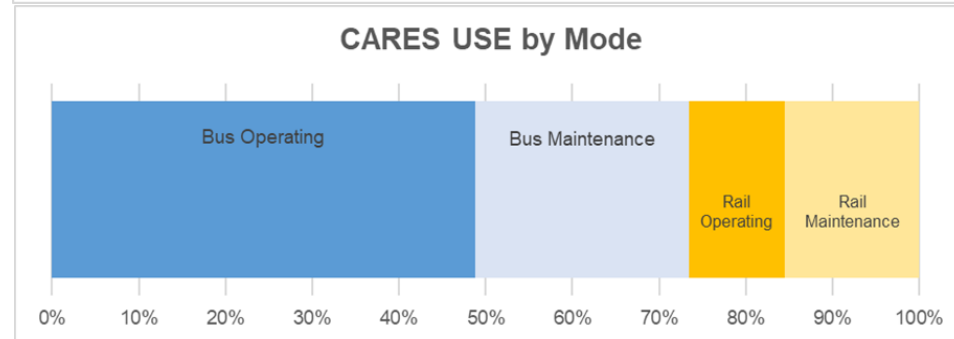
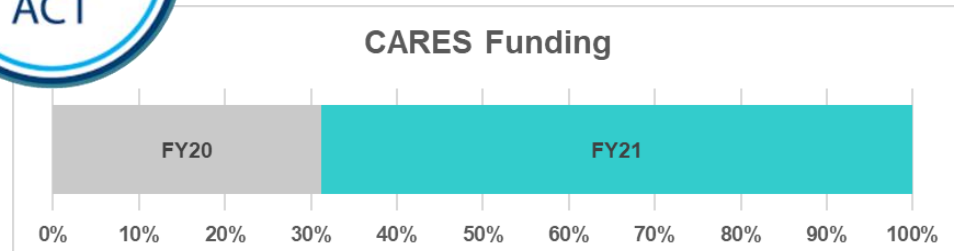
Note: For comparison, the CARES Act Allocation excludes funds appropriated directly to agencies in the amount of \$69,924,688.

- One-time replacement of loss in fares and other revenues to support transit operations
- Restoring bus and rail
- Enhanced Cleaning
- Preserving jobs

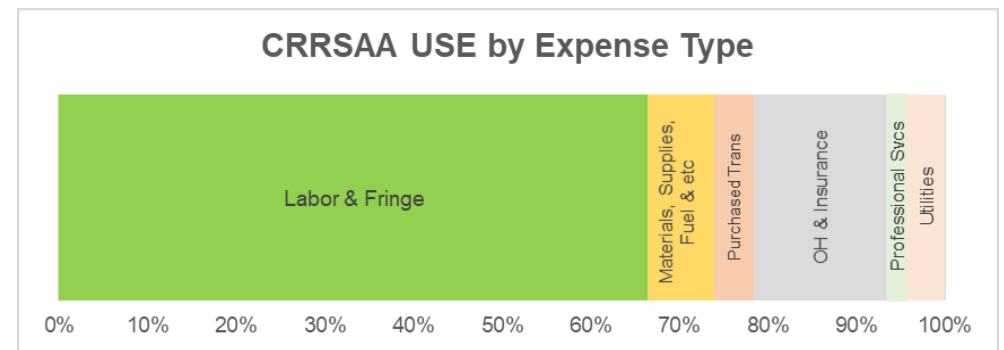
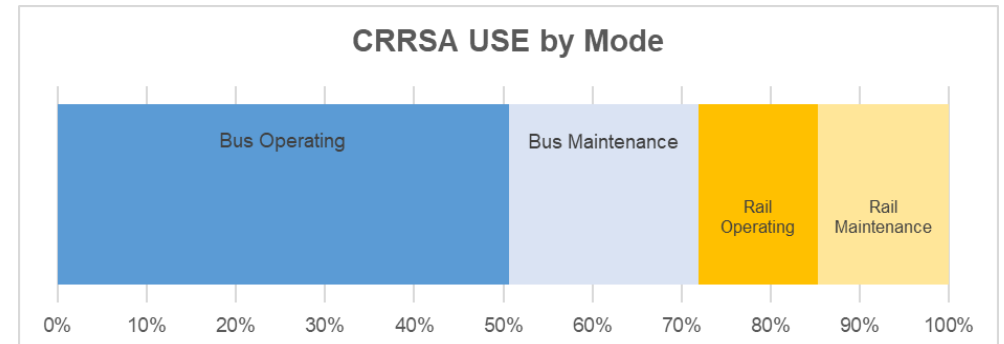
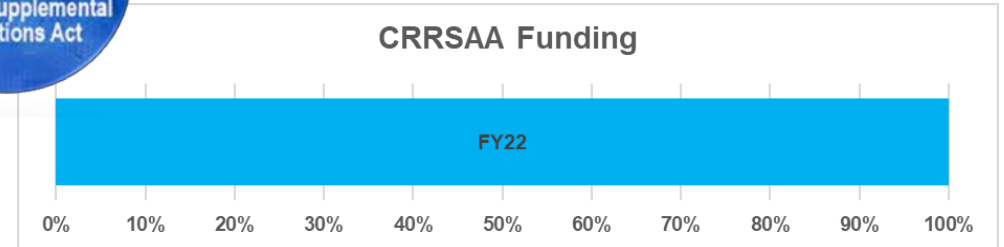
USE of CARES/CRRSA Funding



Metro only: \$747.4M
Sept 2020: Metro 100% drawn



Metro only: \$682.5M
Sept 2021: Metro 100% drawn





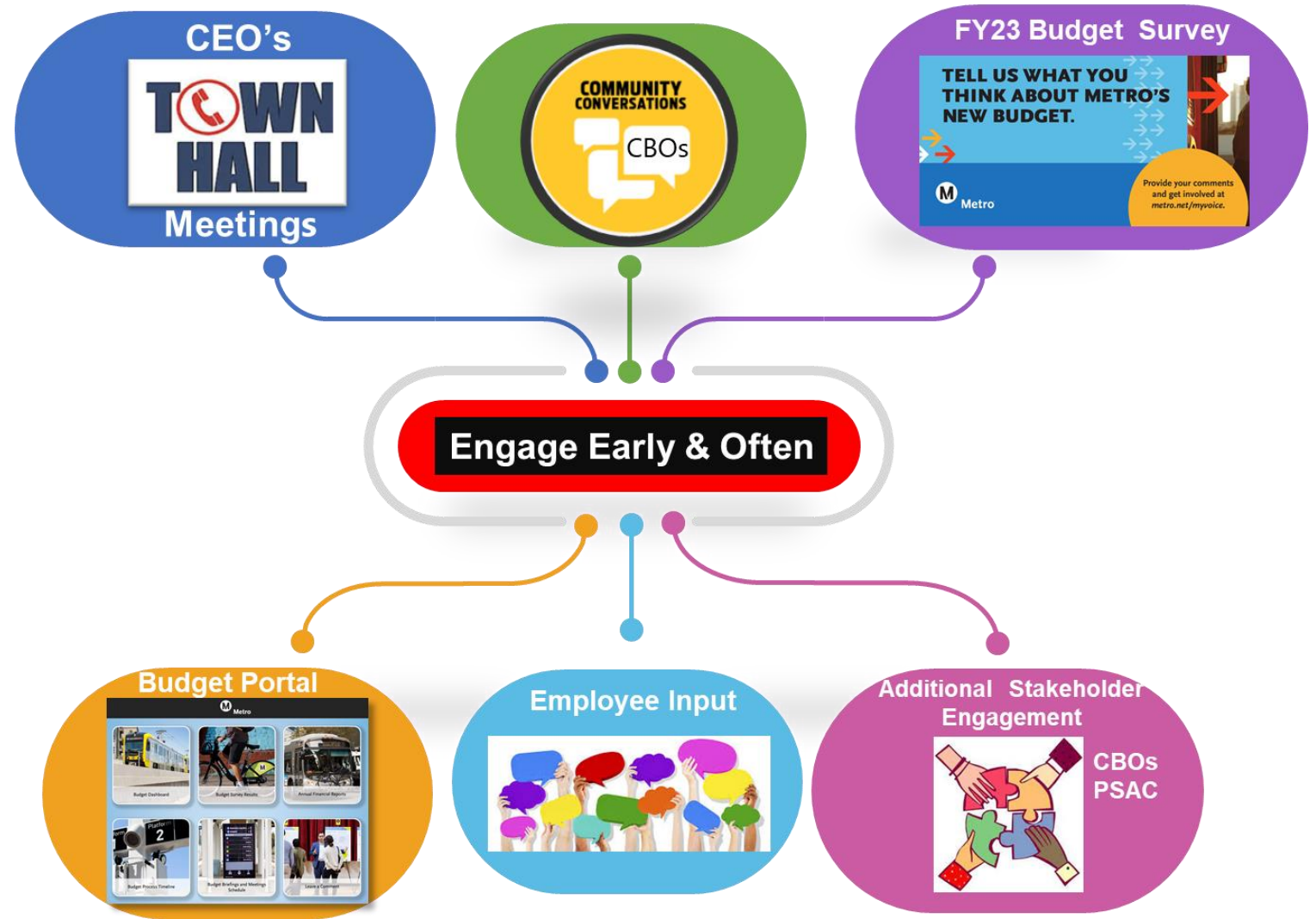
FY23 Budget Process

- Outreach
 - Schedule
 - Next Steps
-

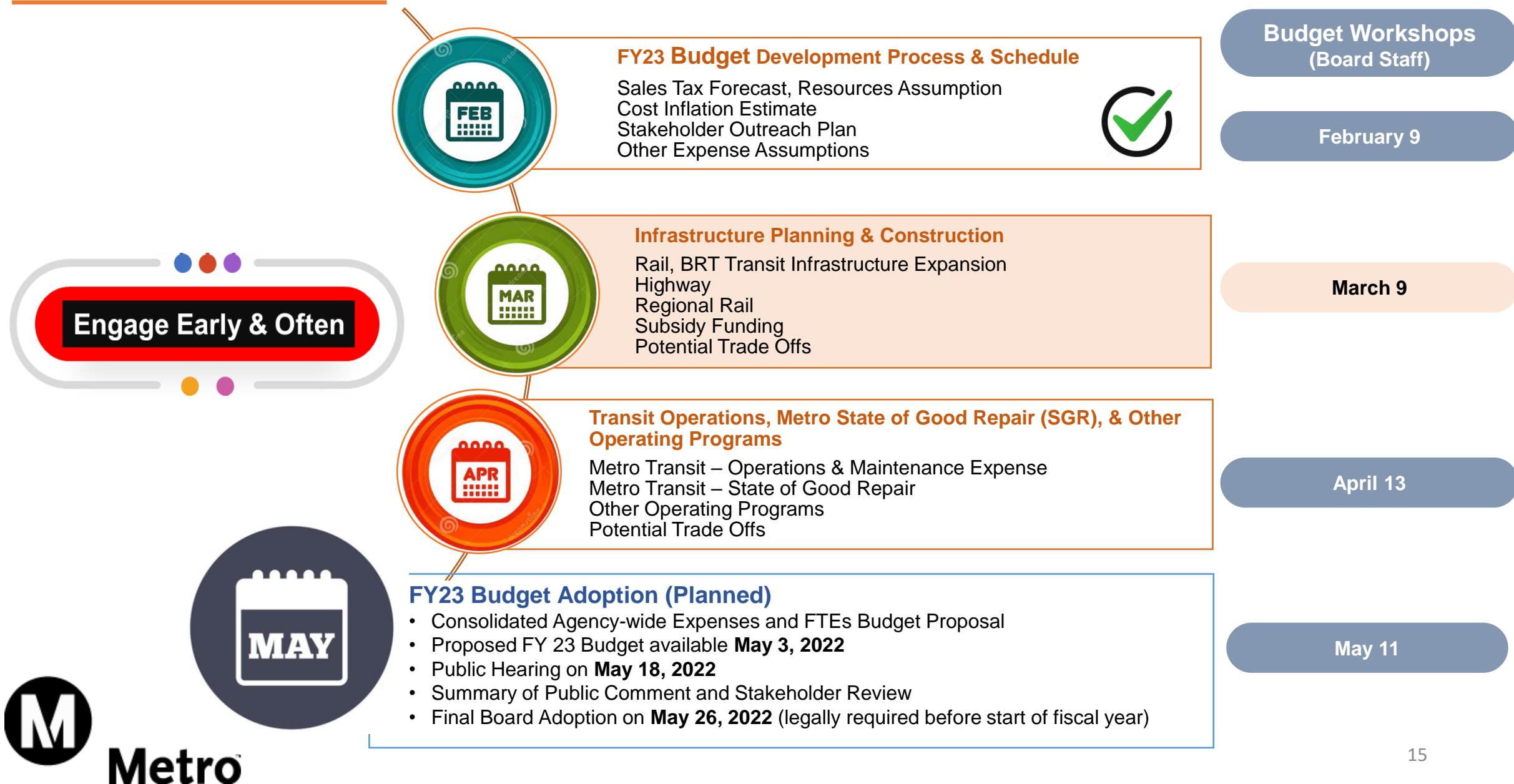


NEW Budget Outreach Launched Sept 2021

- Board and CEO hosted TTH (Sept & Oct 2021)
- Public Interest Group Briefing of Fund Allocation (Sept 2021)
- Employee survey (Dec 2021 – Feb 2022)
- Equity led budget outreach survey (Jan 2022)
- PSAC engagement (Feb 2022)
- Budget Comments sent to Dept to develop FY23 Budget



Schedule & Next Steps





Board Report

File #: 2022-0026, **File Type:** Informational Report

Agenda Number: 12.

FINANCE, BUDGET AND AUDIT COMMITTEE FEBRUARY 16, 2022

SUBJECT: MANAGEMENT AUDIT SERVICES FY 2022 SECOND QUARTER REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Management Audit Services FY 2022 second quarter report.

ISSUE

Management Audit Services (MAS) is required to provide a quarterly activity report to Metro's Board of Directors (Board) that presents information on audits that have been completed or in progress, including information related to audit follow-up activities.

BACKGROUND

It is customary practice for MAS to deliver the quarterly audit report. The FY 2022 second quarter report covers the period of October 1, 2021 through December 31, 2021.

DISCUSSION

MAS provides audit services supporting Metro's ability to provide responsive, accountable, and trustworthy governance. The department performs internal and external audits. Internal audits evaluate the processes and controls within the agency, while external audits analyze contractors, cities, and/or non-profit organizations that are recipients of Metro funds. The department delivers management audit services through functional groups: Performance Audit; Contract, Financial and Compliance Audit; and Administration and Policy, including audit support functions. Performance Audit is mainly responsible for internal audits related to Operations, Finance and Administration, Planning and Development, Program Management, Information Technology, Communications, Risk, Safety and Asset Management including the Chief Executive Office; and other internal areas. Contract, Financial and Compliance Audit is primarily responsible for external audits in Planning, Program Management and Vendor/Contract Management. MAS' functional units provide assurance to the public that internal processes and programs are being managed efficiently, effectively, economically, ethically, and equitably; and that desired outcomes are being achieved. This assurance is provided by MAS' functional units conducting audits of program effectiveness, economy and

efficiency, internal controls, and compliance. Administration and Policy is responsible for administration financial management, including audit support, audit follow-up, and resolution tracking.

The following chart summarizes MAS activity for FY 2022 second quarter:

	Completed in FY 2022 Second Quarter	In-Progress as of December 31, 2021
Performance Audits	3 audit projects	5 audit projects
Contract, Financial and Compliance Audits	5 audit projects with a total value of \$830,000	66 audit projects
Financial and Compliance Audits of Metro	8 audit projects	
Audit Follow-up and Resolution	6 follow-up recommendations closed	

The FY 2022 Second Quarter Report is included as Attachment A.

EQUITY PLATFORM

There are no equity impacts or concerns from audit services conducted during this period.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Management Audit Services FY 2022 Second Quarter Report support Metro's Vision 2028 Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

NEXT STEPS

Management Audit Services will continue to report audit activity throughout the current fiscal year.

ATTACHMENT

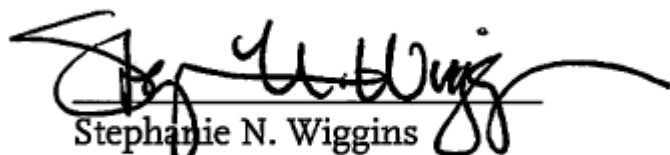
A. FY 2022 Second Quarter Report

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Stephanie N. Wiggins
Chief Executive Officer

Quarterly Report to Metro Board of Directors

FY 2022 Second Quarter



Metro

**MANAGEMENT
AUDIT SERVICES**

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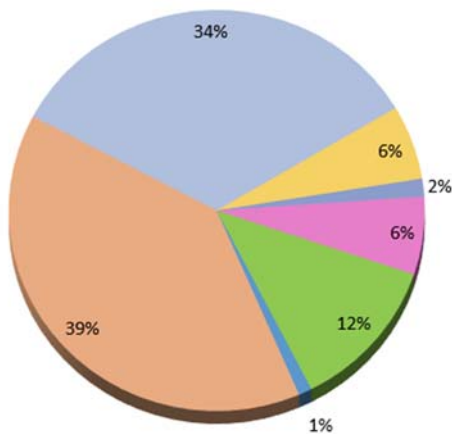
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Executive Summary

In Progress Audits
as of December 31, 2021



Summary of Audit Activity
by Department
Reporting Period
October 1, 2021 – December 31, 2021



Summary of In Progress Audit Activity

Management Audit Services (MAS) has 71 in progress projects as of December 31, 2021, which include 5 performance audits and 66 contract, financial and compliance audits. The in-progress performance audits are listed in Appendix A.

As of the reporting period, there are 57 open MAS audit recommendations; and 57 open Office of Inspector General (OIG) audit recommendations.

Summary of Second Quarter Completed Audit Activity

MAS completed 16 audit projects and closed 6 open audit recommendations. The projects are comprised of 3 performance audits; 5 contract, financial and compliance audits; and 8 financial and compliance audits of Metro and subrecipients issued by independent certified public accountant (CPA) firms.

The completed performance audits are highlighted on page 4. The completed contract, financial and compliance audits are highlighted on page 6. The financial and compliance audits of Metro issued by the external CPA firms are highlighted on page 7.

A summary of closed and open audit recommendations is included on page 11.

Department Highlights

MAS initiated the development and implementation of a formal Quality Assurance Improvement Program (QAIP). In addition, in accordance to audit standards and practices an independent quality self-assessment (IQSA) of MAS was completed for FY 2020 and FY 2021. A summary of department highlights is included on page 9.

Performance Audits

This section includes performance audits completed according to Generally Accepted Government Auditing Standards in addition to other types of projects performed by the Performance Audit team to support Metro. The other types of projects may include independent reviews, analysis or assessments of select areas. The goal of non-audit projects is to provide Metro with other services that help support decision making and promote organizational effectiveness.

Performance Audit of Program Management Support Services (PMSS)

The objective of this audit was to assess conformity of services performed and billed by KKCS/Triunity JV (Contractor) to the scope of work and other provisions of the Contract. In addition, MAS identified two focus areas for the performance audit, which were to:

- evaluate compliance with specific terms of the contract related to qualifications, performance, and quality; and
- verify whether work order billing is accurate, substantiated by supporting documents and in compliance with the contract.

MAS' general assessment is that services performed and billed by the Contractor in most respects conformed to the Scope of Work and other provisions of the Contract.

KKCS/Triunity JV consultants appear to be well-qualified and experienced. Metro Program Management was broadly satisfied with the Contractor and the staff augmentation consultants; and Program Management considered the PMSS Contract essential to the ongoing accelerated project delivery program due to Metro's internal staffing constraints. However, MAS noted certain internal control deficiencies that kept KKCS/Triunity JV and Metro from having a fully mature and effective internal control system undergirding the Contract.

Performance Audit of Internal Controls Over Overtime Payments – AFSCME Transportation Operations

The objective of this audit was to evaluate the adequacy of internal controls over overtime payments to American Federation of State, County and Municipal Employees (AFSCME) employees in Bus and Rail Transportation. Specifically, Transit Operations Supervisors (TOS) and Rail Transit Operations Supervisors (RTOS).

MAS found that internal controls over AFSCME TOS and RTOS overtime (OT) were generally adequate. However, MAS noted the following conditions:

1. There were some pay code usage errors which resulted in some inaccurate OT payments.
2. There was no provision for exceptions to the 12-hour continuous work policy.
3. OT documentation issues:
 - a. Certain OT related documents were not retained at eight locations.

- b. There were no procedures for TOS on how to document hours worked outside of their home divisions.
- c. Copies of payroll records were not kept at a transferred employee's former division.
- 4. The Vacation Worked (TOW) payroll code may have been used inappropriately to cash out accrued vacation time.

Performance Audit of Expanded Discount Programs

The objectives of this audit were to evaluate the effectiveness of internal controls over the purchase process for the Small Employer Pass (SEP) and E-Pass discount passes and identify opportunities for internal control and process improvements.

MAS found that controls over the SEP appeared to be working as intended. However, internal controls over the E-Pass and U-Pass programs should be enhanced to mitigate risks. Also, automating the billing process is a business process improvement opportunity.

Management concurred with the recommendations for the performance audits completed. MAS will continue to follow-up to verify that the audit recommendations are implemented; and report the results of audit recommendations or corrective actions as part of MAS' quarterly reporting to Metro Board of Directors.

Contract, Financial & Compliance Audits

MAS staff completed 5 independent auditor's report on agreed-upon procedures for the following projects:

Project	Reviewed Amount	Questioned / Reprogrammed Amount
City of Inglewood – Signal Synchronization Project (4 audits)	\$352,249	\$317,751
City of El Monte – Main Street Transit Oriented District Specific Plan Project	\$ 478,978	\$ 229,053
Total Amount	\$831,227	\$546,804

Details on contract, financial and compliance audits completed during FY 2022 second quarter are included in Appendix B.

Financial and Compliance Audits of Metro

The following highlights the financial and compliance audits of Metro completed by the external CPA firms:

Financial and Compliance Audits – Issued Various Dates

MAS contracted with BCA to conduct an audit of the financial statements and Independent Auditor's Report on Schedule of Revenues and Expenditures for the year ended June 30, 2021 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The resulting reports include:

- Gateway Center Financial Statements;
- Los Angeles Union Station Property Financial Statements;
- PTSC-MTA Risk Management Authority (PRMA) Financial Statements;
- ExpressLanes Fund Financial Statements;
- Regional Transit Access Pass (TAP) Service Center TAP Settlement and Clearing Accounts;
- Propositions A & C Schedules of Revenues and Expenditures;
- Measure R Schedule of Revenues and Expenditures; and
- Measure M Schedule of Revenues and Expenditures.

BCA found that above financial statements present fairly, in all material respect, for the fiscal year ended June 30, 2021, in accordance with accounting principles generally accepted in the United States of America. In addition, BCA found that Regional TAP Services Center complied, in all material respects, with the compliance requirements described in the TAP Financial Position Rules that could have a direct and material effect on the tap settlement and Clearing Accounts and Metro complied, in all material respects, with the requirements described in the Ordinances that could have a direct and material effect on the Proposition A Proposition C, Measure R and Measure M Revenues and Expenditures for the fiscal year ended June 30, 2021.

The results of the audits will be presented to the Independent Taxpayer Oversight Committees.

Department Highlights

Quality Assurance Improvement Program (QAIP)

During FY 2022 second quarter, MAS continued its efforts in the Quality Assurance Improvement Program (QAIP). Following is a summary of the various QAIP activities to support improved performance, quality, and value-added internal audit services:

- **Completed Activities**
 - Commissioned an independent Internal Quality Self-Assessment (IQSA) for FY 2020 and FY2021: assessment to evaluate MAS' conformance with auditing standards
 - Performed a comprehensive review and update of the performance audit library and procedural guidelines in accordance with auditing standards and best practices
 - Performed a comprehensive review and update of MAS policies and procedural guidelines
 - Performed a comprehensive review and update of MAS Audit Charter
- **In-progress Activities**
 - Perform comprehensive review and update of audit libraries (Consulting and Contract, Financial & Compliance) and procedural guidelines in accordance with auditing standards and best practices
 - Assess the suggested improvement recommendations of the IQSA for FY 2020 and FY 2021; and revise as necessary
- **Upcoming Activities**
 - Perform comprehensive review and update of MAS strategic plan
 - Initiate efforts to determine MAS' maturity model as a business practice, industry standard, and continuous improvement tactic.

Internal Quality Self-Assessment for FY 2020 and FY 2021

The International Standards for the Professional Practice of Internal Auditing and the Government Auditing Standards requires MAS report annually on the quality assurance and improvement program.

MAS contracted with TAP International (TAP) to conduct an independent quality self-assessment for FY 2020 and FY 2021. TAP determined that MAS complies with auditing standards and highlighted several areas in which the department excels. The following areas were highlighted:

- MAS' Policy Manual is very thorough;
- Continuing professional education (CPE) requirements tracking process was well designed;
- Audit work was complete and consistent; and
- Chief Audit Executive (CAE) reports to the Board provide clear and complete information on audit reports and activities.

The IQSA team provided suggestions for improvement to assist MAS in strengthening its compliance in the following areas:

- MAS Audit Charter
- MAS Policy Manual
- audit documentation; and
- efficiency in conducting engagements.

MAS will assess the suggested improvement recommendations and incorporate the needed improvements and/or revisions as necessary. Of note, MAS will present the updated Audit Charter to Metro's Chief Executive Officer and the Board of Directors in the FY2022 Third Quarter Report.

The Internal Quality Self-Assessment for Fiscal Years 2020 and 2021 report is included in Appendix E.

Audit Follow-Up and Resolution

The tables below summarize the open and closed audit recommendations as of December 31, 2021.

MAS and External Audit Recommendations				
Executive Area	Closed	New	Currently Open	Open Past Due
Communications	1	2		
Human Capital & Development			3	
Operations	4	8	19	
Program Management	1	11	1	
Risk, Safety & Asset Management			3	
Systems Security and Law Enforcement			9	
Vendor/Contract Management			1	
Total	6	21	36	

OIG Audit Recommendations				
Executive Area	Closed	New	Currently Open	Open Past Due
Congestion Reduction			1	
Human Capital & Development			28	
Operations			6	
Systems Security and Law Enforcement			22	
Total			57	

Details of open audit recommendations for MAS and OIG are included in Appendix C and D.

Appendix A

Performance Audit - In Progress Audits as of December 31, 2021				
No.	Area	Audit Number & Title	Description	Estimated Date of Completion
1	Program Management	21-CON-P02 Attest Engagement for Metro Owned Renewable Identification Numbers (RINs) & low Carbon Fuel Standards (LCFS) Annual Verification	To support the annual reporting by the Agency of RINs related information to the Environmental Protection Agency.	1/2022
2	Agency-Wide	20-ITS-P03 Performance Audit of IT Security Awareness	Evaluate the extent of information technology security awareness within the Agency.	2/2021
3	Planning & Development	21-PLN-P01 Micro Mobility Vehicles Program	Assess the progress made in achieving program goals and objectives, including assessing the consideration given to the Metro rapid equity assessment tool.	2/2022
4	Risk, Safety & Asset Management	21-RSK-P03 Transit Asset Inventory Records	Evaluate the adequacy of the records for this area, with a focus on accuracy, completeness and proper controls over asset records.	3/2022
5	Planning & Development	21-PLN-P02 Real Estate Management System	Determine if prior audit findings and recommendations have been considered as part of the upcoming implementation of the new Real Estate Management System.	3/2022

Appendix B

Contract, Financial and Compliance Audit - Audits Completed as of December 31, 2021				
No.	Area	Audit Number & Type	Auditee	Date Completed
1	Planning & Development	21-HWY-A05A - Closeout	City of Inglewood	11/2021
2	Program Management	21-HWY-A05B - Closeout	City of Inglewood	11/2021
3	Planning & Development	21-HWY-A05C - Closeout	City of Inglewood	11/2021
4	Planning & Development	21-HWY-A05D - Closeout	City of Inglewood	11/2021
5	Planning & Development	18-PLN-A01 - Closeout	City of El Monte	12/2021

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Systems Security and Law Enforcement	18-RSK-P01 Performance Audit of Vendor / Contract Management's (V/CM's) Continuity of Operations Plan (COOP)	1a	We recommend that the Emergency Management Unit collaborate with the business units, starting with V/CM, to ensure that the business unit COOPs, and all related documents (e.g., Standard Operating Procedures [SOPs]), include the essential content necessary to support the agency-wide program. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist V/CM.	6/30/2020	6/30/2022
2	Vendor/Contract Management	18-RSK-P01 Performance Audit of Vendor / Contract Management's (V/CM's) Continuity of Operations Plan (COOP)	3	We recommend that V/CM management work with Emergency Management to arrange for COOP execution training by an emergency management expert concurrently with each annual update. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist V/CM.	7/31/2020	6/30/2022
3	Program Management	18-RSK-P01 Performance Audit of Vendor / Contract Management's (V/CM's) Continuity of Operations Plan (COOP)	4	We recommend that the Chief Program Management Officer take the lead role in collaborating with all responsible parties, such as V/CM, Project Delivery Third Party Coordination, County Counsel, etc., to establish agreements with utility companies to guarantee service continuity and restoration in emergency situations. Update: Metro continues to negotiate Essential Use designation with SCE, DWP & CPUC as a basis for utility emergency service agreements.	3/31/2020	6/30/2022
4	Systems Security and Law Enforcement	18-RSK-P02 Performance Audit of Finance (Payroll)'s Continuity of Operations Plan	1	We recommend that Emergency Management should coordinate with Payroll to facilitate training and add the additional details to Finance (Payroll)'s COOP and SOPs, including criteria for COOP activation and relocation decisions, flow charts, decision trees and step-by-step instructions. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist Finance.	2/28/2021	7/29/2022
5	Systems Security and Law Enforcement	18-RSK-P02 Performance Audit of Finance (Payroll)'s Continuity of Operations Plan	2	We recommend that Emergency Management should coordinate with Payroll to create an SOP template to include names, titles and contact details (phone numbers and emails) for all continuity personnel, such as the CMG, key continuity positions and successors. Advance team references should state "provided by ITS". Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist Finance.	7/31/2020	7/29/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
6	Systems Security and Law Enforcement	18-RSK-P02 Performance Audit of Finance (Payroll)'s Continuity of Operations Plan	3	We recommend that Emergency Management should coordinate with Payroll to review and assess the COOP and SOPs annually and verify that any resulting updates are implemented. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist Finance.	7/31/2020	7/29/2022
7	Systems Security and Law Enforcement	18-RSK-P02 Performance Audit of Finance (Payroll)'s Continuity of Operations Plan	4	We recommend that Emergency Management should coordinate with Payroll to schedule COOP execution training by an emergency management expert concurrently with each annual COOP update. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist Finance.	7/31/2020	7/29/2022
8	Operations	19-OPS-P02 Performance Audit of the Rail Communications Systems	8 Total	The recommendations included in this report address findings in Metro's Operational System. Update: As of December 2020, 4 of 12 recommendations were closed.	On-going	
9	Operations	19-OPS-P03 Performance Audit of the SCADA Security Controls	7 Total	The recommendations included in this report address findings in Metro's Operational System. Update: As of September 2021, 6 of 13 recommendations were closed.	On-going	
10	Risk, Safety & Asset Management	16-OPS-P03 Performance Audit of Accident Prevention Practices in the Operations Department	2	We recommend that the Chief Risk, Safety & Asset Management Officer raise awareness of the Field Observation and Feedback (FOF) program. Update: A new mandatory FOF online training program has been set to release in November 2020 to train all supervisory personnel, including the proper fashion for completing a FOF, discussion items while conducting a FOF and requirements of the FOF Policy. FOFs are regularly discussed at LSC meetings and a FOF awareness campaign is currently being discussed with Operations.	3/31/2020	12/31/2021
11	Risk, Safety & Asset Management	16-OPS-P03 Performance Audit of Accident Prevention Practices in the Operations Department	3	We recommend that the Chief Risk, Safety & Asset Management Officer develop additional input controls in the Transit Safe System, by designating required FOF form fields as mandatory, including Supervisors sign-off to review for accuracy of information, to prevent the close out of FOF records without completion of all required fields and to ensure quality of information is maintained. Update: TransitSafe's replacement software is in the process of being configured and implemented and will include FOF reporting functionality. Due to the pandemic, vendor staffing changes and historical data transition issues, the implementation has been delayed.	7/31/2020	3/31/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
12	Risk, Safety & Asset Management	16-OPS-P03 Performance Audit of Accident Prevention Practices in the Operations Department	4	We recommend that the Chief Risk, Safety & Asset Management Officer incorporate recommendation #3, above, in the upcoming replacement system of Transit Safe.	12/31/2021	
13	Systems Security and Law Enforcement	19-RSK-P01 Performance Audit of System Security & Law Enforcement's Continuity of Operations Plan	1	We recommend that Emergency Management collaborate with SS&LE to establish at least three new locations to accommodate emergency back-up SS&LE command centers. As a suggestion, not more than one facility should be close to Gateway Plaza. The other two should be far enough away from Gateway and from each other that there is little risk that a wide area emergency could affect all three locations. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist SS&LE.	7/30/2020	7/29/2022
14	Systems Security and Law Enforcement	19-RSK-P01 Performance Audit of System Security & Law Enforcement's Continuity of Operations Plan	3	We recommend that Emergency Management should coordinate with SS&LE to facilitate training and add the additional details to the SS&LE COOP and SOPs, including criteria for COOP activation and relocation decisions, flow charts, decision trees and step-by-step instructions. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist SS&LE.	7/30/2021	7/29/2022
15	Systems Security and Law Enforcement	19-RSK-P01 Performance Audit of System Security & Law Enforcement's Continuity of Operations Plan	4	We recommend that Emergency Management should coordinate with SS&LE to create a Standard Operating Procedures template to include names, titles and contact details (phone numbers and emails) for all continuity personnel, such as the CMG, key continuity positions and successors; and reference and attach all COOP-related SOPs as Appendices to the COOP. Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist SS&LE.	7/30/2020	7/29/2022
16	Systems Security and Law Enforcement	19-RSK-P01 Performance Audit of System Security & Law Enforcement's Continuity of Operations Plan	7	We recommend that Emergency Management should coordinate with SS&LE to schedule COOP execution training by an emergency management expert concurrently with each annual COOP update (See COOP Appendix M). Update: Emergency Management resources have been fully committed to COVID-19 related emergency operations since March 2020, and are unavailable to assist SS&LE.	7/31/2021	7/29/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
17	Operations	20-OPS-P02 Follow-up Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services	1	MAS recommends that Contract Services management establish a timeline and finalize the Contract Monitoring Plan.	7/30/2022	
18	Operations	20-OPS-P02 Follow-up Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services	2	MAS recommends that Contract Services management develop formal written policies and procedures that include a) a requirement that decisions requiring executive approval be documented and b) a requirement that all modifications of contractual terms be documented and executed by the Contract Administrator.	12/31/2021	
19	Operations	20-OPS-P02 Follow-up Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services	3	MAS recommends that Contract Services management formulate and establish a formal training program to support skills development in the monitoring of contractor's performance.	12/31/2021	
20	Operations	20-OPS-P02 Follow-up Performance Audit on Efficiency and Effectiveness of the Oversight of Contracted Bus Services	4	MAS recommends that Contract Services management continue to work with appropriate stakeholders to resolve the fareboxes issue and establish a timeline by when this will be completed. Once fareboxes are operational, the reconciliation process should be fully restored to include the triggering of a revenue compliance inspection for variances exceeding the threshold by above or below 2%. Update: The Fareless System Initiative has delayed the resolution of the fareboxes issue.	4/30/2021	3/31/2022
21	Human Capital & Development	21-RSK-P02 Performance Audit of COVID-19 Regulatory Compliance	1	HC&D should ensure the following for all COVID safety-related mandatory training recorded in Metro's Training Portal and any other systems: deadlines are specified in the system for every mandatory training program.	1/31/2022	
22	Human Capital & Development	21-RSK-P02 Performance Audit of COVID-19 Regulatory Compliance	2	HC&D should ensure the following for all COVID safety-related mandatory training recorded in Metro's Training Portal and any other systems: automated notifications are enabled to remind employees to complete both upcoming and overdue training.	1/31/2022	
23	Human Capital & Development	21-RSK-P02 Performance Audit of COVID-19 Regulatory Compliance	3	HC&D should ensure the following for all COVID safety-related mandatory training recorded in Metro's Training Portal and any other systems: completion status relative to deadlines is being reported accurately for all mandatory training to departments' management.	1/31/2022	

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
24	Communications	20-COM-P01 Performance Audit of Expanded Discount Programs	2	MAS recommends that Communications Management ensure that all contracts are enforceable by including signatures from all parties, including County Counsel and the CEO. Update: 3 participating entities requested contract variations which are under County Counsel review.	12/31/2021	3/31/2022
25	Communications	20-COM-P01 Performance Audit of Expanded Discount Programs	3	MAS recommends that Communications Management prepare standard operating procedures manuals for both the E-Pass and the U-Pass programs aligned with the written agreements. Key operating and internal controls should include: a. Segregation of duties i. Approval of accounts ii. Approval of invoices iii. Issuance of monthly customer statements iv. Independent handling of customer queries and complaints v. Review and reconciliation of financial records b. Physical control over assets, e.g., ensuring payment checks and TAP cards / stickers are secured and access restricted c. Monthly review and reconciliation of passes sold vs. passes on the spreadsheet d. Periodic request of documentary proof of eligibility for a sample of participants from various participating institutions as a low-cost form of audit e. An explanation of when a "certificate of good standing" and a "site visit" are required. Update: ITS is now implementing new system features to correspond to the new procedure manual.	12/31/2021	3/31/2022
26	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	1	Bus and Rail Transportation management should implement periodic training or retraining for all Transit Operations Supervisors (TOS), Rail Transit Operations Supervisors (RTOS) and first line transportation management concerning the calculation of overtime eligible hours and the proper use of payroll codes. Update: Training content is nearing completion; work on delivery media is in progress.	12/31/2021	2/28/2022
27	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	2	Bus Transportation management should revise the 12-hour work limit policy to specify conditions for allowable exceptions to the rule. Update: Definitions of permitted policy exceptions are under review.	11/30/2021	1/31/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
28	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	3	Bus Transportation management should provide training to Bus Transportation managers, scheduling staff and TOS on these exceptions to enable proper scheduling and approvals of actual time incurred. Update: Training will be provided in the month following issuance of the new policy.	12/31/2021	2/28/2022
29	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	4	Bus and Rail Transportation management should enforce retention of required overtime (OT) related documents for all instances of OT worked, including partial and split shifts. Update: An on-line overtime request tool to replace paper request forms is now under development, which will permit storage, retention, retrieval and reporting of all overtime requests across the system at any time.	9/30/2021	3/31/2022
30	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	5	Bus and Rail Transportation management should train and periodically remind all line management, TOS and RTOS of overtime documentation and retention requirements. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	3/31/2022
31	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	6	Bus and Rail Transportation management should require employees to file copies of system overtime request forms for other divisions at their home division. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	3/31/2022
32	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	7	Bus and Rail Transportation management should require employees to bring supporting paperwork back to their home division each time they work at another division. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	3/31/2022
33	Operations	18-AGW-P01-B Performance Audit of Internal Controls Over Overtime Payments – AFSCME (Transportation Operations)	8	Bus and Rail Transportation management should ensure copies of documentation supporting overtime are retained as required at both divisions when employees transfer permanently from one division to another. Update: The on-line request tool for Recommendation 4 above will resolve this issue.	9/30/2021	3/31/2022

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
34	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	1	Review and verify that terms and conditions of the Contract are understood, including standards, regulations, guidelines, policies, and procedures. KKCS/Triunity JV should comply with all applicable Metro policies and procedures per the Contract.	11/30/2021	
35	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	2	Begin tracking and monitoring vehicle use and maintenance, as required by the Contract.	11/30/2021	
36	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	3	KKCS/Triunity JV should document verification of qualifications and experience to support job titles billed to the Contract; and Metro should, by contract modification, require the Contractor to perform and document background, resume, and reference checks for all new consultants proposed to Metro.	12/31/2021	
37	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	1	Metro management should re-evaluate any need for 24-hour non-revenue passenger vehicles (NRVs) and establish a formal requirement for written approval prior to assignment of NRVs to Metro employees.	2/28/2022	
38	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	2	Metro should lease required project vehicles directly through Metro's procurement processes, and only include NRVs in professional services and/or consulting contracts upon conducting a needs assessment and cost-benefit analysis.	2/28/2022	
39	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	3	If Metro continues to allow employees to operate contractor owned/leased vehicles, Metro policies and procedures should be developed to guide usage by employees.	2/28/2022	
40	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	4	Metro management should provide relevant staff with compliance training for the Contract and related policies.	2/28/2022	
41	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	5a	Metro management should implement the following retroactive corrective action for the leased project vehicles operated by six (6) Metro employees within Program Management: Assess whether 24-hour use of an NRV is necessary, document the justification and obtain approval for use in writing.	2/28/2022	

Appendix C

Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
42	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	5b	Metro management should implement the following retroactive corrective action for the leased project vehicles operated by six (6) Metro employees within Program Management: Determine how best to resolve and enforce the commuter mileage (fringe benefit tax) issue retroactively and ensure the required forms are completed and filed, including applicable penalties and interest for Metro and its employees to be in compliance. Any required forms that have not been submitted should be submitted, including 24-Hour Assigned Vehicle & Overnight Use Commuter Mileage Forms, if necessary and amended W-2s.	2/28/2022	
43	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	5c	Metro management should implement the following retroactive corrective action for the leased project vehicles operated by six (6) Metro employees within Program Management: Determine whether the monthly parking, that should have been paid by the six (6) Metro employees, that was paid through the Contract should be repaid by the employees to Metro.	2/28/2022	
44	Program Management	22-CON-P02 Performance Audit of Program Management Support Services	5d	Metro management should implement the following retroactive corrective action for the leased project vehicles operated by six (6) Metro employees within Program Management: Ensure Metro staff involved and injured in the vehicle incident as well as the Program Management Department complete all required forms to properly report the accident to the appropriate Metro department(s).	12/31/2021	

Appendix D

OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Operations	17-AUD-04 Review of Metro Safety Culture and Rail Operational Safety	6 Total	The 117 recommendations included in this report address findings in Safety Culture, Red Signal Violations, Safety Assessment of Infrastructure Elements, Technology, Operations and Maintenance, Human Resources, and etc. Update: As of December 2020, 111 of 117 recommendations were closed.	Pending	
2	Congestion Reduction	20-AUD-06 Review of LA Metro's Freeway Service Patrol Program	6	LA Metro FSP should set a target for its Benefit-to-Cost ratio, either in comparison to the statewide average or develop its own annual target. This is especially important as costs are expected to rise over the next several years as insurance and vehicle costs continue to escalate. If such the annual target is not met, it would trigger LA Metro FSP to conduct a deeper evaluation of its program and identify potential strategies to improve the following year's performance.	10/1/2020	7/1/2022
3	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	1	Employ Oracle Talent Acquisition Cloud (OTAC), Metro's new Applicant Tracking System, to obtain and utilize talent analytics	7/30/2021	
4	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	2	Hold hiring process stakeholders accountable for faster decision making	7/30/2021	
5	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	3	Decrease post-testing communication time for the candidates	7/30/2021	
6	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	4	Select interview dates and interviewers prior to the Hiring Plan Meeting	7/30/2021	
7	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	5	Implement a digital workflow to autoroute forms and utilize electronic signatures and assign a back-up signatory	7/30/2021	
8	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	6	Implement digital interview note-taking, scoring, and uploading of candidate results	7/30/2021	
9	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	7	Improve communication between Talent Acquisition (TA) and Hiring Managers regarding changes in the hiring process	7/30/2021	
10	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	8	Encourage greater use of department interviews	7/30/2021	
11	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	9	Allow Qualified Candidate Pools (QCPs) with similar Minimum Qualifications (MQs) to be shared	7/30/2021	
12	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	10	Clarify decision-making roles and responsibilities throughout the entire hiring process	7/30/2021	

Any findings that have not been corrected 90 days after the due date are reported as late.

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
13	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	11	Grant Hiring Managers greater decision-making authority in screening	7/30/2021	
14	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	12	Ensure full adoption of the OTAC system coupled with adoption of an effective change management process	7/30/2021	
15	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	13	Expand Hiring Managers' influence by allowing additional Minimum Qualifications to a position	7/30/2021	
16	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	14	Reevaluate the use of blind screening in 12 months	7/30/2021	
17	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	15	Transition Equal Employment Opportunity (EEO) role from active participant to advisor, auditor, and trainer	7/30/2021	
18	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	16	Utilize self-service portal for candidates to provide evidence of education and references	7/30/2021	
19	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	17	Provide stakeholders with the ability to receive live application status updates	7/30/2021	
20	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	18	Communicate to Metro employees why it lacks a promotion process	7/30/2021	
21	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	19	Ensure OTAC's application portal meets candidates' needs	7/30/2021	
22	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	20	Update auto-generated communications to applicants after application submission to improve hiring process expectations	7/30/2021	
23	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	21	Institute a combination of standardized and non-standardized interview questions	7/30/2021	
24	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	22	Update initial communication to candidates placed on QCP	7/30/2021	
25	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	23	Send periodic automated emails to candidates in QCP to keep them engaged and aware of opportunities for which they may be considered	7/30/2021	
26	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	24	Request complete employment history earlier in the process	7/30/2021	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix D

OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
27	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	25	Consider characteristics other than years of direct work experience when determining salary offers and when screening applications	7/30/2021	
28	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	26	Reduce required memos and forms and expedite their completion	7/30/2021	
29	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	27	Consider increasing the 15% cap on raises for internal candidates	7/30/2021	
30	Human Capital & Development	20-AUD-09 Personnel Hiring Process Study	28	Decrease the job posting salary ranges	7/30/2021	
31	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	2	SSLE should ensure that future contracts include a contract budget that specifies the amount of funds budgeted for each contract year and develop procedures to help ensure that the annual budgets are adhered to.	Pending	
32	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	3	SSLE should in future contracts, to more effectively control and track the use of contract funds, allocate within the budget a separate reserve amount to be used for special events and enhanced deployments.	Pending	
33	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	4	SSLE should for future contracts, consider the impact that the use of full-time contracted personnel will have on the use of funds over the life of the contract. In addition, specify within the contract the job classifications, and number of positions within each classification that can be charged to the Metro contract on a full-time basis.	Pending	
34	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	5	SSLE should execute a contract modification if it is determined that LBPDP sworn personnel will be assigned to the contract on a full-time basis.	12/31/2021	
35	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	8	SSLE should review all LAPD invoices for FY20 to determine if there are other incidents where the personnel hourly billing rate exceeds the approved maximum fully burdened hourly rate for the job classification.	12/31/2021	

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
36	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	9	SSLE should request a refund of \$3,170.52 and any additional overbillings identified from LAPD.	12/31/2021	
37	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	10	SSLE should for future contracts, work with each contractor to include language in their respective contracts that more thoroughly and clearly define how services will be billed and what costs will be allowed and/or disallowed.	Pending	
38	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	11	SSLE should continue to work on strengthening controls in the area of monitoring and oversight by addressing the deficiencies cited in areas such as Community Policing and Key Performance Indicators.	Pending	
39	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	12	SSLE should complete and finalize the Compliance Audit Procedures Manual.	12/31/2021	
40	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	13	SSLE should review on a periodic basis the qualifications of a sample of officers from each of the law enforcement agencies to determine that contract requirements are being adhered to.	10/31/2021	12/31/2021
41	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	14	SSLE should for required training, consider developing and requiring officers to take refresher courses after working on the contract for two or more years.	12/31/2021	
42	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	15	SSLE should for required reporting, review with input from the law enforcement agencies, the reports and information currently required to determine if changes are necessary. As part of this review determine if different or additional information would be more beneficial.	Pending	

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
43	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	16	SSLE should with input from the three law enforcement agencies, develop baseline performance levels (targets and goals) for key performance indicators.	10/31/2021	1/31/2022
44	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	17	SSLE should develop and update annually a written agency-wide Community Policing Plan.	10/31/2021	1/31/2022
45	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	20	SSLE should include in future contracts the requirement of wearing body cameras by all contracted law enforcement personnel when policing the Metro System.	Pending	
46	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	21	SSLE should establish with the three contracted law enforcement agencies procedures for accessing video footage from body cameras when necessary, including for compliance, auditing, and investigative reasons.	10/31/2021	1/31/2022
47	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	22	LAPD should ensure that each personnel's hourly billing rate does not exceed the approved maximum fully burdened hourly rate for that job classification.	10/31/2021	12/31/2021
48	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	23	LAPD should develop procedures to help ensure that even during departmental wide mobilizations and/or special deployments that only those officers who meet contract requirements are placed on the Metro contract.	10/31/2021	12/31/2021
49	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	24	LAPD should include in the Annual Community Policing Plan a description of the specific training provided to its officers in the area of Problem Oriented Policing.	10/31/2021	

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OIG Open Audit Recommendations as of December 31, 2021						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
50	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	25	LASD should assign personnel to the Metro contract only after they are Post Certified and have met all contract requirements.	10/31/2021	12/31/2021
51	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	26	LASD should include in its annual Community Policing Plan a description of the specific training provided to its officers in the area of Problem Oriented Policing.	10/31/2021	
52	Systems Security and Law Enforcement	22-AUD-02 Audit of Metro Transit Security Services Performance For the Fiscal Year Ended June 30, 2020	28	LBPD should assign only those officers to the contract who have 18 months of law enforcement experience and have met all other contract requirements related to personnel and training.	10/31/2021	12/31/2021



Final Report

Internal Quality Self-Assessment for
Fiscal Years 2020 & 2021

LA METRO Management Audit Services

November 2021



Date: November 17, 2021

Memorandum For: LA Metro, Management Audit Services

From: Drummond Kahn and Susan Hoffman
Audit Consultants, TAP International

Subject: Transmittal of IQSA FINAL REPORT, FY 2020 and FY 2021

Attached is our final report, *Internal Quality Self-Assessment for Fiscal Years 2020 & 2021, LA Metro Management Audit Services*.

The objectives of the internal quality self-assessment were to:

- Determine whether Management Audit Services is well-prepared for its up-coming Association of Local Government Auditors' external peer review on its conformance to the International Standards for the Professional Practice of Internal Auditing and Government Auditing Standards
- Provide suggestions to improve current auditing processes, procedures, and practices

Our assessment found that LA Metro's Management Audit Services quality control system was suitably designed and operating effectively, generally complied with the International Standards for the Professional Practice of Internal Auditing and comports well with Government Auditing Standards.

This report contains 12 suggestions for improvement for consideration by Management Audit Services to enhance its conformance to professional auditing standards as well as to increase efficiency and effectiveness of its audit process.

We appreciated working with Management Audit Services and thank the staff and management for their collaboration throughout this review.

TAP International, Inc.

LA Metro Management Audit Services

Internal Quality Self-Assessment for FY 2020 and FY 2021

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Section 1: Assessment Highlights

Why the Assessment Was Conducted

LA Metro's Management Audit Services (MAS) hired TAP International to conduct its Internal Quality Self-Assessments (IQSA) for Fiscal Years (FY) 20 and 21. Conducting an annual IQSA is a primary component of MAS' Quality Assessment Improvement Program which is an ongoing effort to ensure its work is completed in accordance with auditing standards. Completing IQSAs for FY20 and FY21 will also help ensure MAS is well-prepared for its upcoming external peer review and provides an opportunity for experts in governmental auditing and auditing standards to provide suggestions to improve MAS' current processes, procedures, and practices. The FY20 and FY21 IQSAs were completed at the same time, making some issues we found relevant to both fiscal years. This report includes the results of:

- our review of MAS' quality control system, including MAS' audit charter and policy manual
- our review of compliance with continuing professional education requirements for FY20 and FY21
- our review of nine engagements completed in FY20
- our review of seven engagements completed in FY21
- a survey of audit staff

How the Assessment Was Conducted

The IQSA was conducted according to guidance provided in the external peer review guides developed by the Association of Local Government Auditors (ALGA). These are the same guides that will be used to conduct MAS' upcoming external peer review. They are:

- ALGA's Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing, 2017 (commonly known as the *Red Book* auditing standards)
- ALGA's Peer Review Guide for Assessing Conformance with Government Auditing Standards, 2019 Revision (commonly known as the *Yellow Book* auditing standards)

Both the Red Book and Yellow Book ALGA external peer review guides were used to conduct the IQSA because MAS follows both sets of auditing standards to conduct its work. The ALGA guides provide a systemic approach to assessing whether MAS' quality control system is suitably designed and operating effectively. To make this determination, we assessed MAS' quality control system against each set of standards and reviewed nine judgmentally selected engagements completed in FY20 and seven judgmentally selected engagements completed in FY21 to see how well that system ensured both sets of auditing standards were followed when completing engagements. We also conducted an anonymous survey of audit staff to determine whether they had been informed of, understood, and applied MAS' policies and procedures designed to ensure auditing standards are followed in conducting their work.

What the Assessment Found

We found that for FY20 and FY21, LA Metro's Management Audit Services' quality control system was suitably designed and operating effectively, generally complied with Red Book auditing standards and comports well with Yellow Book auditing standards. More specifically, we found:

- the quality control system was designed in accordance with Red Book and Yellow Book auditing standards
- all audit staff and long-term consultants working on engagements completed in FY20 and FY21 met the continuing professional education requirements set by the standards
- all nine engagements completed in FY20 and all seven engagements completed in FY21 that we reviewed were conducted in accordance with Red Book and Yellow Book auditing standards
- results from the audit staff survey suggested policies and procedures to ensure staff understand and follow auditing standards have been adequately communicated to them, they understand how to use them, and that they are being used on the engagements they worked on completed in FY20 and FY21

Summary of Suggested Improvements

In conducting the IQSA for FY20 and FY21, we also identified several opportunities for improvement, including:

- three suggested revisions to MAS' audit charter to clarify roles and responsibilities of the MAS Chief Audit Executive (CAE), the Office of the Chief Executive officer (OCEO) and the LA Metro Board of Directors (Board)
- three suggested revisions to MAS' policy manual to bring policy more in line with auditing standards
- three suggested modifications to audit documentation completed in TeamMate to ensure certain items are completed and documented consistently on every engagement where they are relevant
- three suggestions related to improving efficiency in conducting engagements including:
 - reviewing how engagements are categorized by type to determine whether they are completed at the most appropriate level of assurance
 - reviewing TeamMate procedures used for each engagement type to ensure they only include the work required by standards for that engagement type
 - considering the reasons for continuing to follow both Red Book and Yellow Book auditing standards and whether efficiencies can be gained from following just one set of standards while maintaining audit quality

Section 2: Methodology

Methodology

We conducted the MAS FY20 and FY21 IQSA using Association of Local Government Auditors' (ALGA) Red Book and Yellow Book external peer review guides. We used both ALGA guides because MAS follows both sets of auditing standards to conduct its work. The ALGA guides provide a systemic approach to assessing whether MAS' quality control system is suitably designed and operating effectively. To conduct the IQSA, we followed guidance in:

- ALGA's Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing, 2017 (commonly known as the *Red Book* auditing standards)
- ALGA's Peer Review Guide for Assessing Conformance with Government Auditing Standards, 2019 Revision (commonly known as the *Yellow Book* auditing standards)

To complete the IQSA, we used review checklists provided in ALGA's Red Book and Yellow Book guides to assess whether the design of MAS' quality control system met both Red Book and Yellow Book auditing standards. We also reviewed continuing professional education (CPE) records for audit staff and long-term consultants that worked on audit engagements completed in FY20 and FY21 to ensure they met the CPE requirements set by standard. We judgmentally selected nine engagements completed in FY20 and seven engagements completed in FY21 for review using both a Red Book and Yellow Book checklist to determine how well auditing standards were being followed in practice. We also conducted an anonymous on-line survey to gather information on staff understanding and use of Red Book and Yellow Book auditing standards.

Quality Control System Assessment – Review of system design

Quality Control System Review - Red Book

To conduct our Red Book assessment of MAS' quality control system, we used ALGA's Red Book guide *Form 7: Audit Organization's Description of Quality Control System* completed by MAS, that included relevant citations to MAS' audit charter, policy manual, and other relevant documents for each Red Book auditing standard. MAS also provided a copy of their policy manual and additional relevant documents needed to complete our review. The results of our assessment were documented on ALGA's Red Book guide *Form 8: Review of Audit Organization's Quality Control System*. For each standard, we reviewed the cited materials. In cases where the cited materials were not sufficient to complete our review, we requested and reviewed additional materials from MAS.

Using our professional judgement, we made determinations for each standard on whether it "generally conforms" "partially conforms" "does not conform" or is "not applicable." Our final determination on the quality control system of "generally conforms" is based on our determinations made at the individual standard level. "Generally conforms" means "there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives."

Quality Control System Review – Yellow Book

To conduct our Yellow Book assessment of MAS' quality control system, we used the ALGA Yellow Book guide *Form 7: Audit Organization's Description of Quality Control System* provided by MAS, that was used for their IQSA completed in FY19. It included citations to MAS' Policy Manual and other relevant documents. We conducted our review using ALGA's Yellow Book guide *Form 8: Review of Audit Organization's Quality Control System*. For each standard included, we reviewed the cited materials.

Using our professional judgment, we made determinations for each standard on whether MAS' quality control system "complied" – yes or no - or was "not applicable." Our final determination on the quality control system complying with Yellow Book standards is based on our determinations at the individual standard level.

Assessing Compliance with CPE Requirements

Part of assessing MAS' quality control system is determining whether audit staff and long-term consultants who worked on engagements completed in FY20 and FY21 met the continuing professional education (CPE) requirements included in auditing standards. As MAS conducts audit work in accordance with both the Yellow Book and the Red Book, they must comply with CPE requirements for both. The Yellow Book includes specific requirements for audit staff to complete 80 hours of CPE every two years with 20 of those 80 hours being completed in each of the two years, and 24 of the 80 hours to cover governmental topics or issues related to the specific environment the office operates in. The Red Book does not include a specific CPE hourly requirement but does require that audit organizations track auditor certifications and the number of CPEs completed each year as CPE hours are required to maintain certifications.

To assess MAS compliance with CPE requirements, we reviewed MAS' CPE log for its current CPE period (FY20 & FY21). MAS' CPE log includes class names and CPE hours earned for CPE courses completed by its audit staff, and tracks staff progress on meeting CPE requirements. To be credited with CPE hours in the log, audit staff must provide certification of the course completed. We also reviewed the CPE information MAS maintains for its long-term audit consultants. To ensure CPE records were maintained for all audit staff and long-term audit consultants that worked on engagements completed in FY20 and FY21, we compared them to the staff assignments listed on the list of engagements completed in FY20 and FY21 provided to us by MAS. We also asked for all back-up CPE documentation for two MAS audit staff and traced it back to the summary log to determine it was complete. We also requested and reviewed documentation maintained by MAS on audit staff years of experience, educational background, and relevant certifications for FY20 and FY21.

Engagement Assessment – Review of Quality Control System in Practice

Engagement Selection – Fiscal Year 2020

MAS primarily conducts two types of engagements – performance audits and agreed-upon procedures (AUP) attestations. They also conduct consulting engagements, but none were completed in FY20. To assess how well MAS' quality control system worked in practice in FY20, we judgmentally selected nine engagements completed in FY20 from a list provided to us by MAS. The list included 50 engagements completed in FY20 for a total of 14,136 audit hours.

We categorized the 50 engagements completed by MAS by the following activity types:

- 5 - performance audits
- 1 – AUP attestation for compliance with a US employment program
- 44 – AUP attestations – 20 related to incurred costs and 24 related to pre-awards

We judgmentally selected nine engagements for review during the FY20 IQSA. The criteria used to make our selections included ensuring our sample of engagements had a variety of:

- engagement type – select engagements for each activity type
- audit manager – select engagements under each audit manager – if possible
- number of audit hours – select engagements that are small and large in terms of audit hours
- construction project under audit – select incurred cost and pre-award attestation AUPs of different construction projects (as in not all the same construction project)

We selected nine engagements for review for the FY20 IQSA. They cover 5,802 audit hours, which is 41% of the total audit hours for FY20:

- 3 – performance audits
- 6 – AUP attestations – 3 related to incurred costs and 3 related to pre-awards

Each of the nine selected engagements for FY20 was assessed against both Red Book and Yellow Book auditing standards.

Engagement Selection – Fiscal Year 2021

MAS primarily conducts two types of engagements – performance audits and agreed-upon procedures (AUP) attestations. They also conduct consulting engagements, two were completed in FY21. To assess how well MAS's quality control system worked in practice in FY21, we judgmentally selected seven engagements completed in FY21 from a list provided to us by MAS. The list included 26 engagements completed in FY21 for a total of 13,475 audit hours. We categorized the 26 engagements completed by MAS by the following activity types:

- 3 - performance audits
- 2 – consulting engagements
- 21 – AUP attestations – 18 related to incurred costs and 3 related to pre-awards

We judgmentally selected seven engagements for review during the FY21 IQSA. The criteria used to make our selections included ensuring our sample of engagements had a variety of:

- engagement type – select engagements for each activity type
- audit manager – select engagements under each audit manager – if possible
- number of audit hours – select engagements that are small and large in terms of audit hours
- construction project under audit – select incurred cost and pre-award attestation AUPs of different construction projects (as in not all the same construction project)

We selected seven audits for review for the FY21 IQSA. They cover 4,638.5 audit hours which is 34.4% of the total audit hours for FY21:

- 2 – performance audits
- 1 – consulting engagement
- 4 – AUP attestations – 3 related to incurred costs and 1 related to pre-awards

Each of the seven selected engagements for FY21 was assessed against both Red Book and Yellow Book auditing standards.

Engagement Review –Red Book

To conduct our Red Book assessment of the nine selected engagements completed in FY20 and seven selected engagements completed in FY21, we used ALGA’s Red Book external peer review guide *Form 9: Review of Assurance Engagement* to review both AUP attestations and performance audits. We used *Form 10: Review of Consulting Engagement* to review the consulting engagement. To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine the degree to which it met the standard. At the individual standards level, the criteria for each level of conformance are:

- generally conforms – conforms to the requirements of the standard
- partially conforms – a good faith effort is being made to conform with the standard
- does not conform – is not aware of, is not making a good faith effort to conform with the standard, or is failing to achieve many or all of the objectives of the standard
- N/A – not applicable

To conduct our engagement reviews, we reviewed the referenced final reports and supporting documentation in the TeamMate file for each selected engagement. We also reviewed the planning work to determine if relevant planning standards were met. Based on our review, and our understanding of the standards, we used our professional judgement to determine the extent individual engagements met individual standards and used those results to draw an overall conclusion on whether the engagement met standards.

Engagement Review - Yellow Book

To conduct our Yellow Book assessment of the nine selected engagements completed in FY20 and seven selected engagements completed in FY21, we used ALGA’s Yellow Book external peer review guide *Form 9: Review of Audit Engagement Checklist*. Performance audits were assessed against the general standards and performance standards sections of the form, while the AUP attestations were assessed against the general and attestations sections of the form. To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine whether it met the standard. At the individual standard level, the Yellow Book engagement review form asks the reviewer to determine whether the engagement under review meets individual standards by replying:

- Yes
- No
- N/A – not applicable

To conduct our engagement reviews, we reviewed the referenced final reports and supporting documentation in the TeamMate file for each selected engagement. We also reviewed the planning work to determine if relevant planning standards were met. Based on our review, and our understanding of the standards, we used our professional judgement to determine whether the engagements met individual standards and used those results to draw an overall conclusion on whether each selected engagement met standards.

Staff Survey

Both of ALGA's Red Book and Yellow Book external peer review guides include audit staff interview questions. The purpose of the interviews is to assess audit staff understanding of and compliance with Red Book and Yellow Book auditing standards. Rather than conduct interviews, we decided to conduct an anonymous online survey. The survey was based on the staff survey in the National State Auditors Association's External Peer Review Guide for Yellow Book. Additional questions were added to address standards unique to the Red Book. Survey Monkey was used to conduct the anonymous online audit staff survey. An email explaining the purpose of the survey and a link to the survey was sent out to all audit staff. The survey was open for two weeks to allow audit staff the opportunity to reply.

Section 3: Assessment Results

Results

We found that for FY20 and FY21, LA Metro's Management Audit Services (MAS) quality control system was suitably designed and operating effectively, generally complied with Red Book auditing standards and comports well with Yellow Book auditing standards. More specifically, we found:

- the quality control system was designed in accordance with Red Book and Yellow Book auditing standards
- all audit staff and long-term consultants working on engagements completed in FY20 and FY21 met the continuing professional education requirements (CPE) set by the standards
- all nine engagements we reviewed completed in FY20 were conducted in accordance with Red Book and Yellow Book auditing standards
- all seven engagements we reviewed completed in FY21 were conducted in accordance with Red Book and Yellow Book auditing standards
- results from the audit staff survey suggested policies and procedures to ensure staff understand and follow auditing standards have been adequately communicated to them, they understand how to use them, and that they are being used on the audits they worked on that were completed in FY20 and FY21

In addition, we would like to acknowledge the following areas where we believe MAS performs exceptionally well:

- MAS' policy manual is very thorough and thoughtful, easy to understand and follow, and comports well with Red Book and Yellow Book standards
- the process used to track audit staff progress in meeting their continuing professional education (CPE) requirements is well designed and works well to ensure all audit staff and long-term consultants meet these requirements
- the documentation of audit work completed in TeamMate was complete and consistent, for each engagement we reviewed, we were able to understand how the audit team planned and completed its work and reached its conclusions
- the audit reports we reviewed accurately and clearly communicated the findings developed and were well supported by the work documented in TeamMate
- the survey showed that audit staff were aware of MAS' policies and procedures and applied them in practice on engagements they worked on
- the quarterly and year-end Chief Audit Executive (CAE) reports to Board provide clear and complete information on audits completed and progress being made by MAS

Quality Control System Assessment – Review of System Design

Quality Control System Review - Red Book

Overall, MAS' quality control system generally conforms with Red Book auditing standards, although we found that the area of organizational independence only partially conforms due to the need to better define the relationships of the Chief Audit Executive (CAE) to the Office of the Chief Executive Officer (OCEO) and to the LA Metro Board of Directors (Board) in the audit charter and the MAS policy manual. This issue was also identified as an area where improvement could be made by MAS' prior external peer

review completed in November 2017. We also identified some additional areas where we suggest revisions to the MAS Policy Manual to better align it with Red Book auditing standards.

Suggestions for changes to MAS audit charter

In conducting our Red Book assessment of MAS' quality control system, we found a few instances where changes to the current audit charter would better align it with Red Book auditing standards. We noted that during the time of our assessment, MAS management was actively working on a revision to its audit charter. We were asked to review the revised audit charter draft and were able to provide comments to address the issues we found in our review of the current audit charter. We expect that the completed revision of the audit charter will address the suggested changes included in this report. We identified the following areas where we suggest changes to the current audit charter.

- 1) The current MAS audit charter does not specify the nature of reporting relationships of its Chief Audit Executive to the Office of the Chief Executive Officer (OCEO) and the LA Metro Board of Directors (Board), merely that they report to both. Red Book Standards 1000 and 1100 address the CAE and internal audit activity's position within the organization and suggest that the CAE should have an administrative reporting relationship to the CEO and a functional relationship to the Board. The purpose of the standard is to protect the independence of the CAE and the organization's internal audit function. We suggest revising the audit charter to clearly state that the CAE administratively reports to the OCEO and functionally reports to the Board to address this issue.
- 2) The current MAS audit charter states that MAS is 'under direction of' the Deputy CEO and does not state the nature of the reporting relations to the OCEO and Board, which could potentially threaten the ability of the internal audit activity to carry out its internal audit responsibilities without interference. Red Book Standard 1110.A1 states that 'The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communication results.' The use of the 'under direction' language in the current audit charter could connote that the CAE and MAS conducts its work under the direction of the Deputy rather than independent of it. We suggest revising the audit charter to remove the 'under direction of' language and replace it with language that explains that the CAE and MAS administratively reside in the office of the OCEO.
- 3) The current MAS audit charter does not include separate sections on the responsibilities of the OCEO and the Board, but instead assigns the same responsibilities to both. Red Book Standard 1100 states that organization independence is effectively achieved when the CAE reports functionally to the Board. We suggest revising the current audit charter to add sections that include the administrative responsibilities of the OCEO and the functional responsibilities of the Board. Doing so would add clarity to what is the administrative relationship between the CAE and the OCEO, and what is the functional relationship between the CAE and the Board.
- 4) One way an audit organization can show a functional relationship between the CAE and the Board is to state in its audit charter that the Board approves the remuneration of the CAE as suggested by the interpretation of Red Book Standard 1000. MAS' current audit charter does not include any language related to Board approval of CAE remuneration. We note this as deviation from the interpretation of the standard, but also note that this may not be possible within LA Metro personnel policies. We are not suggesting the audit charter be revised accordingly as the functional relationship between the CAE and the Board can be otherwise demonstrated by clearly describing the functional responsibilities of the Board in the audit charter.

Suggestions for changes to MAS policy and procedures manual

In conducting our Red Book assessment of MAS' quality control system, we noted a few instances where changes to MAS' Policy Manual would better align it with Red Book auditing standards.

- 1) MAS Policy 1.2.3 Audit Charter Policy states that 'The CEO must approve, and the Board must adopt the Audit Charter.' The Interpretation for Red Book Standard 1000 states that one way to demonstrate the functional relationship between the CAE and Board is to give the final approval of the audit charter to the Board. We suggest revising MAS policy 1.2 to state that final approval of the audit charter goes to the Board.
- 2) MAS Policy 3.3.3 Board Communication states that the CAE must periodically report to the Board on a variety of issues, including the results of internal and external quality assessments. Red Book Standard 1320 requires these communications. We suggest revising MAS Policy 3.3.3 to include language on the form and frequency of CAE communication to the board on internal and external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest to better meet Red Book auditing standards.
- 3) MAS Policy 1.6 Annual Audit Plan Policy does not include language stating that the CAE may review and adjust the plan as necessary, although similar language is included in MAS' annual audit plans. The Interpretation for Red Book Standard 2010 states that the 'CAE must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.' We suggest revising MAS Policy 1.6 to include this language to better align its policy with Red Book standards.

Quality Control System Review – Yellow Book

Based on our review, MAS' quality control system comports with Yellow Book auditing standards. We offer one suggestion for improving MAS' quality control system related documenting adherence to MAS Policy 2.7.1 – Competence and Continuing Professional Education. We suggest developing a method to more clearly document in TeamMate how the staff assigned to individual engagements collectively possess the qualifications needed to successfully complete the engagement.

We reviewed the overall quality monitoring process for FY20 and FY21 as described in Government Auditing Standards. In terms of MAS' monitoring process, including supervision, quality control review, and the areas described in this IQSA report, both overall and at the engagement level, we did not identify any systemic or repetitive issues needing improvement for monitoring MAS' system of quality control. We did not identify any deficiencies during the monitoring process, nor do we recommend any remedial action.

Assessing Compliance with CPE Requirements

MAS conducts audit work in accordance with both the Yellow Book and the Red Book, and therefore must comply with CPE requirements for both. We reviewed MAS' compliance with Yellow Book and Red Book CPE compliance using ALGA's Yellow Book and Red Book External Peer Review Guides. MAS' current two-year CPE period is FY20 and FY21. From our review of MAS' CPE log and back-up documentation, we determined that all audit staff and long-term audit consultants who worked on engagements completed in FY20 had completed at least 20 hours of CPE in FY20 and in FY21. We also determined that all audit staff and long-term audit consultants who worked on engagements completed in FY21 had completed at least 80 hours of CPE during the FY20/FY21 CPE period, with at least 24 hours

being governmental CPE. MAS also maintains an annually updated list of all audit staff that includes their educational background, years of audit experience, and relevant certifications.

Engagement Assessment – Review of Quality Control System in Practice

Overall, the nine engagements completed in FY20, and the seven engagements completed in FY21 that we selected for review generally conformed with Red Book standards and comported well with Yellow Book standards. We found the engagements we reviewed to be thoroughly documented and complete. Audit work was performed in a consistent manner making it easy to identify whether all relevant planning and fieldwork standards were met. In addition, the engagement reports were easy to follow. Findings were well documented and supported with sufficient and appropriate evidence. Report conclusions and recommendations (when provided) flowed from the report findings. Each selected engagement was reviewed against both Red Book and Yellow Book standards.

Engagement Review for Nine Engagements Completed in FY20

Engagement Review – Red Book

To conduct our Red Book review of the nine selected engagements completed in FY20, we used ALGA's Red Book external peer review guide *Form 9: Review of Assurance Engagement* to review both performance audits and AUP attestations. To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine the degree to which it met the standard. Our overall assessment of whether each reviewed engagement generally conformed with Red Book standards were based on our assessment at the individual standard level.

The completed Red Book *Form 9: Review of Assurance Engagement* for each engagement reviewed includes reviewer comments. We encourage MAS audit managers and audit staff to review those comments for specific feedback on each engagement.

Performance Audits – Three performance audits completed in FY20 were reviewed

All three FY20 performance audits we reviewed generally conformed with Red Book Assurance Engagement Standards. For each engagement, we were able to understand from the working papers how the audit team planned and completed its work and reached its conclusions. Audit reports accurately communicated findings.

AUP Attestations – Six AUP Attestations completed in FY20 were reviewed

All six FY20 AUP attestation engagements we reviewed generally conformed with Red Book Assurance Engagement Standards. In our review we noted that these engagements were conducted similarly to the performance audit engagements, and easily met all requirements for a Red Book Assurance Engagement.

Engagement Review – Yellow Book

To conduct our Yellow Book review of the nine selected engagements completed in FY20, we used ALGA's Yellow Book external peer review guide *Form 9: Review of Audit Engagement Checklist* to review both Performance Audits and AUP Attestations. Performance audits were assessed against the general standards and performance standards sections of the form, while the AUP Attestations were assessed against the general and attestations sections of the form.

To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine whether it met the standard. Our overall assessment of whether each reviewed engagement comported with Yellow Book standards were based on our assessment at the individual standard level. We provide three suggestions for improving how performance audits comply with Yellow Book standards below.

The completed Yellow Book *Form 9: Review of Audit Engagement Checklist* for each engagement includes reviewer comments. We encourage MAS audit managers and audit staff to review those comments for specific feedback on each engagement.

Performance Audits – Three performance audits completed in FY20 were reviewed

All three FY20 performance audits we reviewed complied with Yellow Book Performance Audit standards. We provide the following suggestions for MAS to consider which enhance its compliance with Yellow Book Standards.

- 1) Develop a more consistent way to show the how the team members selected to work on performance audits collectively possess the competencies needed to successfully complete the audit. We found that one performance audit we reviewed did not include specific workpapers to show specific training, CPE, and competency of individual staff members
- 2) Develop a specific planning work procedure to ensure the team identifies whether there are any relevant ongoing legal proceeding or investigations that could impact the engagement or the engagement's objectives. We found that one performance audit we reviewed did not include documentation that this was done during engagement planning.
- 3) Develop a method to ensure engagement reports that significantly rely on sampling results to support report findings include a description of how sampling was conducted and used to reach conclusions in the audit report methodology. One way this could be done is to include it on the Independent Reviewer Checklist MAS uses to ensure its engagement work and reports meet audit standards. We found that one performance audit we reviewed did not include a description of the samples it used to support its report findings in the report methodology section.

AUP Attestations – Six AUP Attestations completed in FY20 were reviewed

All six FY20 AUP attestation engagements we reviewed comported well with Yellow Book attestation standards. Indeed, we found these engagements met most of the standards for review attestations as well. Since the work is conducted and documented similarly to the performance audit engagements we reviewed, we believe that the AUP engagements we reviewed also comport well with performance audit standards.

Engagement Review for Seven Engagements Completed in FY21

Engagement Review – Red Book

To conduct our Red Book review of the seven selected engagements completed in FY21, we used ALGA's Red Book external peer review guide *Form 9: Review of Assurance Engagement* to review both performance audits and AUP attestations, and *Form 10: Review of Consulting Engagement* to review the selected consulting engagement. To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine the degree to which it met the standard. Our overall assessment of whether each reviewed engagement

generally conformed with Red Book standards were based on our assessment at the individual standard level.

The completed Red Book *Form 9: Review of Assurance Engagement* for each AUP Attestation and Performance Audit engagement reviewed, and *Form 10: Review of Consulting Engagement* for the Consulting Engagement reviewed include reviewer comments. We encourage MAS audit managers and audit staff to review those comments for specific feedback on each engagement.

Performance Audits – Two performance audits completed in FY21 were reviewed

The two FY21 performance audits we reviewed generally conformed with Red Book Assurance Engagement Standards. For each engagement, we were able to understand from the working papers how the audit team planned and completed its work and reached its conclusions. Audit reports accurately communicated findings.

AUP Attestations – Four AUP Attestations completed in FY21 were reviewed

All four FY21 AUP attestation engagements we reviewed generally conformed with Red Book Assurance Engagement Standards. In our review we noted that these engagements were conducted similarly to the performance audit engagements, and easily met all requirements for a Red Book Assurance Engagement.

Consulting Engagements – One Consulting Engagement completed in FY21 was reviewed

The FY21 consulting engagement we reviewed generally conformed with Red Book consulting engagement standards. It should be noted that these standards are focused on ensuring a consulting engagement does not impede on independence in conducting other types of engagements. The work completed for this consulting engagement was done similarly to how MAS completes both its AUP attestations and performance audits.

Engagement Review – Yellow Book

To conduct our Yellow Book review of the seven selected engagements completed in FY21, we used ALGA's Yellow Book external peer review guide *Form 9: Review of Audit Engagement Checklist* to review both Performance Audits and AUP Attestations. Performance audits were assessed against the general standards and performance standards sections of the form, while the AUP Attestations were assessed against the general and attestations sections of the form. We used *Form 10: Review of Nonaudit Services Engagement Checklist* to review the consulting engagement included in our sample.

To complete the assessment, we used our professional experience and judgment to rate each engagement under review against each individual standard to determine whether it met the standard. Our overall assessment of whether each reviewed engagement 'comported' with Yellow Book standards were based on our assessment at the individual standard level. We provide two suggestions for improving how performance audits comply with Yellow Book standards below.

The completed Yellow Book forms - *Form 9: Review of Audit Engagement Checklist* and *Form 10: Review of Nonaudit Services Engagement Checklist* - for each engagement include reviewer comments. We encourage MAS audit managers and audit staff to review those comments for specific feedback on each engagement.

Performance Audits – Two performance audits completed in FY21 were reviewed

Both FY21 performance audits we reviewed complied with Yellow Book Performance Audit standards.

We provide the following suggestions for MAS to consider which would enhance its compliance with Yellow Book Standards.

- 1) Develop a more consistent way to show the how the team members selected to work on performance audits collectively possess the competencies needed to successfully complete the audit. We found that one performance audit did not include specific workpapers to show specific training, CPE, and competency of individual staff members.
- 2) Develop a specific planning work procedure to ensure the team identifies whether there are any relevant ongoing legal proceeding or investigations that could impact the engagement or the engagement's objectives. We found that one performance audit that did not include documentation that this was done during engagement planning.

AUP Attestations – Four AUP Attestations completed in FY21 were reviewed

All four FY21 AUP attestation engagements we reviewed comported well with Yellow Book attestation standards. Indeed, we found these engagements met most of the standards for review attestations as well. Since the work is conducted and documented similarly to the performance audit engagements we reviewed, we believe that the AUP engagements we reviewed also comport well with performance audit standards. For example, one AUP attestation we reviewed included recommendations in its report, which is not the expectation for an attestation report. This engagement may have also worked as a performance audit with limited scope.

Consulting Engagements – One Consulting Engagement completed in FY21 was reviewed

The FY21 Consulting Engagement comports well with Yellow Book nonaudit services engagement standards. Note that while the audit report stated that the consulting service was not covered by the Yellow Book, our review concluded that the engagement did meet Yellow Book standards for nonaudit services and MAS could have included that citation in the engagement report. Another possibility could have been to conduct the work as a limited scope performance audit that just developed condition.

Staff Survey

We conducted an anonymous online survey of audit staff to determine whether they had been informed of and understood MAS policies and procedures designed to ensure their work followed Red Book and Yellow Book auditing standards, and whether those policies and procedures had been followed for engagements they worked during FY20 and FY21. Fifteen audit staff provided responses to the survey. Responses provided clearly showed that audit staff had been informed of relevant MAS policies and procedures designed to ensure their work followed Red Book and Yellow Book auditing standards, understood those policies and procedures, and used them the engagements they worked on in FY20 and FY21. We provide a short summary of results here. A more detailed summary is provided in the IQSA FY20 and FY21 supporting documentation.

Summary of Audit Staff Survey Results

Demographic Questions – Survey responses show that MAS has very experienced audit staff. Of the 15 MAS audit staff who completed the survey, 11 have 6 or more years at MAS, and just over half have supervisory responsibilities. Survey responses confirm that audit staff are:

- aware of MAS' policies and procedures including the conceptual framework used to identified threats to independence, evaluate the significance of the threats identified, and apply safeguards as necessary to eliminate them, and view MAS auditors as impartial, unbiased, and conflict avoidant

- worked on teams that collectively possessed the knowledge, skills and other competencies needed to performance their individual responsibilities and MAS' responsibilities as a whole
- aware of MAS' CPE policies and procedures
- aware of MAS' quality control system, that system and specific procedures had been communicated to them, believe they are designed to provide reasonable assurance that MAS and staff comply with standards, and that staff always (80%) or usually (20%) follows them

Summary of Comments Provided on the Survey

General Standards - Comments focused on providing more training on standards, making sure MAS updated its policies and procedures when the standards were updated, conducting internal post-engagement reviews of a sample of engagements each year, making sure audit management is providing on the job training and supervision, and having external auditors review MAS policies and procedures periodically.

Attestation Standards - Comments included suggestions to have another one or two managers to complete supervisory reviews of attestations, development of templates for attestation engagements to improve effectiveness and efficiency, provide training to staff, obtain feedback from team members, and implement any improvement actions.

Performance Standards - Comments included suggestions to hire additional staff to work on performance audits and noted that MAS is currently engaged in an improvement program to eliminate redundant, duplicate, or unnecessary steps in audit programs, and clarify and reorder steps to keep staff focused on processes and procedures that are critical to audit quality and compliance with standards.

Section 4:

Suggestions for

Improvement

Suggestions for Improvement

Based on the results of the IQSA for FY20 and FY21, we are making the following twelve suggestions to help MAS improve its compliance with Red Book and Yellow Book standards, and additional suggestions to consider that may improve efficiency in conducting engagements.

Suggestions to Improve the MAS Audit Charter

- 1) Revise the audit charter to clearly state that the CAE administratively reports to the OCEO and functionally reports to the Board to address this issue.
- 2) Revise the audit charter to remove the ‘under direction of’ language in the Introduction and replace it with language that explains that the CAE and MAS administratively reside in the office of the OCEO.
- 3) Revise the audit charter to add sections that include the administrative responsibilities of the OCEO and the functional responsibilities of the Board. Doing so will clarify and define the administrative relationship between the CAE and the OCEO, and the functional relationship between the CAE and the Board.

Suggestions to Improve the MAS Policy Manual

- 1) Revise MAS Policy 1.2 - Audit Charter to state that final approval of the audit charter goes to the Board.
- 2) Revise MAS Policy 3.3.3 – Board Communication to include language on the form and frequency of CAE communication to the board on internal and external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest to better meet Red Book auditing standards.
- 3) Revise MAS Policy 1.6 Annual Audit Plan Policy to include language stating that the CAE may review and adjust the plan as necessary in response to changes in the organization’s business, risks, operations, programs, systems, and controls.

Suggestions to Improve Audit Documentation

- 1) Develop a method to more consistently document how the team members selected to work on engagements collectively possess the competencies needed to successfully complete the audit.
- 2) Developing a specific planning work procedure to ensure the team identifies whether there are any relevant ongoing legal proceeding or investigations that could impact the engagement or the engagement’s objectives.
- 3) Develop a method to ensure engagement reports that significantly rely on sampling results to support report findings include a description of how sampling was conducted and used to reach conclusions in the audit report methodology. One way this could be done is to include it on the Independent Reviewer Checklist MAS uses to ensure its engagement work and reports meet audit standards.

Suggestions to Improve Efficiency in Conducting Engagements

We are making these additional suggestions for MAS to consider which would help them conduct engagements more efficiently.

- 1) Consider reviewing how engagements are categorized to determine whether they are assigned to the most appropriate category, i.e. AUP attestation, performance audit, or consulting engagement.
- 2) Review TeamMate procedures for each engagement type to ensure they only include the work needed to meet standards for that engagement type, or conversely consider whether more engagements are performance audits since MAS is generally meeting those standards for the engagements we reviewed.
- 3) Consider the policy of following one set of professional auditing standards, either Yellow Book or Red Book standards as most audit organizations follow just one of the two. This would result in reducing the work required to follow and document adherence to two sets of standards without impacting audit quality.

Management Audit Services

FY 2022 Second Quarter Report

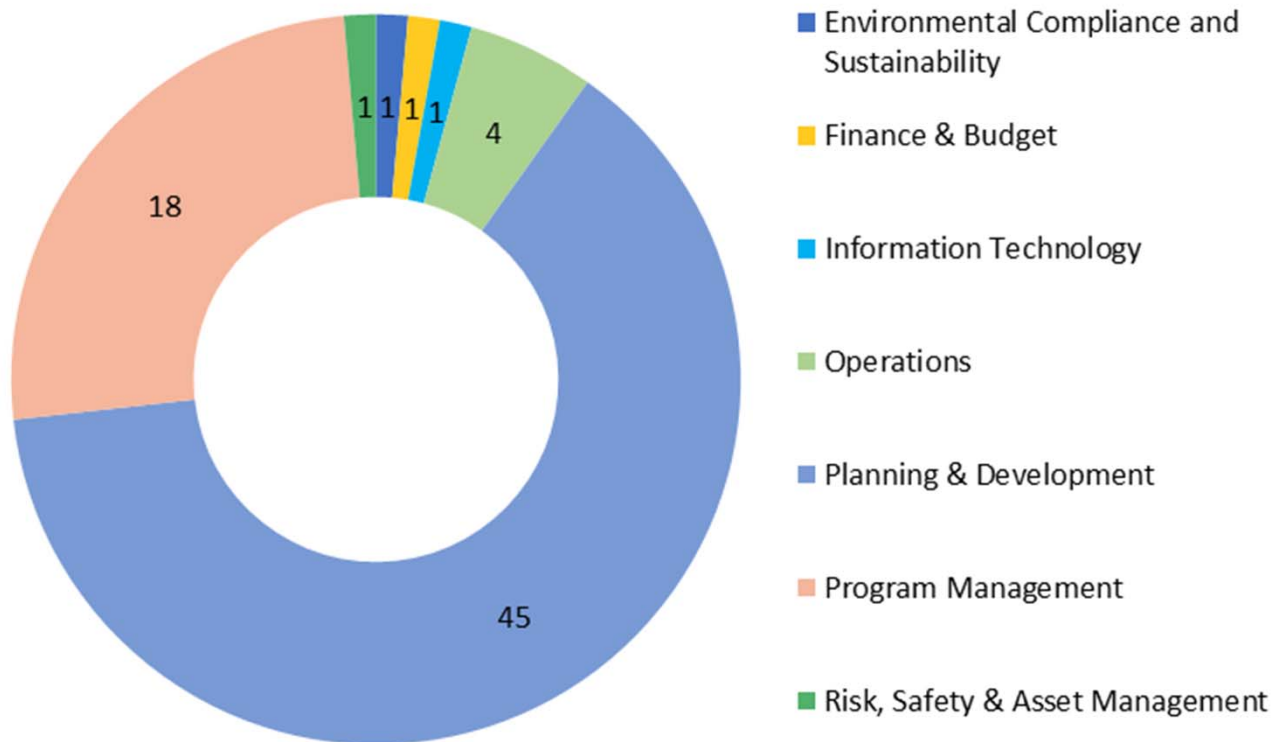
Finance, Budget & Audit Committee
February 16, 2022



MANAGEMENT
AUDIT SERVICES






In Progress: MAS Audit Activity

Agency Representation



- 5 Performance Audits
- 66 Contract, Financial and Compliance Audits

In Progress: Performance Audits

	Audit Title	Description	Estimated Completion			
			FY22 Q1 Jul - Sept	FY22 Q2 Oct - Dec	FY22 Q3 Jan - Mar	FY22 Q4 Apr - Jun
1	Metro Owned Renewable Identification Numbers (RINs) & Low Carbon Fuel Standards (LCFS) Annual Verification	To support the annual reporting by the Agency of RINs related information to the Environmental Protection Agency.				
2	IT Security Awareness	Evaluate the extent of information technology security awareness within the Agency.				
3	Micro Mobility Vehicles Program	Assess the progress made in achieving program goals and objectives, including assessing the consideration given to the Metro Rapid Equity Assessment Tool.				
4	Transit Asset Inventory Records	Evaluate the adequacy of the records for this area, with a focus on accuracy, completeness and proper controls over asset records.				
5	Real Estate Management System	Determine if prior audit findings and recommendations have been considered as part of the upcoming implementation of the new Real Estate Management System.				

Completed: Performance Audit of Program Management Support Services (PMSS)

Objective

Assess conformity of services performed and billed by KKCS/Triunity JV (Contractor) to the scope of work and other provisions of the Contract.

Audit Results

MAS' general assessment is that services performed and billed by the Contractor in most respects conformed to the Scope of Work and other provisions of the Contract.

Findings / Recommendation Themes

Finding 1: Non-compliance with contract terms & conditions regarding leased project vehicles

- Contract terms and conditions
- Compliance training

Finding 2a: No consistency in performing background / reference checks

- Qualification and experience verification

Finding 2b: No consistency in signing off for acceptance of final consulting deliverables

- Consulting deliverables

BPI 1: Invoices contained immaterial errors and/or omissions

- Checklist, timesheet and billing summary template
- Invoice package process
- Responsibilities of reviewers s/b delineated

BPI 2: Invoices contained immaterial errors and/or omissions

- Contract costs s/b tracked by element

BPI 3: Annual indirect cost rate reconciliations submitted late

- Contract costs s/b tracked by element

Completed: Performance Audit of Internal Controls Over Overtime Payments – AFSCME Transportation Operations

Objective

Evaluate the adequacy of internal controls over overtime payments to AFSCME employees in Bus and Rail Transportation.

Audit Results

MAS found that internal controls over AFSCME Transit Operations Supervisors (TOS) and Rail Transit Operations Supervisors (RTOS) overtime (OT) were generally adequate.

Findings / Recommendation Themes

Finding 1: Errors in use of pay codes resulted in some over / under payments

- Periodic training or retraining

Finding 2: 12-hour continuous work policy does not provide for exceptions resulting in apparent violations that were in fact appropriate

- Policy revision and training

Finding 3: OT related documents not prepared or retained

- Documentation retention and training

Finding 4: Vacation payroll code may have been used to cash out accrued vacation time

- Policy communication

Completed: Performance Audit of Expanded Discount Programs

Objective

Evaluate the effectiveness of internal controls over the purchase process for the Small Employer Pass (SEP) and E-Pass discount passes and identify opportunities for internal control and process improvements.

Audit Results

MAS found that controls over the SEP appeared to be working as intended.

Findings / Recommendations

Finding 1: E-Pass program contract agreements not renewed once program transitioned from pilot to permanent

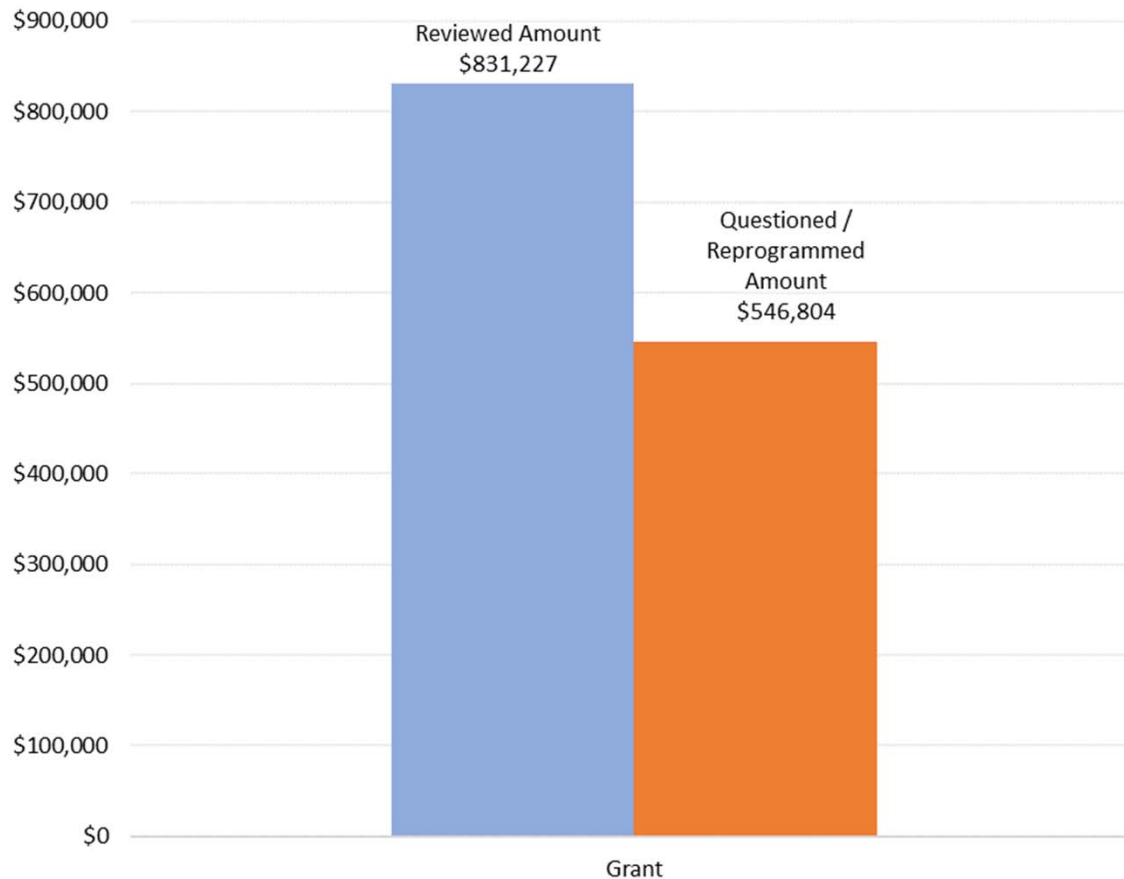
- Update all E-Pass contracts with new language
- Ensure all contracts are enforceable by including signatures from all parties

Finding 2: No written procedure manuals for E-Pass or U-Pass programs.

- Prepare SOPs for both programs aligned with written agreements
- Use SEP checklist for transitioned accounts
- Update the SEP Handbook
- Build / procure a billing system to generate invoices automatically
- Develop a monthly report that includes amounts collected / billed

Completed: Contract, Financial & Compliance Audits

Reviewed / Questioned Amount



- Delivered financial audits that reviewed \$830 thousand of funding; and identified \$546 thousand (66%) for reprogramming

Next Steps

- Report on Consolidated Audit Reports and Annual Comprehensive Financial Reports (FY 21)
- Present MAS Audit Charter for approval
- Ensure ongoing implementation of performance and financial audits and reporting

Thank you



Board Report

File #: 2021-0801, **File Type:** Informational Report

Agenda Number: 13.

FINANCE, BUDGET, AND AUDIT COMMITTEE FEBRUARY 16, 2022

SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JULY 1, 2021 TO SEPTEMBER 30, 2021

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE Office of the Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of July 1, 2021 to September 30, 2021.

ISSUE

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from July 1, 2021 to September 30, 2021. This audit was performed pursuant to Public Utilities Code section 130051.28(b) which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) for miscellaneous expenses such as travel, meals, refreshments, and membership fees.

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System (FIS). Metro employees have several options for seeking payment for miscellaneous expenses incurred, such as check requests, purchase cards, purchase orders, and travel & business expense reports. Each option has its own policies, procedures, or guidelines.

The Accounting Department's Accounts Payable Section is responsible for the accurate and timely processing of payment for miscellaneous expenses.

This audit covered a review of Metro miscellaneous expenses for the period of July 1, 2021 to September 30, 2021. For this period, miscellaneous expenses totaled \$480,979 with 150 transactions. We selected 48 expense transactions totaling \$322,680 for detail testing.

DISCUSSION

Findings

The miscellaneous expenses we reviewed for the period of July 1, 2021 to September 30, 2021 generally complied with policies, were reasonable, and adequately supported by required documents. However, we found that for six of the expenses reviewed, requirements were not followed regarding policies on Corporate and Professional Membership, Purchase Cards, and Travel and Business Expense. The non-compliance of staff was either due to oversight or misinterpretation of the policy. To improve the process and increase the timeliness of employees submitting and approving P-Cards and Travel/Business expenses and supporting documents, the Office of the Inspector General is working with Metro's Information Technology Services and other Metro Business Units to improve their reporting, alerting and reminder systems.

Recommendations

We recommend that:

Information Technology Services

1. Ensure that correct accounts are used in all transactions. Remind staff to check Metro's Chart of Accounts or consult with Accounting Department.
2. Work with the Travel Office Department to create timely alerts and reminders , improving the process and timeliness of employees submitting their Travel and Business Expense reports and supporting documentation.

Human Capital and Development

3. Ensure that all Travel and Business Expense reports are reviewed for accuracy and completeness of documentation, including proper approval from authorized officers.

Planning and Development

4. Instruct all Purchase Card program participants involved in the reconciliation process to submit and approve the monthly statements and reconciliation package in a timely manner.

Operations

5. Remind staff to comply with Travel and Business Expense (FIN 14) policy and ensure approval from the appropriate officer is obtained.

Program Management

6. Instruct staff to comply with the Corporate and Professional Membership (HR 6) policy; submit the Professional Membership Information form for review and approval by T&D before payment is made.
7. Instruct all Purchase Card program participants involved in the reconciliation process to submit and approve the monthly statements and reconciliation package in a timely manner.
8. Remind staff to comply with Travel and Business Expense (FIN 14) policy and ensure that the appropriate approval is obtained.

FINANCIAL IMPACT

There is no financial or budgetary impact by accepting the report, but compliance with the recommendations would contribute in minor respects to cost savings and controls.

EQUITY PLATFORM

It is OIG's opinion that there is no equity consideration or impact in this audit.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendations support strategic plan goal no. 5.2: Metro will exercise good public policy judgment and sound fiscal stewardship.

NEXT STEPS

Metro management will implement corrective action plans.

ATTACHMENTS

Attachment A: Final Report on Statutorily Mandated Audit of Miscellaneous Expenses for the Period July 1, 2021 to September 30, 2021 (Report No. 22-AUD-04)

Attachment B: PowerPoint Presentation

Prepared by: Lorena Martinez, Assistant Auditor (Interim), (213) 244-7345
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Yvonne Zheng, Senior Manager, Audit, (213) 244-7301
George Maycott, Sr. Director, Special Projects (Interim), (213) 244-7310

Reviewed by: Karen Gorman, Inspector General, (213) 922-2975

**Los Angeles County
Metropolitan Transportation Authority
Office of the Inspector General**

**Statutorily Mandated Audit
of Miscellaneous Expenses
July 1, 2021 to September 30, 2021**

Report No. 22-AUD-04

January 11, 2022



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DATE: January 11, 2022

TO: Metro Board of Directors
Metro Chief Executive Officer

FROM: Yvonne Zheng, Senior Manager, Audit
Office of the Inspector General

SUBJECT: Draft Report: Statutorily Mandated Audit of Metro Miscellaneous Expenses
July 1, 2021 to September 30, 2021 (Report No. 22-AUD-04)

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from July 1, 2021 to September 30, 2021. This audit was performed pursuant to Public Utilities Code, Section 130051.28(b) which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) for miscellaneous expenses such as travel, meals, refreshments, and membership fees.

We found that the transactions reviewed generally complied with Metro policies, were reasonable, and adequately supported by required documents. However, we noted the following issues on six of the 48 expenses reviewed:

- Professional membership paid prior to Training and Development Department Approval
- Late submission and approval of Purchase Card statement and reconciliation package
- Travel and Business Expense report not approved by the appropriate officer
- Transaction recorded to incorrect account

OBJECTIVES, METHODOLOGY AND SCOPE OF AUDIT

The objectives of the audit were to determine whether:

- Expenses charged were proper, reasonable, and in accordance with Metro policies and procedures;
- Expenses had proper approval, receipts, and other supporting documentation; and
- Policies and procedures were adequate and followed to ensure that expenses were documented and accounted for properly.

Statutorily Mandated Audit of Miscellaneous Expenses

July 1, 2021 to September 30, 2021

Office of the Inspector General

Report No. 22-AUD-04

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

- Obtained and reviewed applicable policies and procedures;
- Interviewed Metro personnel including staff in Accounting, Human Capital and Development, Information Technology Services, Operations, Planning and Development, Program Management, and Vendor/Contract Management; and
- Reviewed invoices, receipts, justification memos, and other supporting documents.

This audit covered a review of Metro miscellaneous expenses for the period of July 1, 2021 to September 30, 2021. For this period, miscellaneous expenses totaled \$480,979¹ with 150 transactions. We selected 48 expense transactions totaling \$322,680 for detail testing. Twenty six of the expense transactions were randomly selected, four were selected due to their large dollar amounts, and 18 were selected to add more samples for Travel and Business Expense (Account 50917) and to sample other accounts. See Attachment A for details.

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

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System (FIS). Metro employees have several options for seeking payment for miscellaneous expenses incurred, such as check requests, purchase cards, purchase orders, and travel & business expense reports. Each option has its own policies, procedures, or guidelines.

The Accounting Department's Accounts Payable section is responsible for the accurate and timely processing of payment for miscellaneous expenses.

RESULTS OF AUDIT

The audit found that the transactions reviewed generally complied with policies, were reasonable, and adequately supported by required documents. However, we noted issues on the following six transactions:

1. Professional Membership Paid Prior to Training & Development Department Approval

In August 2021, the Purchase Cardholder of Construction, Program Management paid the professional membership fees for three employees at Quality Management in various organizations

¹ This total does not include transactions that were \$200 or less, offsetting debits/credits, and transactions from the OIG and Transit Court Departments.

Statutorily Mandated Audit of Miscellaneous Expenses

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for a total amount of \$444. However, the payment was made prior to securing the approval of the Training and Development Department (T&D).

Based on the Corporate and Professional Membership (HR 6) Policy, the Professional Membership Information form must be completed, signed, and approved by the Department Head and T&D prior to payment by Metro.

The P-Cardholder stated that the membership fees for the said employees were pre-approved by the Manager through emails before she made the payment. However, the required Professional Membership Information form was not completed and T&D's approval was not secured prior to payment because as she explained, *"During this time, I had a delay in receiving the [Professional Membership Information] form signed by staff. After receiving the signed membership form, I forwarded it to T&D. Unknown to me, the person that I normally submitted the [said] form to left Metro so there was a delay in the processing of the form."*

It is important to submit the required form and secure the approval of T&D. Each fiscal year, T&D manages the list of agency membership and in reviewing the number of requests for individual memberships, T&D can assist in obtaining group membership discount rates within the professional organization if they are available. T&D also monitors the number of memberships for an individual employee. Management of group and individual memberships cannot be done effectively and in accordance with Metro policy if membership fees are paid without submitting the required form and securing the approval of T&D.

Both the P-Card Business Unit Coordinator and the P-Cardholder's Supervisor stated that they will instruct all staff to comply with HR 6 policy.

2. Late Submission and Approval of Purchase Card Statement and Reconciliation Package

Our audit found that the following cost centers failed to submit and/or approve their P-Card statement and reconciliation package on time:

- a. The P-Cardholder of Planning and Development submitted their June 2021 Purchase Card statement and supporting documents for \$1,601.68 to the Accounting Department on July 23, 2021. It was electronically approved by the Approving Official on September 16, 2021 - two months late.

Pursuant to the P-Card policy, the P-Cardholder must forward the P-Card package (monthly P-Card log, reconciled monthly bank statement, and receipts) to the designated Approving Official for review and approval within five working days of receipt of the bank statement. The Approving Official, in turn, should review and approve statement packages within five working days from the date of receipt. The P-Card package should be received by Accounting not later than the 15th day of the following month. Not turning in monthly statements on time is a violation of Metro's P-Card policy.

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The P-Cardholder explained that he was late by a few days in submitting the P-Card statement and reconciliation package due to oversight. He informed us that reminders were already sent to enable him to submit the monthly statements on time. He added that the statement was approved late because the Approving Official/Business Unit Coordinator had issues with the notification and believed that he had approved the statement already.

Our prior period audit found the same policy violation for this business unit.

- b. The P-Cardholder of Regional Rail (Cost Center 2415) submitted their March 2021 P-Card statement and reconciliation package for \$1,104.71 to the Accounting Department in August 2021 – four months after the due date of April 15, 2021.

The P-Cardholder explained: *“The reason for the late submittal was two reasons: (1) Since we have been working from home, I have not had many P-Card transactions and this was an oversight. I apologize and have taken measures to revert back to timely submissions. However, since being provided a Metro P-Card for almost 10 years, I have usually remitted my P-Card statements timely prior to COVID; and (2) I was trying to locate the supporting documentation and requested a copy from the vendor which took longer than expected.”*

The P-Cardholder added that while the P-Card reconciliation submittal process was automated, the delivery of the actual P-Card statement is still via US Mail. She explained further that since P-Cardholders are working from home, access to mail delivered to Gateway was not readily available which would have assisted in reminding staff to submit timely nor were reminder emails sent from the P-Card Program. She suggested that emailing the P-Card statements to P-Card holders would be more efficient and less costly.

However, the P-Card Administrator explained that P-Cardholders have the capability of downloading their statements online just like they download the excel financial transaction detail report for their reconciliation. The P-Card Program Unit has offered assistance to the P-Cardholder in relation to this process.

In our previous audit report, Statutorily Mandated Audit of Miscellaneous Expenses, April to June 2021 (Report No. 22-AUD-03 issued on October 22, 2021), we emphasized the importance of timely submission and approval of the monthly statements and reconciliation package to closely monitor the department’s expenditures and budgets. If P-Cardholders are delinquent with their P-Card logs, their cost center’s account balances are not current because they do not reflect all the purchases made. In addition, prompt submission of the P-Card statement and reconciliation package will give Accounting more time to review the transactions and ensure that purchases are made in accordance with Metro policy.

The P-Card Business Unit Coordinator informed us that Program Management will send a memo to all P-Card program participants stressing the importance of submitting monthly statement and reconciliation packages for approval prior to the required due date.

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3. Travel and Business Expense Report Not Approved by the Appropriate Officer

Our audit found that travel and business expense reports were not approved by the appropriate officer in the following instances:

- a. The Director of Logistics (then with Rail Vehicle Acquisition) traveled to Springfield, MA and Milwaukee, WI from June 8 to 10, 2021 and submitted his Travel and Business Expense (TBE) report on July 8, 2021 with reimbursable expenses of \$697.90. The TBE Report was signed by the Sr. Executive Officer, Vehicle Acquisition, not the Chief Operations Officer.

The Travel and Business Expense (FIN 14) policy requires that all Travel Authorizations and related travel justifications, including TBE Reports, be approved by the Department Chief.

The employee explained that it had been a while since he traveled and he was not sure if the travel system automatically forwarded his report to the approval chain for digital authorization, or if he had to select the approver. He added that if he selected the name, it was because he was instructed to do so.

We tested the travel request system that includes filling out the request, submitting justification and supporting documents, and a travel business expense report. We verified that the traveler does have the opportunity to fill in both the Department Head and Department Chief, both required fields.

The Travel Program Administrator (TPA) confirmed that it was the Traveler or the delegated submitter who erroneously selected the name of the Senior Executive Officer, instead of the Department Chief. However, she failed to correct it due to oversight. She stated that *“Unfortunately, the system is not sophisticated enough to know who is the actual Chief of the department. It’s up to the employee to select the correct Department Head and Department Chief. Because there are times when a Department Head has been delegated to approve for the Chief, we need to leave it open for the employee to select the proper approver.”* The TPA added that she should have verified or requested an approver delegation signature form, if it was applicable. She will make sure to include that form in the future to determine who had signature delegation at the time.

- b. The Principal Transportation Planner of the Intelligent Transportation Systems Department attended the Intelligent Transportation Society of California (ITSCA) Annual Conference which was held in San Diego from August 9 to 11, 2021. She was with Program Management at the time. She submitted her TBE Report with reimbursable expenses of \$949.81 and it was approved on September 28, 2021 by the Senior Executive Officer, instead of the Chief Program Management Officer, as required in FIN 14 policy.

The employee acknowledged that this was a mistake on her part.

As indicated on the TBE Report, the form should be approved by the following: Travel Program Administrator, Department Head, and lastly, the Department Chief. This is to ensure

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that each Chief is aware of his/her staff's travel, eliminating unnecessary travel and maximizing cost efficiency.

Staff should be reminded to comply with FIN 14 policy and ensure that the appropriate approval is obtained.

The Travel Program Administrator (TPA), aside from verifying the accuracy of calculation, should check the completeness of documentation, including the necessary and appropriate approval, before forwarding the TBE Report to Accounting for processing. While it may be difficult for the TPA to know the traveler's chain of command, this does not relieve the TPA of the responsibility for submitting an accurate TBE report.

4. Transaction Recorded to Incorrect Account

In July 2021, a check payment of \$11,937 was made to SANS Institute for courses attended by Information Security personnel. The courses addressed Cyber Security issues, strategies, and techniques used to protect Metro's systems and networks against dangerous threats. Upon completion, a certification was issued to the attendees. The payment was charged to account number 50213 – Fringe Benefit (FB) Training Program.

Based on Metro's Chart of Accounts, and as explained by the Senior Director, Accounting, this transaction should have been recorded in account 50915 Misc – Seminar/Conference Fee since the payment was for registration fees for the said courses.

FB Training Program or account number 50213 is defined as "*expenses for off-site contracted training for which there exists a written agreement between Metro and a consultant for a specific training/training programs required by Metro.*" On the other hand, account number 50915 is defined as "*fees to attend seminar, conference, and certification programs.*"

We checked and found that the previous payments made to this vendor were also erroneously recorded to the incorrect account – FB Training.

The check requester and Approving Official should ensure that transactions are charged to the proper account. Management should continue to advise staff to check Metro's Chart of Accounts or consult with Accounting

OBSERVATION

Comparison of Miscellaneous Expenses for the Current Period with Prior Period/Year

To determine if miscellaneous expenses incurred were fairly consistent and to identify any significant fluctuations, we performed comparisons of miscellaneous expenses for the current period with prior period and prior year. The following is the result of the comparisons. All amounts were based on audit population.

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a. Current Quarter (FY22 Q1) vs. Last Quarter (FY21 Q4) Miscellaneous Expenses

Miscellaneous expenses this quarter decreased significantly by almost \$3.5 million compared to the prior quarter. This was mainly due to the decrease in advertising cost of \$3.1 million for media campaigns on Micro Transit, “Return to Service,” bus operator recruitment, ridership, and others. All expenses, except for business meals and relocation, decreased this quarter and this was expected since cost centers accrued their expenses as of June 30, 2021, as budgeted in FY21. Other expenses of \$46,227 increased this quarter from last quarter’s \$18,792 mainly due to relocation assistance of \$20,000 for new employees, in accordance with Metro’s Employee Relocation Assistance (HR 42) policy. Both employees relocated from the East Coast. See Table 1 below:

Table 1: Current Quarter vs. Last Quarter

Account	Jul-Sep 2021	Apr-Jun 2021	Increase (Decrease)
Advertising	\$ 33,016	\$ 3,162,947	\$ (3,129,931)
Business Travel	7,521	17,476	(9,955)
Corporate Membership	222,000	298,579	(76,579)
Professional Membership	6,958	18,625	(11,667)
Seminar and Conference Fee	21,883	59,466	(37,583)
Miscellaneous (50999) *	143,374	385,221	(241,847)
Others (Business meals, etc.)	46,227	18,792	27,435
Total	\$ 480,979	\$ 3,961,106	\$ (3,480,127)
Decrease vs. Prior Quarter			-88%

*Miscellaneous (account number 50999) is used for miscellaneous expenses incurred that cannot be classified under accounts 50901 to 50940, including payments made to cover the expenditure of fines and penalties incurred by Metro, books and periodicals used in the normal operation of Metro’s business, recruitment expenses, community outreach, postage, and others. (Source: Metro’s Descriptive Chart of Accounts)

b. Current Quarter (FY22 Q1) vs. Same Quarter of Last Year (FY21 Q1) Miscellaneous Expenses

The total amount of miscellaneous expenses for this quarter was almost the same as the first quarter of 2021.

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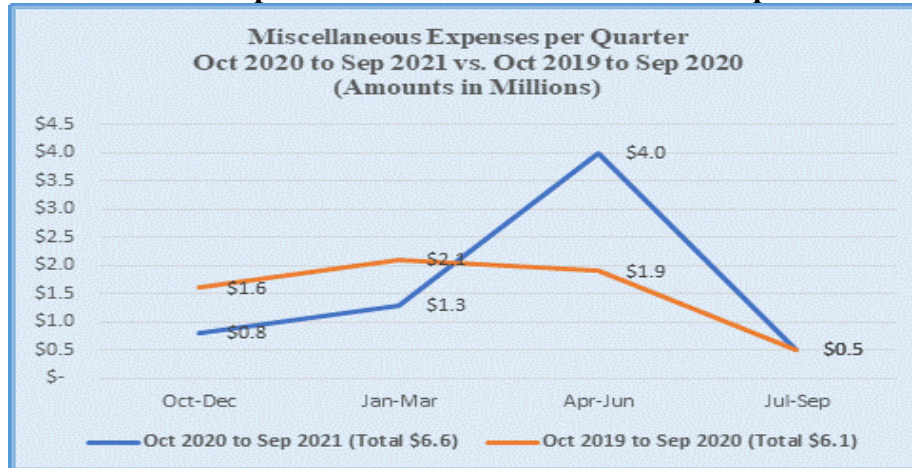
Table 2: Current Quarter vs. Same Quarter of Last Year

Account	Jul-Sep 2021	Jul-Sep 2020	Increase (Decrease)
Advertising	\$ 33,016	\$ 76,264	\$ (43,248)
Business Travel	7,521	6,621	900
Corporate Membership	222,000	151,516	70,484
Professional Membership	6,958	6,946	12
Seminar and Conference Fee	21,883	3,261	18,622
Miscellaneous (50999) *	143,374	226,593	(83,219)
Others (Business meals, etc.)	46,227	13,197	33,030
Total	\$ 480,979	\$ 484,398	\$ (3,419)

c. October 2020 to September 2021 vs. October 2019 to September 2020

Miscellaneous expenses of \$6.6 million for the last four quarters was comparable with \$6.1 million from October 2019 to September 2020. The average amount per quarter was \$1.6 million and \$1.5 million for both periods, respectively.

**Figure 1: Miscellaneous Expenses per Quarter
October 2020 to September 2021 vs. October 2019 to September 2020**



Statutorily Mandated Audit of Miscellaneous Expenses

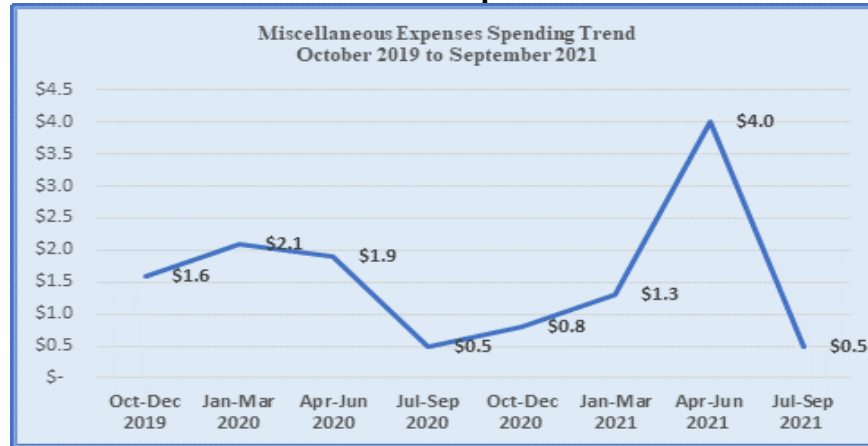
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Figure 2 below shows the spending trend for miscellaneous expenses for the last two years:

**Figure 2: Miscellaneous Expenses Spending Trend
October 2019 to September 2021**



As discussed in Observation (a) above, out of \$4 million expenses for the prior quarter, \$3.2 million or 80% was spent for advertising on media campaigns on Micro Transit, “Return to Service” bus operator recruitment, ridership, and others.

CONCLUSION

The miscellaneous expenses we reviewed for the period of July 1, 2021 to September 30, 2021 generally complied with policies, were reasonable, and adequately supported by required documents. However, we found that for six of the expenses reviewed, requirements were not followed regarding policies on Corporate and Professional Membership, Purchase Cards, and Travel and Business Expense. The non-compliance of staff was either due to oversight or misinterpretation of the policy. To improve the process and increase the timeliness of employees submitting and approving P-Cards and Travel/Business expenses and supporting documents, the Office of the Inspector General is working with Metro’s Information Technology Services and other Metro Business Units to improve their reporting, alerting and reminder systems.

RECOMMENDATIONS

We recommend that:

Information Technology Services

1. Ensure that correct accounts are used in all transactions. Remind staff to check Metro’s Chart of Accounts or consult with Accounting Department.

Statutorily Mandated Audit of Miscellaneous Expenses

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2. Work with the Travel Office Department to create timely alerts and reminders , improving the process and timeliness of employees submitting their Travel and Business Expense reports and supporting documentation.

Human Capital and Development

3. Ensure that all Travel and Business Expense reports are reviewed for accuracy and completeness of documentation, including proper approval from authorized officers.

Planning and Development

4. Instruct all Purchase Card program participants involved in the reconciliation process to submit and approve the monthly statements and reconciliation package in a timely manner.

Operations

5. Remind staff to comply with Travel and Business Expense (FIN 14) policy and ensure approval from the appropriate officer is obtained.

Program Management

6. Instruct staff to comply with the Corporate and Professional Membership (HR 6) policy; submit the Professional Membership Information form for review and approval by T&D before payment is made.
7. Instruct all Purchase Card program participants involved in the reconciliation process to submit and approve the monthly statements and reconciliation package in a timely manner.
8. Remind staff to comply with Travel and Business Expense (FIN 14) policy and ensure that the appropriate approval is obtained.

MANAGEMENT COMMENTS TO RECOMMENDATIONS

On January 4, 2022, we provided Metro Management a draft report. By January 10, 2022, Metro Management submitted their responses summarizing their corrective actions, as shown in Attachment B.

OIG EVALUATION OF MANAGEMENT RESPONSE

Metro Management's responses and corrective actions taken are responsive to the findings and recommendations in the report. Therefore, we consider all issues related to the recommendations resolved and closed based on the corrective actions taken.

**Summary of Sampled Expenses Audited
July 1, 2021 to September 30, 2021**

<i>Account</i>	<i>Account Description</i>	<i>Audit Population</i>	<i>Sample Amount</i>
50213	Training Program	\$ 16,848	\$ 12,712
50903	Business Meals	8,619	5,727
50905	Corporate Membership	222,000	215,500
50908	Employee Relocation	20,000	20,000
50910	Mileage and Parking	760	760
50912	Professional Membership	6,958	3,277
50914	Schedule Checkers Travel <a>	0	0
50915	Seminar and Conference Fee	21,883	3,593
50917	Business Travel	7,521	5,090
50918	Advertising	33,016	22,936
50930	Employee Activities & Recreation 	0	0
50999	Other Miscellaneous Expenses	<u>143,374</u>	<u>33,085</u>
	Total	<u>\$480,979</u> <c>	<u>\$322,680</u>

<a> Transactions below \$200; thus, not included in the audit population

 No transaction for this quarter

<c> This total does not include transactions that were \$200 or less, offsetting debits/credits, and transactions from the OIG and Transit Court Departments

Management Comments to Draft Report


Metro

Interoffice Memo

	Date	Jan 6, 2022
#	To	Yvonne Zheng Senior Manager, Audit, OIG
#	From	Bryan M. Sastokas Chief Information Technology Officer
#	Subject	ITS Management Reponse: Statutorily Mandated Audit of Miscellaneous Expenses July 1, 2021 to September 30, 2021 (Report 22-AUD-04)

ITS management response to the draft report Statutorily Mandated Audit of Miscellaneous Expenses July 1, 2021 to September 30, 2021 (Report 22-AUD-04):

Conclusion

To improve the process and increase the timeliness of employees submitting and approving P-Cards and Travel/Business expenses and supporting documents

Recommendation #1

1. Ensure that correct accounts are used in all transactions. Remind staff to check Metro's Chart of Accounts or consult with Accounting Department.
2. Work with the Travel Office Department to create timely alerts and reminders, improving the process and timeliness of employees submitting their Travel and Business Expense reports and supporting documentation.

Management Response: ITS concurs with the recommendation.

1. ITS will provide a refresher education to ITS staff to review the proper usage of Metro Chart of Accounts. In addition, the ITS Budget department will oversee proper codes entered before these expense forms are processed.
2. ITS will work with the Travel Office Department to design alerts and reminders within their Travel and Business Expense workflow process.

CC: Medik Ghazikhanian, Executive Officer, Information Technology

Management Comments to Draft Report


Metro

Interoffice Memo

Date	January 7, 2022
To	Yvonne Zheng Senior Manager, Audit Office of the Inspector General
From	Patrice McElroy <i>Patrice McElroy</i> Chief People Officer (Interim)
Subject	Statutorily Mandated Audit of Metro Miscellaneous Expenses July 1, 2021 to September 30, 2021 (Report No. 22-AUD-04)

Thank you for the opportunity to respond to the findings and recommendations prior to the final release of the Audit Report. It is our understanding that this audit was performed pursuant to Public Utilities Code section 130051.28(b) which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority for miscellaneous expenses such as travel, meals, refreshments, and memberships. Please see below our responses to the Recommendation.

Recommendation

1. Ensure that all Travel & Business Expense reports are reviewed for accuracy and completeness of documentation, including proper approval from authorized officers.

Response: Staff concurs with the recommendation and will ensure that the Travel Program Administrator (TPA) will verify the accuracy of the calculations, check for the completeness of the documentation, including the necessary and appropriate approval before forwarding the TBE Report to Accounting for processing. If applicable, the TPA will also include the approver delegation signature form as well.

Management Comments to Draft Report


Metro

Interoffice Memo

Date	January 7, 2022
To	Yvonne Zheng, Senior Manager Audit Office of the Inspector General
From	James de la Loza, Chief Plannnig Officer Countywide Planning & Development <i>JB</i>
Subject	Response to Audit Report No. 22-AUD-04, Results of Audit 2(a)

Audit Report Issue

In the Draft Report: Statutorily Mandated Audit of Metro Miscellaneous Expenses July 1, 2021 to September 30, 2021 (Report No. 22-AUD-04), the audit results found the following issue for Countywide Planning & Development:

2(a) Late Submission and Approval of Purchase Card Statement and Reconcilitioan Package

The P-Cardholder of Planning and Development submitted their June 2021 Purchase Card statement and supporting documents for \$1,601.68 to the Accounting Department on July 23, 2021. It was electronically approved by the Approving Official on September 16, 2021 – two months late.

The P-Cardholder explained that he was late by a few days in submitting the P-Card statement and reconciliation package due to oversight. He informed us that reminders were already sent to enable him to submit the monthly statements on time. He added that the statement was approved late because the Approving Official/Business Unit Coordinator had issues with the notification and believed that he had approved the statement already.

Countywide Planning & Development Response

Countywide Planning & Development's Financial & Management Services (FMS) team reminded Cardholders and Approving Officials the importance of submitting monthly reconciliation packages and approving them on time. Furthermore, we encouraged Cardholders and Approving Officials to utilize Outlook to set reminders as an added measure to ensure reconciliation and approval efforts are completed and confirmed in a timely manner.

Management Comments to Draft Report


Metro

Interoffice Memo

Date	December 30, 2021
To	Karen Gorman Inspector General
From	James T. Gallagher <i>JTG</i> Chief Operations Officer
Subject	Operations Management Response to the Audit of Metro Miscellaneous Expenses (Report # 22-AUD-04)

Operations Management has received and reviewed the Audit of Metro Miscellaneous Expenses for transactions processed from July 1, 2021 to September 30, 2021 in the Vehicle Engineering & Acquisition (VEA) and Intelligent transportation Systems (ITS) units within Operations. The report includes the following recommendation for Operations:

5. Remind staff to comply with Travel and Business Expense (FIN 14) policy and ensure approval from the appropriate officer is obtained.

Response: Agree; VEA and ITS will be advised of FIN 14 and ensure that Travel Business Expense reports are signed by the Chief Operations Officer, not by the Sr. Executive Officers of those respective units, as required in the FIN 14 policy.

CC: Yvonne Zheng, Sr. Mgr., Audit
 Diane Corral-Lopez, EO, Operations Administration
 Shahrzad Amiri, Interim Deputy Chief Operations Officer
 Jess Montes, Sr. EO, Vehicle Engineering & Acquisition
 Steve Gota, EO, Highway Programs
 Nancy Alberto-Saravia, Director, Finance & Administration

Management Comments to Draft Report


Metro

Interoffice Memo

Date	January 7, 2022
To	Yvonne Zheng Sr Manager, Audit
From	Bryan Pennington Chief Program Mgmt Officer
Subject	Response to OIG Audit No. 22-AUD-04

This memo is in response to the Office of the Inspector General audit, 22-AUD-04, which found the following:

1. Professional Membership paid prior to Training & Development Department approval.
2. Late submission and approval of Purchase Card Statement and Reconciliation Package
3. Travel and Business Expense Report not approved by appropriate Officer

Program Management agrees with the Office of the Inspector General (OIG) recommendations to:

1. Instruct staff to comply with the Corporate and Professional Membership (HR 6) policy; submit the Professional Membership Information form for review and approval by T&D before payment is made.
2. Instruct all Purchase Card program participants involved in the reconciliation process to submit and approve the monthly statements and reconciliation package in a timely manner.
3. Remind staff to comply with Travel and Business Expense (FIN 14) policy and ensure the appropriate approval is obtained.

Program Management's corrective actions are:

1. An interoffice memo was sent via email on January 7, 2022, reminding all staff that Talent Development approval is needed prior to requesting payment or seeking reimbursement for a Professional Membership. A copy of the Corporate and Professional Membership (HR 6) Policy was included with the memo.
2. An interoffice memo was sent via email on January 7, 2022, reminding Purchase Card holder to submit monthly purchase card statements and reconciliation packages in accordance with required due dates.
3. Program Management in collaboration with Metro's Travel Office provided Travel and Business Expense (FIN 14) Training for all staff on September 29 and October 6, 2021. Program Management will also send a memo, no later than January 31, 2022, reminding staff to comply with Travel and Business Expense (FIN 14) and receive appropriate approvals for all travel and related expenses.

Please contact me at x27449 if you would like to discuss or require additional information.

Attachments:


Interoffice Memo – Compliance with Corporate and Professional Membership Policy

Interoffice Memo – Timely Submission of Purchase Cards

Management Comments to Draft Report


Metro

Interoffice Memo

Date	January 4, 2022
To	Program Management Staff
From	Bryan Pennington  Bryan Pennington Chief Program Management Officer
Subject	Compliance with Corporate and Professional Membership Policy (HR 6)

A recent audit conducted by the Office of the Inspector General found Program Management noncompliant with the Corporate and Professional Memberships policy (HR 6).

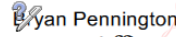
The Corporate and Professional Membership Information Form should be reviewed and approved by Talent Development prior to requesting payment or seeking reimbursement for a Professional Membership.

For questions on the Corporate and Professional Membership Information Form please contact Talent Development.

Attachment:
Corporate and Professional Memberships (HR 6)

Management Comments to Draft Report

**Metro****Interoffice Memo**

Date	January 5, 2022
To	Purchase Card Holders
From	Bryan Pennington  Bryan Pennington Chief Program Management Officer
Subject	Timely Submission of Purchase Cards

A recent audit by the Office of the Inspector General found Program Management noncompliant with Purchase Card due dates.

Purchase Card holders must forward the Monthly Pcard Log, Reconciled Monthly Bank Statement, and Receipts to the Approving Official within 5 working days of receipt of bank statement.

The Approving Official should review and approve statement packages within 5 working days of receipt.

Please ensure your Purchase Card monthly statements and reconciliation packages are submitted to Metro Accounting prior to the 15th of each month.

Final Report Distribution

Board of Directors

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Metro

Chief Executive Officer
Chief of Staff
Board Clerk
Inspector General
Chief Financial Officer
Acting Chief Operations Officers
Chief Planning Officer
Chief Program Management Officer
Chief People Officer (Interim)
Deputy Chief of IT/Lead Technology Officer
Executive Officer, Administration, Management Audit Services
Manager, Records & Information Management

Audit of Miscellaneous Expenses July to September 2021

OIG Report No. 22-AUD-04
Karen Gorman, Inspector General

February 16, 2022



Objectives

The objectives of the audit were to determine whether:

- Expenses charged were proper, reasonable, and in accordance with Metro policies and procedures
- Expenses had proper approval, receipts, and other supporting documentation
- Policies and procedures are adequate to ensure that expenses are documented and accounted for properly

Results

- Staff generally complied with Metro policies; a few instances of non-compliance with policies on Corporate and Professional Membership, Purchase Cards, and Travel and Business Expense.
- Non-compliance due to oversight or misinterpretation of the policy.
- OIG is working with Metro's Information Technology Services and other Metro Business Units to improve their reporting, alerting and reminder systems.



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OIG provided eight recommendations.