



Metro

*One Gateway Plaza, Los Angeles, CA 90012,
3rd Floor, Metro Board Room*

Agenda - Final

Thursday, February 20, 2025

10:00 AM

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Finance, Budget and Audit Committee

Tim Sandoval, Chair

Lindsey Horvath, Vice Chair

Kathryn Barger

James Butts

Gloria Roberts, non-voting member

Stephanie Wiggins, Chief Executive Officer

METROPOLITAN TRANSPORTATION AUTHORITY BOARD AGENDA RULES
(ALSO APPLIES TO BOARD COMMITTEES)

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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.

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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.

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x2 *Español (Spanish)*

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x8 *Հայերէն (Armenian)*

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

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Live public comment can be given by telephone or in-person.

The Meeting begins at 10:00 AM Pacific Time on February 20, 2025; you may join the call 5 minutes prior to the start of the meeting.

Dial-in: 888-978-8818 and enter
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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.

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Los comentarios publicos en vivo se pueden dar por telefono o en persona.

La Reunion de la Junta comienza a las 10:00 AM, hora del Pacifico, el 20 de Febrero de 2025. Puedes unirse a la llamada 5 minutos antes del comienzo de la junta.

Marque: 888-978-8818 y ingrese el codigo
Codigo de acceso en ingles: 5647249#
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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
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Board Administration
One Gateway Plaza
MS: 99-3-1
Los Angeles, CA 90012

CALL TO ORDER

ROLL CALL

17. **SUBJECT: RISK MANAGEMENT INSURANCE BROKERAGE SERVICES** [2024-1083](#)

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to award a firm fixed price Contract No. PS126876000 to Marsh USA LLC for insurance brokerage services in the amount of \$1,503,513 for the five-year base term, and \$601,405 for each of the two, two-year options, for a total amount of \$2,706,323, effective March 1, 2025, subject to the resolution of any properly submitted protest(s), if any.

Attachments: [Attachment A - Procurement Summary](#)
[Attachment B - DEOD Summary](#)
[Presentation](#)

18. **SUBJECT: ACCESS SERVICES - SEMI-ANNUAL UPDATE** [2024-1113](#)

RECOMMENDATION

RECEIVE AND FILE status report on Access Services - ADA Paratransit.

Attachments: [Attachment A - Access Services Key Performance Indicators](#)
[Presentation](#)

19. **SUBJECT: FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS: NEAR-TERM OUTLOOK AND ANTICIPATED CHALLENGES** [2025-0026](#)

RECOMMENDATION

RECEIVE AND FILE The Fiscal Year 2026 (FY26) Budget Development Process: Near-Term Outlook and Anticipated Challenges.

Attachments: [Attachment A – FY25-30 Near-Term Cost Growth Drivers](#)
[Presentation](#)

(CARRIED OVER FROM JANUARY'S COMMITTEE CYCLE)

20. **SUBJECT: FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS: RESOURCES & PARAMETERS** [2025-0020](#)

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2026 (FY26) Budget Development Process: Resources & Parameters.

Attachments: [Attachment A - Economic Sector Model](#)
[Attachment B - FY26 Proposed Budget - Public Engagement and Outreach For Presentation](#)

21. **SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JANUARY 1, 2024, TO MARCH 31, 2024** [2025-0035](#)

RECOMMENDATION

RECEIVE AND FILE the Office of the Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of January 1, 2024, to March 31, 2024.

Attachments: [Attachment A - Final Rpt Stat. Mandated Audit of Misc. Exp. 1/1/24-3/31/24 Presentation](#)

(CARRIED OVER FROM JANUARY'S COMMITTEE CYCLE)

22. **SUBJECT: MANAGEMENT AUDIT SERVICES FY 2025 SECOND QUARTER REPORT** [2025-0031](#)

RECOMMENDATION

RECEIVE AND FILE the Management Audit Services FY 2025 Second Quarter Report.

Attachments: [Attachment A - Management Audit Services \(MAS\) FY 2025 2nd Quarter Rpt. Presentation](#)

- SUBJECT: GENERAL PUBLIC COMMENT** [2025-0103](#)

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 #: 2024-1083, File Type: Contract

Agenda Number: 17.

FINANCE, BUDGET AND AUDIT COMMITTEE FEBRUARY 20, 2025

SUBJECT: RISK MANAGEMENT INSURANCE BROKERAGE SERVICES

ACTION: APPROVE CONTRACT AWARD

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to award a firm fixed price Contract No. PS126876000 to Marsh USA LLC for insurance brokerage services in the amount of \$1,503,513 for the five-year base term, and \$601,405 for each of the two, two-year options, for a total amount of \$2,706,323, effective March 1, 2025, subject to the resolution of any properly submitted protest(s), if any.

ISSUE

Metro's current insurance brokerage services contract will expire on May 31, 2025, and the new contract, if approved by the Board, will start on March 1, 2025. This ensures a smooth transition, avoids disruption, and allows the new broker time to onboard.

BACKGROUND

An insurance broker of record is required for Metro to purchase insurance from commercial markets. Insurance is necessary because it covers risks such as potentially catastrophic property and liability damages that are better managed through commercial insurance. Additionally, many Metro contracts and other agreements require commercial insurance coverage.

DISCUSSION

Metro uses a licensed broker to purchase insurance for its non-construction exposures. The broker markets the excess liability insurance program, currently with \$300 million in limits and an \$8 million self-insured retention for rail exposures, and up to \$12.5 million self-insured retention for bus and other related exposures. In addition, the broker will market the program of all risk property and flood coverage. The current property program has \$650 million in limits with a \$1 million deductible. Further, Metro established a program of cyber liability insurance with limits of \$50 million with a \$10 million retention. Metro has considered and may direct the broker to market additional coverage including pollution legal liability, owner's protective, fraud and fidelity, and public official's directors and officers. Total insurance premiums for Metro are approximately \$37.6 million per year.

Insurance premiums have increased exponentially over the past few years, leading to an assessment

of pricing and the identification of ways to mitigate future increases. In an assessment conducted in January 2024, it was recommended that a new competitive solicitation, request for proposals (RFP), for broker services be issued to spur broker competition and ensure Metro is receiving the most competitive premium pricing.

In addition to handling required marketing and placement of coverage, the broker reviews Metro contracts to determine appropriate insurance requirements, reviews insurance coverage placed by contractors, and gives expert advice on insurance matters including construction insurance coverage. The broker also provides insurance guidance on Measure M and R construction projects including, Westside Subway Extensions, LAX/Metro Transit Center, East San Fernando Valley Transit Corridor, Gold Line Foothill Extensions, and others.

Attachment A summarizes the procurement activities for Request for Proposals (RFP) No. PS126876000, which was solicited as an open solicitation and included a Disadvantaged Business Enterprise (DBE) goal of 10% as shown in attachment B. The solicitation was posted on Metro's Vendor Portal from September 13, 2024, through October 16, 2024, and was advertised in four publications - LA Daily News, LA Sentinel, LA Opinion, and Asian Week. Approximately 24 firms either picked up or downloaded the solicitation for review. A virtual pre-proposal conference was made available to the public and was held on September 23, 2024, and was attended by 25 participants. A copy of the plan holders list was posted on Metro's Vendor Portal to facilitate outreach and networking opportunities amongst interested vendors.

Four vendors were selected as responsive to the requirements of the solicitation. Of the four, Marsh USA LLC (Marsh) was selected as the most qualified and competitive broker to provide services for the agency. Marsh, in support of the DBE commitment, selected National Insurance Consultants, Inc. dba Transportation Management Services, an African American Owned Small Business, to support scope of services to be provided and made a commitment of 10%.

DETERMINATION OF SAFETY IMPACT

Approval of this recommendation will positively impact the safety of Metro's patrons and employees. Marsh USA LLC will provide a wide array of services to improve Metro's risk profile. In addition to providing contract review, insurance guidance, and marketing Metro's insurance portfolio, consulting and risk management services to mitigate exposure will also be provided. Risk Management will partner with Marsh USA LLC, and insurance carriers to identify and mitigate loss trends.

FINANCIAL IMPACT

The FY25 Budget includes \$300,702.50 for this service in Project 100004, PRMA- Workers Compensation (W/C), under Cost Center 0531, Non-Departmental Operations Risk Management.

Since this is a multi-year contract, the cost center manager and the Chief Transit Safety Officer will be accountable for budgeting the cost in future years. Insurance premiums are approved through separate Board action as each program is renewed in the marketplace.

Impact to Budget

The source of funding for this action will come from federal, state and local funding sources that are eligible for bus and rail operations.

EQUITY PLATFORM

The services provided by the selected insurance broker ensure the expertise required to provide insurance protections to cover all Metro-owned property, stations, tunnels, bridges, rolling stock fleet, right of ways, facilities, and buildings that provide transportation service and benefits to low-income residents, black, indigenous, and people of color, people with disabilities, people with limited English proficiency, minorities, women, disadvantaged or disabled veterans, LGBTQ community, and other marginalized groups. Furthermore, services provided by the selected broker ensure that the expertise required to support ongoing and upcoming development projects remains readily available to ensure the interests of Metro and the public at large remain protected in the event of catastrophic losses.

VEHICLE MILES TRAVELED OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active transportation, it is a vital part of Metro operations, as it provides liability coverage for some of Metro's largest programs. Because the Metro Board has adopted an agency-wide VMT Reduction Target, and this item supports the overall function of the agency, this item is consistent with the goals of reducing VMT.

*Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports strategic plan goal # 5, "Provide responsive, accountable and trustworthy governance within the LA Metro organization." The responsible administration of Metro's insurance programs requires the use of proficient insurance brokers. Furthermore, the broker must possess the expertise and access to represent Metro to insurance underwriters both domestically and internationally.

ALTERNATIVES CONSIDERED

The Board may elect not to approve the new contract. However, this action is not recommended because the fee proposed by Marsh USA LLC represents the most competitive fee for services provided by the marketplace. Further, the addition of the nine-year term allows us to build upon the relationship and lock in the pricing advantage of today's highly competitive insurance brokerage environment.

NEXT STEPS

Upon Board approval, staff will execute Contract No. PS126876000 with Marsh USA LLC to provide brokerage services, effective March 1, 2025.

ATTACHMENTS

Attachment A - Procurement Summary

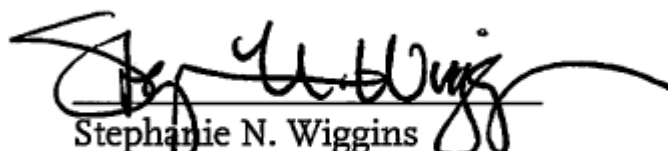
Attachment B - DEOD Summary

Prepared by: William Douglas, Senior Manager, Risk Financing, (213) 922-2105

Claudia Castillo del Muro, Executive Officer, Risk Management, (213) 922-4518

Carolina Coppolo, Deputy Chief Vendor/Contract Management Officer (Interim),
(213) 922-4471

Reviewed by: Kenneth Hernandez, Chief Transit Safety Officer (Interim), (213) 922-2990



Stephanie N. Wiggins
Chief Executive Officer

PROCUREMENT SUMMARY

RISK MANAGEMENT INSURANCE BROKERAGE SERVICES/PS126876000

1.	Contract Number: PS126876000	
2.	Recommended Vendor: Marsh USA LLC	
3.	Type of Procurement (check one): <input type="checkbox"/> IFB <input checked="" type="checkbox"/> RFP <input type="checkbox"/> RFP-A&E <input type="checkbox"/> Non-Competitive <input type="checkbox"/> Modification <input type="checkbox"/> Task Order	
4.	Procurement Dates:	
	A. Issued: September 13, 2024	
	B. Advertised/Publicized: September 13, 2024	
	C. Pre-Proposal Conference: September 23, 2024	
	D. Proposals Due: October 16, 2024	
	E. Pre-Qualification Completed: January 7, 2025	
	F. Ethics Declaration Forms Submitted to Ethics: October 17, 2024	
	G. Protest Period End Date: February 25, 2025	
5.	Solicitations Downloaded: 24	Bids/Proposals Received: 4
6.	Contract Administrator: Annie Duong	Telephone Number: (213) 418-3048
7.	Project Manager: William Douglas	Telephone Number: (213) 922-2105

A. Procurement Background

This Board Action is to approve Contract No. PS126876000 to provide insurance brokerage services. Board approval of contract award is subject to the resolution of any properly submitted protest(s), if any.

On September 13, 2024, Request for Proposal (RFP) No. PS126876 was issued as a competitive procurement in accordance with Metro’s Acquisition Policy, and the contract type is firm fixed price. The Diversity and Economic Opportunity Department (DEOD) established a 10% Disadvantaged Business Enterprise (DBE) goal for this procurement.

No amendments were issued during the solicitation phase of this RFP.

A total of 24 downloads of the RFP were included in the planholders list. A virtual pre-proposal conference was held on September 23, 2024, and was attended by 25 participants representing 15 firms. There were 28 questions received, and responses were issued prior to the proposal due date.

A total of four proposals were received by the proposal due date of October 16, 2024, and are listed below in alphabetical order:

1. Alliant Insurance Services, Inc.
2. Aon Risk Insurance Services West, Inc.

3. Arthur J. Gallagher Risk Management Services, LLC
4. Marsh USA LLC

B. Evaluation of Proposals

A Proposal Evaluation Team (PET) consisting of staff from Risk Management, System Security and Law Enforcement, and Executive Office Transit Service Delivery departments was convened, and conducted a comprehensive technical evaluation of the proposals received.

Of the four proposals received, Alliant Insurance Services, Inc. and Arthur J. Gallagher Risk Management Services, LLC were determined by DEOD to be non-responsive for failure to meet the DBE goal. Hence, both firms were excluded from further evaluation.

From October 24, 2024, through November 25, 2024, the PET independently evaluated and scored the technical proposals of Aon Risk Insurance Services West, Inc. and Marsh USA LLC.

The proposals were evaluated based on the following evaluation criteria:

Phase 1 Evaluation – Minimum Qualification Requirements (Pass/Fail): To be responsive to the RFP minimum qualification requirements, proposers must meet all of the following:

- The Prime Contractor must have at least \$1 billion in written property and casualty premiums annually for the past three years in the United States.
- The Prime Contractor must have an active insurance broker license in the State of California at the time of proposal submittal.
- Prime Contractor must have at least five public sector clients in the State of California.
- Prime Contractor must have at least two public sector clients in the United States with gross revenues in excess of \$2 billion.
- Prime Contractor must have at least two clients in the United States that provide bus and/or rail public transit services with a fleet that exceeds 500 vehicles.
- Prime Contractor must have a physical office in San Diego, Riverside, San Bernardino, Orange, Ventura, or Los Angeles County.
- Prime Contractor must agree to rebate to Metro all commissions (including contingent commissions and fees paid by insurance companies) earned through placement of policies under this contract except for placement of Major Construction Liability Umbrella insurance policies as provided for in the Scope of Services.

Both Aon Risk Insurance Services West, Inc. and Marsh USA LLC met the Minimum Qualification Requirements and were further evaluated based on the following Phase 2 Evaluation - Weighted Technical Evaluation criteria:

- Qualifications of the Prime Contractor 40%
- Qualifications of Proposed Key Personnel 30%
- Understanding of the Scope of Services Proposed Work Plan 10%
- Price Proposal 20%

Several factors were considered in developing these weights, giving the greatest importance to the qualifications of the prime contractor.

At the conclusion of the evaluation, the PET determined Marsh USA LLC to be the top ranked firm.

Qualification Summary of Firms:

Marsh USA LLC (Marsh)

Marsh, a subsidiary of Marsh LLC, was founded in 1923 and is headquartered in New York, NY. It is an insurance broker and risk advisor, serving companies, institutions, and individuals across the United States and over 130 countries, providing clients with industry-focused brokerage, consulting, and claims advocacy services. The Marsh client team is made up of industry specialists focused on transportation, rail, construction and public entity risks and have decades of experience servicing risk management needs and delivering risk solutions for transportation and public sector clients. Transportation clients include BNSF Railway, Metropolitan Atlanta Rapid Transit Authority, Hillsborough Area Regional Transit Authority, Amtrak, Orange County Transportation Authority (OCTA), Denver Regional Transportation District, and Metrolink.

Aon Risk Insurance Services West, Inc. (Aon)

Aon, established in 1902, is headquartered in Dublin, Ireland, with its U.S. operations managed from Chicago, Illinois. It operates mainly on the U.S. West Coast, offering services such as risk advisory, risk transfer, and structured solutions to help organizations and individuals manage their risk exposure. Aon specializes in professional liability, cyber risk, property and casualty, and transactional solutions and has been working with the public sector since 1979.

Transportation clients include Amtrak, New Jersey Transit, Delaware River Port Authority, Utah Transit Authority, Metrolink, Long Beach Transit, OCTA, Sacramento Regional Transit, and Metro.

The following is a summary of the PET scores:

1	Firm	Average Score	Factor Weight	Weighted Average Score	Rank
2	Marsh USA LLC				
3	Qualifications of the Prime Contractor	84.00	40.00%	33.60	
4	Qualifications of Proposed Key Personnel	90.00	30.00%	27.00	
5	Understanding of the Scope of Services Proposed Work Plan	86.70	10.00%	8.67	
6	Price Proposal	100.00	20.00%	20.00	
7	Total		100.00%	89.27	1
8	Aon Risk Insurance Services West, Inc.				
9	Qualifications of the Prime Contractor	87.68	40.00%	35.07	
10	Qualifications of Proposed Key Personnel	81.67	30.00%	24.50	
11	Understanding of the Scope of Services Proposed Work Plan	68.30	10.00%	6.83	
12	Price Proposal	91.65	20.00%	18.33	
13	Total		100.00%	84.73	2

C. Price Analysis

The recommended amount has been determined to be fair and reasonable based on adequate competition, fact-finding, technical analysis and price analysis. Staff successfully negotiated a cost savings of \$240,677.

	Proposer Name	Proposal Amount	Metro ICE	Recommended Amount
1	Marsh USA LLC	\$2,947,000	\$4,063,642	\$2,706,323
2	Aon Risk Insurance Services West, Inc.	\$3,216,240		

The variance between the Independent Cost Estimate (ICE) and the negotiated amount is attributed to the ICE utilizing a conservative approach in estimating costs for establishing alternative insurance solutions and including escalated rates for the base and option terms. The negotiated amount consists of a fixed annual fee for the entire contract term, inclusive of options.

D. Background on Recommended Contractor

Marsh provides risk management, insurance broker, insurance program management, risk consulting, analytical modeling and alternative risk financing services to a wide range of businesses, government entities, professional service organizations and individuals.

The Marsh team includes a DBE subcontractor that will handle insurance related activities and marketing consulting services.

DEOD SUMMARY

RISK MANAGEMENT INSURANCE BROKERAGE SERVICES / PS126876000

A. Small Business Participation

The Diversity and Economic Opportunity Department (DEOD) established a 10% Disadvantaged Business Enterprise (DBE) goal for this solicitation. Marsh USA LLC made a 10% DBE commitment.

Small Business Goal	10% DBE	Small Business Commitment	10% DBE
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	DBE Subcontractors	Ethnicity	% Committed
1.	National Insurance Consultants, Inc. dba Transportation Management Services	African American	10%
Total Commitment			10%

B. Local Small Business Enterprise (LSBE) Preference

LSBE preference is not applicable to federally funded procurements. Federal law (49 CFR § 661.21) prohibits the use of local procurement preferences on FTA-funded projects.

C. Living Wage and Service Contract Worker Retention Policy Applicability

The Living Wage and Service Contract Worker Retention Policy is not applicable to this contract.

D. Prevailing Wage Applicability

Prevailing Wage is not applicable to this contract.

E. Project Labor Agreement/Construction Careers Policy

Project Labor Agreement/Construction Careers Policy is not applicable to this Contract. PLA/CCP is applicable only to construction contracts that have a construction related value in excess of \$2.5 million.



Risk Management Insurance Brokerage Services

Finance, Budget and Audit Committee

February 20, 2025

File ID #2024-1083

Risk Management Insurance Brokerage Services

Recommendation:

AUTHORIZE the Chief Executive Officer to award a firm fixed price Contract No. PS126876000 to Marsh USA LLC for insurance brokerage services in the amount of \$1,503,513 for the five-year base term, and \$601,405 for each of the two, two-year options, for a total amount of \$2,706,323, effective March 1, 2025, subject to the resolution of any properly submitted protest(s), if any.

Risk Management Insurance Brokerage Services

Current Contract Expiration:

- Metro's current insurance brokerage services contract with USI Insurance Services, Inc. ("USI") expires May 31, 2025.
- Insurance premiums have increased exponentially over the past few years, leading to an assessment of pricing and the identification of ways to mitigate future increases.
- In an assessment conducted by McKinsey in January 2024, it was recommended that a new competitive request for proposals (RFP) for broker services be issued to spur broker competition and ensure Metro is receiving the most competitive premium pricing.

Risk Management Insurance Brokerage Services

Marketing Services:

- An insurance broker of record is required for Metro to purchase insurance from commercial markets.
- Metro's insurance portfolio includes General Liability, Property, and Cyber insurance coverages. Additionally, many Metro contracts and other agreements require commercial insurance coverage.
- The RFP process afforded an opportunity to evaluate the professional expertise, dedicated staff, and presence within the insurance marketplace
- The selected broker demonstrated the expertise, staffing, and market reach that will support the goal of enhanced services and premium pricing, which will serve to ensure preferential premium pricing.

Risk Management Insurance Brokerage Services

Marsh USA, LLC Services

- Insurance Marketplace Services
 - Professional Staff to Manage Complex Negotiations
 - Excess Liability
 - Commercial Property
 - Cyber Extortion/Ransomware
- Professional Expertise
 - Engineering Loss Control Services
 - Review of Contractual Obligations
 - Insurance Market Advice
 - Support for Future Programs (i.e., Captive Insurance Program)
- Support for Claims handling
 - Expert Liaison to Communicate to Claims and Underwriting Professionals
 - Coverage Guidance for Potential Claims Actions
- Advice and Guidance for Future Programs
 - Insurance Captive Formation
 - Owner Controlled Insurance Programs





Thank you.



Metro®



Board Report

File #: 2024-1113, File Type: Informational Report

Agenda Number: 18.

FINANCE, BUDGET AND AUDIT COMMITTEE
FEBRUARY 20, 2025

SUBJECT: ACCESS SERVICES - SEMI-ANNUAL UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE status report on Access Services - ADA Paratransit.

ISSUE

This is a semi-annual update on Access Services (Access) focusing on Fiscal Year (FY) 2025 operational performance, community engagement efforts and year-to-date financial status on Americans with Disabilities Act (ADA) paratransit services in the region.

BACKGROUND

Access is the Los Angeles County transit agency that provides paratransit services on behalf of Metro and 45 other fixed route operators, as mandated by the ADA. Eligibility for Access is based on a person’s ability to utilize accessible fixed-route buses and trains in Los Angeles County; Access currently has 118,000 registered riders. Access’ paratransit service is a next-day, shared-ride, curb-to-curb service with additional assistance available to qualified individuals. The service is operated by six contractors in the following regions: Eastern, Southern, West Central, Northern, Santa Clarita, and Antelope Valley. Access provides service to customers traveling between locations within 3/4 of a mile of local bus routes and rail lines. Customers call Access service providers in the six regions directly to make trip reservations or book trips online.

DISCUSSION

Operational Performance (July 2024 - December 2024)

As of December 2024, Access has provided more than 2.3 million passenger trips, a 12.5 percent increase compared to the first six months of FY 2024. This ridership rebound is driven by a return to pre-pandemic travel patterns and the significant recovery of adult day health programs, whose ridership has substantially increased since the pandemic. Access contractors are currently fully staffed in all six regions. Year-to-date (YTD) ridership exceeds pre-pandemic levels, and Metro staff will continue to monitor ridership trends and pursue cost efficiencies and external funding opportunities through the end of the fiscal year.

Attachment A has the Key Performance Indicators (KPIs) that have been established to ensure

equitable service levels are provided throughout all regions of Los Angeles County. Access has met nearly all the KPIs through December 2024. For more detailed information on Access' overall system statistics by service region, please see Access' monthly Board Box report at http://accessla.org/about_us/publications.html.

Expense Review (YTD December 2024)

As of December 31, 2024, Access' total expenses are below the FY 2025 adopted budget. Operating costs are under budget, due to slightly lower than projected ridership and reduced customer service/telecom call volume. The capital program is significantly under budget, primarily due to the timing of vehicle deliveries. Capital expenses will increase as vehicles are delivered by the end of the fiscal year. See the table below.

Access Services FY25 Semi-Annual Expense Review Source (\$ in millions)	YTD December 31, 2024			
	Budget	Actuals	Over / (Under) Budget	% of Budget
1 Direct Transportation ¹	\$ 127.1	\$ 123.4	\$ (3.7)	97.1%
2 Contracted Support ²	7.5	6.8	(0.8)	89.7%
3 Management/Administration ³	8.5	8.2	(0.3)	96.5%
4 Total Operating Costs	\$ 143.2	\$ 138.4	\$ (4.8)	96.6%
5 Capital Rolling Stock- Prior Year ⁴	15.8	\$11.5	(4.3)	72.6%
6 Capital Rolling Stock- New ⁵	12.4	0.0	(12.4)	0.0%
7 Capital Construction ⁵	2.1	0.0	(2.1)	0.0%
8 Facilities Development & Construction (Non-Metro) ⁷	1.5	4.0	2.5	267.9%
9 Total Capital Program	\$ 31.8	\$ 15.5	\$ (16.3)	48.8%
10 Total Expenses ⁸	\$ 175.0	\$ 153.9	\$ (21.1)	88.0%

Totals may not add up because of rounding

¹ Ridership one percent below projections

² Customer Service and telecom receiving fewer calls

³ Expenditures within budget

⁴ All vehicles now delivered and paying final invoices

⁵ Vehicles start arriving in January 2025

⁶ Activity pending

⁷ Antelope Valley facility in environmental review (NEPA/CEQA)

⁸ Operating & Capital Cost below budget

Costs for regional paratransit trips have increased above pre-pandemic levels due to inflation. This includes significant increases in regional wages, partly driven by legislated minimum wage increases, and higher vehicle replacement costs due to switching from the retired Dodge Caravan to the Dodge Ram ProMaster. A decline in taxi participation in some service regions has also contributed to rising costs. However, Access has secured nearly \$40 million in grants and FEMA reimbursements to support operational priorities, including operations and maintenance facilities.

Other Initiatives - Update

Los Angeles County Wildfires: During the recent Los Angeles County wildfires, Access activated its Emergency Operations Center (EOC) to monitor the wildfires' impact on its service area, communicate with riders, and handle any requests for assistance from member/partner agencies. Overall, there was limited impact on paratransit services and Access provided shuttle service to Red Cross shelters to assist evacuees. Throughout the event, Access EOC staff were in contact with partners including the LA City Emergency Management Department, LA County Office of Emergency Management, Metro, Foothill Transit, Pasadena Transit, and Ventura County Transportation Commission.

Operations and Maintenance Facilities: One of the main goals of Access' adopted 2022-2026 Strategic Plan is the development of Access-owned or controlled paratransit operations and maintenance facilities.

- *Antelope Valley Region:* National Environmental Policy Act (NEPA) review is underway for the proposed 6.8-acre facility in the City of Lancaster, that is projected to be fully operational by late 2026.
- *Southern Region:* Access has also acquired a 6.1-acre property in the City of Compton that will be developed into an operations and maintenance facility.

The facility program has been largely funded with outside grants and reimbursements to Access from the Federal Emergency Management Agency (FEMA) and the Medi-Cal program.

Electric Paratransit Vehicle Pilot Project: In September 2024, Access' Board approved the purchase of two accessible electric vehicles (Dodge Ram ProMaster), which are expected to be delivered by Spring 2025. Once they are received, the vehicles will be placed into service in Access' Southern and Santa Clarita regions as part of a pilot project to test electric vehicle technology in ADA paratransit services. Access staff continues to work with vehicle manufacturers on accessible hydrogen vehicle technologies and has had discussions with autonomous vehicle providers, such as Waymo. Overall, the vehicle procurement bottlenecks experienced during the COVID-19 pandemic have eased and replacement vehicles are being delivered on a consistent basis.

2028 Olympic/Paralympic Planning: Access staff continue to work with their regional partners to prepare for various upcoming international events, including the 2028 Olympic and Paralympic Games. Access met with Metro and LA28 staff and attended regional meetings, such as the Games Mobility Executives (GME) Regional Transportation Assembly in November. Access will continue to participate in the planning process to ensure that the Games are accessible to all.

FTA Triennial Review: Metro Triennial Review is conducted every three years by the Federal Transit Administration (FTA) to ensure Metro complies with federal requirements. On September 10, the FTA conducted an ADA Complementary Paratransit review, which looked at how Metro monitors Access' delivery of complementary paratransit services in the County. Overall, there were no findings and FTA complimented Metro staff on their oversight of the paratransit program.

Other Community Initiatives - Update

Customer Satisfaction Survey: Access also completed its biennial Customer Satisfaction Survey.

There were 2,128 Access customers from across Los Angeles County that participated either digitally or by telephone. The survey respondents were 58.5 percent females and 36.9 percent males. Seventy-six percent of respondents were English speakers, while 12.6 percent were Spanish speakers, and 6.9 percent spoke other languages at home. The respondents were 28.9 percent Hispanic, 25.5 percent Caucasian, 18.3 percent African American and 12 percent Asian American. The data indicates that 82.4 percent of customers reported being satisfied with the overall paratransit services provided by Access. In analyzing the results, Access will be looking to see if additional KPIs should be added to its contracts to further improve paratransit services. To see the full report, please visit the Access website at [Access Services 2024 Biennial Customer Satisfaction Study Report of Findings.pdf](https://accessla.org/sites/default/files/Agendas/Access%20Services%202024%20Biennial%20Customer%20Satisfaction%20Study%20Report%20of%20Findings.pdf) <<https://accessla.org/sites/default/files/Agendas/Access%20Services%202024%20Biennial%20Customer%20Satisfaction%20Study%20Report%20of%20Findings.pdf>>.

Community Meeting: On August 24th, Access hosted a virtual Community Meeting to inform and educate the public and Access riders about the agency's services, policies, and procedures. More than 100 guests called in or participated via Zoom. Access staff presented on a variety of topics to ensure customers were updated and well-informed about Access. These topics included presentations about the Free Fare Program, Travel Training and Group Travel Training Programs, and the new Text-To-Chat Customer Service Pilot Program. After the presentations, Access staff addressed customer comments, questions, and any other service concerns with customers individually.

Free Rides to the Polls: On Election Day, Access once again provided free rides to the polls, completing 373 paratransit trips systemwide. Riders were informed about this free service via reservation call center hold messages and at public meetings.

EQUITY PLATFORM

By federal mandate, Access exclusively serves people with disabilities. Most recently, Access analyzed its service area map to determine the percentage of riders served in Equity Focus Communities (EFCs). From January 1, 2024, through December 31, 2024, about 45.1 percent of all trips taken by 58,998 Access riders were picked up in EFCs. As EFCs comprise approximately 40 percent of Los Angeles County, this shows that EFCs are proportionately and well served by Access services.

On a semi-annual basis, Access conducts countywide community meetings designed to allow customers and stakeholders to receive information about Access and ask staff direct questions about their service experience. Closed captioning, language translation services, braille, and large print materials are available upon request to ensure all customers throughout Los Angeles County can participate. The next community meeting is planned for March 2025.

Access continues to consult and work with community partners on a variety of issues with its community and public agency partners, including its own Community Advisory Committee (CAC), the Aging and Disability Transportation Network (ADTN), the Los Angeles City and County Commissions on Disabilities (LACCOD), Rancho Los Amigos National Rehabilitation Center, and various Metro departments.

VEHICLE MILES TRAVELED OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

This item supports Metro's systemwide strategy to reduce VMT through operational activities that will benefit and further encourage transit ridership, ridesharing, and active transportation. Metro's Board-adopted VMT reduction targets were designed to build on the success of existing investments, and this item aligns with those objectives.

*Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Goal 2: Deliver outstanding trip experiences for all users of the transportation system

Goal 3: Enhance communities and lives through mobility and access to opportunity

NEXT STEPS

Access is working on the following:

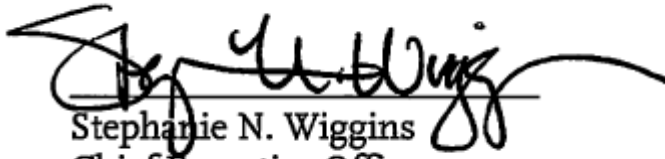
- Continuing to work with Metro and LA28 on 2028 Olympic and Paralympic Games planning
- Initiating Access' 5-year Strategic Plan (FY 2026 - FY 2030) process
- Seeking grant funding for Access-owned operations and maintenance facilities
- Developing the FY26 budget request
- Implementing an electric vehicle pilot project

ATTACHMENT

Attachment A - Access Services Key Performance Indicators

Prepared by: Fayma Ishaq, Senior Manager, Budget, 213-922-4925
Giovanna Gogreve, Senior Director, Finance, 213-922-2835

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



Stephanie N. Wiggins
Chief Executive Officer

Attachment A

Access Services Key Performance Indicators (KPIs)

A comparison summary of the main KPIs is provided below:

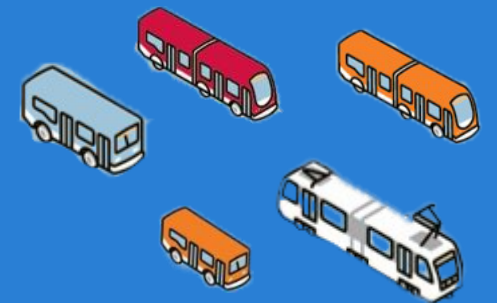
Key Performance Indicators	Standard	FY24	FY25 YTD*
On-Time Performance	≥ 91%	92.3%	92.3%
Excessively Late Trips	≤ 0.10%	0.02%	0.02%
Excessively Long Trips	≤ 5.0%	3.8%	3.7%
Missed Trips	≤ 0.75%	0.33%	0.33%
Denials	0	6	1
Access to Work - On-Time Performance	≥ 94%	95.8%	96.4%
Average Hold Time (Reservations)	≤ 120	54	54
Calls On Hold > 5 Min (Reservations)	≤ 5%	2.6%	2.8%
Calls On Hold > 5 Min (ETA)	≤ 10%	2.7%	3.0%
Complaints Per 1,000 Trips	≤ 4.0	2.0	2.1
Preventable Incidents per 100,000 miles	≤ 0.25	0.21	0.26
Preventable Collisions per 100,000 miles	≤ 0.75	0.80	0.92
Miles Between Road Calls	≥ 25,000	47,940	46,034

*Statistical data through December 2024



Access Services Semi-Annual Update Finance, Budget & Audit Committee

February 2025



Key Performance Indicators

Key Performance Indicators	Standard	FY24	FY25 YTD*
On-Time Performance	≥ 91%	92.3%	92.3%
Excessively Late Trips	≤ 0.10%	0.02%	0.02%
Excessively Long Trips	≤ 5.0%	3.8%	3.7%
Missed Trips	≤ 0.75%	0.33%	0.33%
Denials	0	6	1
Access to Work - On-Time Performance	≥ 94%	95.8%	96.4%
Average Hold Time (Reservations)	≤ 120	54	54
Calls On Hold > 5 Min (Reservations)	≤ 5%	2.6%	2.8%
Calls On Hold > 5 Min (ETA)	≤ 10%	2.7%	3.0%
Complaints Per 1,000 Trips	≤ 4.0	2.0	2.1
Preventable Incidents per 100,000 miles	≤ 0.25	0.21	0.26
Preventable Collisions per 100,000 miles	≤ 0.75	0.80	0.92
Miles Between Road Calls	≥ 25,000	47,940	46,034

*Statistical data through December 2024



Expense Review

		YTD December 31, 2024				
Access Services FY25 Semi-Annual Expense Review Source (\$ in millions)		Budget	Actuals	Over / (Under) Budget	% of Budget	Notes
1	Direct Transportation	\$ 127.1	\$ 123.4	\$ (3.7)	97.1%	Ridership 2.6% below projections
2	Contracted Support	7.5	6.8	(0.8)	89.7%	Customer Service and Reservations receiving fewer calls
3	Management/Administration	8.5	8.2	(0.3)	96.5%	Expenditures within budget
4	Total Operating Costs	\$ 143.2	\$ 138.4	\$ (4.8)	96.6%	
5	Capital Rolling Stock- Prior Year	15.8	\$11.5	(4.3)	72.6%	Final vehicles to be received in January from Carryover order
6	Capital Rolling Stock- New	12.4	0.0	(12.4)	0.0%	Vehicles started arriving in January 2025
7	Capital Construction	2.1	0.0	(2.1)	0.0%	Activity pending
8	Facilities Development & Construction (Non-Metro)	1.5	4.0	2.5	267.9%	Antelope Valley facility in environmental review (NEPA/CEQA)
9	Total Capital Program	\$ 31.8	\$ 15.5	\$ (16.3)	48.8%	
#	Total Expenses	\$ 175.0	\$ 153.9	\$ (21.1)	88.0%	Operating & Capital Cost below budget

Totals may not add up because of rounding

Other Initiatives

Los Angeles County Wildfires Update

- Activated Emergency Operations Center
- Provided shuttle service to Red Cross shelters
- Working with regional partners including Metro, Foothill Transit, Pasadena Transit, Ventura County Transportation Commission, LA City Emergency Management Department and LA County Office of Emergency Management

Operations & Maintenance Facilities

- Lancaster facility opening in early 2026
 - Pending NEPA review
- Access acquired 6.1- acre parcel in Compton (Southern Region)

Electric Paratransit Vehicles – Pilot Project

- Launch in Spring 2025
- Southern and Santa Clarita Regions

2028 Olympic/Paralympic Games Planning

- Serving on the LA28 Games Accessibility Subcommittee
- Attended the Games Mobility Executives – Regional Transportation Assembly
- Continuing to work with regional partners



Working with the Community

Customer Satisfaction Survey

- 2,128 customer responses
- 82.4% satisfaction with Access

Virtual Community Meeting

- Held in August 2024
- Provided one-on-one customer service

Free Rides to the Polls

- 373 trips provided on Election Day



Agency Update/Next Steps

- Continuing to work with Metro and LA28 on 2028 Olympic and Paralympic Games Planning
- Initiating Access' 5-year Strategic Plan (FY 2026 - FY 2030) process
- Seeking grant funding for Access-owned operations and maintenance facilities
- Developing the FY26 budget request
- Implementing an electric vehicle pilot project



Thank you!





Board Report

File #: 2025-0026, **File Type:** Informational Report

Agenda Number: 19.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
FEBRUARY 20, 2025**

SUBJECT: FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS: NEAR-TERM OUTLOOK AND ANTICIPATED CHALLENGES

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE The Fiscal Year 2026 (FY26) Budget Development Process: Near-Term Outlook and Anticipated Challenges.

ISSUE

This report provides the updated Near-Term Outlook and lays the groundwork for the annual development of the Equitable Zero-Based Budget (EZBB) process. An outline of the planned EZBB process and schedule follow to address the delivery of Metro’s objectives in the next fiscal year, culminating in a planned May 2025 Board Adoption.

In preparation for the FY26 Budget development process, the Office of Management and Budget (OMB) initiated early engagement by providing an oral report to the Finance, Budget, and Audit Committee on November 21, 2024, centered on the recap and assessment of:

- FY24 Year End Preliminary Budget Results
- Metro Transit Cost Growth Drivers
- Transit Infrastructure Development (TID)
- Other Programs
- Revenues Assessment
- Next Steps in Budget Development Process

BACKGROUND

California Public Utilities Code Section 130105 requires Metro to adopt an annual budget to manage the revenues and expenses of the Agency’s projects and programs. The budget is the legal authorization to obligate and spend funds and to implement Board policy. It includes all operating, capital, planning and programming, subsidy funds, debt service requirements, and general fund

activities for the fiscal year. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation by the Board at the fund level except for capital expenditures, which are authorized on a life of project basis. This month, staff will begin to provide a series of status updates on the FY26 Budget development process to the Board's Finance, Budget, and Audit Committee.

DISCUSSION

Near-Term Outlook Update and Challenges Ahead

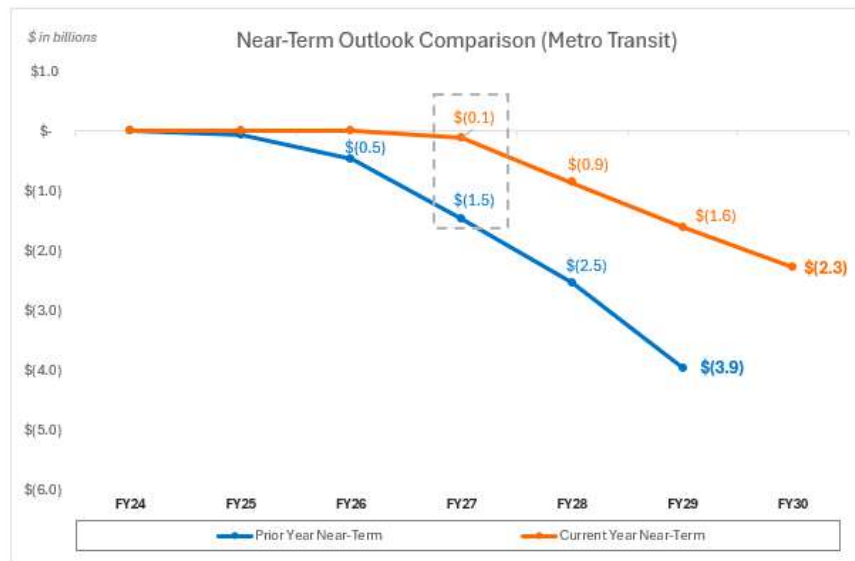
Metro consistently underscores the critical role of sound financial planning in effectively executing transit investments and operational strategies. The EZBB cycle begins with the Near-Term Outlook, which sets forth a five-year financial forecast grounded in a comprehensive evaluation of the economic landscape, revenue projections, ongoing programs, market cost escalations, Board-approved priorities, and the planning of major capital investments.

The Agency's Near-Term Outlook has improved from twelve months ago from \$1.5 billion deficit to \$0.1 billion in FY27 (Figure 1) due to:

- 1) Zero-Emissions Bus (ZEB) and infrastructure revised forecast as well as incremental grant revenues from SB125 ZETCP
- 2) Constrained and prioritized budgeting efforts through the EZBB process
- 3) Delayed spending on capital projects based on year-end actuals
- 4) Board approved policy changes to newly established Transit Community Public Safety Department (TCPSP) is expected to result in gradual reductions in contract costs.

However, the Agency is committed to continuing its mitigation efforts as a cumulative financial gap of \$2.3 billion is anticipated by FY30 (Figure 1). The gap is comprised of \$1.3 billion for Metro Transit Operations & Maintenance (O&M) and \$1.0 billion in Metro Transit Capital Improvement Program (CIP) due to continued cost growth, increasing at a faster rate than projected sales tax and operating revenues.

Figure 1:



Major Cost Growth Drivers

As Metro advances its preparations for developing the FY26 Budget, staff has assessed the recent developments and expense outlook. This report outlines the key developments since the Special Board Workshop in March 2024, where Metro staff provided the Board with an in-depth analysis of the projected financial outlook for the Metro Transit program, facilitating a thorough assessment of the cost growth drivers and their implications for Metro’s operational program delivery.

The Agency’s Near-Term Outlook through FY30 includes continued cost growth in Metro Transit O&M and CIP in the following areas (Figure 2):

- Public Safety
- Cleanliness and Station Experience Expansion
- System Expansion
- Labor Costs
- Workers Compensation (WC), Personal Liability and Property Damage (PLPD) and Insurance Market Premiums
- Zero-Emissions Bus (ZEB) and Infrastructure
- Major Capital Project Risks

The cost growth drivers are presented in Figure 2, which highlights the anticipated growth rate of every cost driver in comparison to the prior year’s projections. While every operational cost growth driver is anticipated to grow at a faster rate than projected sales tax revenues at 2.9%, there are a few areas where the growth has slowed:

- **Public Safety** due to Board Approval in establishing the Transit Community Public Safety Department (TCPSPD) which is expected to reduce contract costs over time.
- **Insurance/WC/PLPD** premiums by reinstating the Operations Safety Steering Committee

(OSSC), which meets quarterly to review risk exposure trends and evaluate mitigation measures

- **Zero-Emissions Bus (ZEB) & infrastructure** costs due to forecast revision

Figure 2:

5 Year Near-Term Outlook							
Cost Growth Drivers (in \$ Millions)	FY25		Current Near-Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate (FY24-29)		% Change
	Adopted	FY30 Forecast			FY24-29	FY25-30	
Labor Costs	\$ 1,188.5	\$ 1,559.1	\$ 8,148.0	5.6%	5.5%	0.1%	
Parts, Fuel & Outside Services	714.1	961.4	5,019.4	6.1%	3.5%	2.6%	
Public Safety	351.2	420.5	2,472.8	3.7%	6.2%	-2.5%	
Cleaning	248.0	347.5	1,794.1	7.0%	5.5%	1.5%	
Insurance, WC, PL/PD	192.3	253.6	1,336.7	5.7%	11.1%	-5.4%	
System Expansion	15.2	113.0	457.2	7.0%*	7.2%	-0.2%	
TOTAL O&M	\$ 2,709.3	\$ 3,655.1	\$ 19,228.1	6.2%	6.5%	-0.4%	
ZEB and Infrastructure	\$ 107.8	\$ 436.9	\$ 2,133.3	32.3%	54.7%	-22.4%	

* System expansion growth based on total rail.

The remaining cost growth drivers remain relatively flat or continue to grow due to the Agency’s continued investments:

- **Labor Costs** remain relatively flat even after incorporating the increases in the latest collective bargaining agreements starting in the current fiscal year and for the next five years
- **Parts, Fuel & Outside Services** growth driven by high inflation, propulsion power, utilities, other parts & supplies and professional services
- **Cleaning Costs** are driven by Metro’s strategic investment in the expansion of its Station Experience initiatives and implementing technological innovations (i.e., Intelligent Cleaning Equipment (ICE) auto-scrubbers, Elevator Open Door Program, etc.)
- **System Expansion** remains relatively flat, with annual openings through FY30, which will strengthen connectivity and enhance integration across our transit network

Attachment A further outlines the updated assumptions in the latest Near-Term forecast surrounding the cost growth drivers.

Additional Risks and Challenges

As Metro works to mitigate the cost growth drivers, there are additional risks and challenges that have not been quantified in the current forecast, which may impact the Agency in the Near-Term. Some of the external risks include:

- Geopolitical uncertainty
- Potential increases in tariffs and their impact on Metro’s purchase price
- Change in tax exemption status

- The availability and impact of traditional Federal programs and grants
- Ongoing inflationary pressures

Additionally, there are also internal factors that add financial pressure to the Agency:

- Operating Metro's system in the future with the expanding rail system will be more costly than operating the same level of service today. The average cost of running one hour of rail is 2.2 times more than operating one hour of bus service.
- The ongoing financial risks that stem from capital cost increases due to scope and project schedule changes may take away funding eligible for bus and rail operations if no alternative funding source is identified.
- Preparation for the 2028 Olympic and Paralympic Games in the absence of additional funding presents significant challenges.

FY26 Equitable Zero-Based Budget (EZBB) Process and Schedule

Metro is continuing to utilize the year-round EZBB process for its FY26 Budget development, starting with the five-year financial outlook followed by Capital Budgeting to anticipate project needs, while focusing on cost management and sustainability. Metro will continue its efforts to mitigate and defer the Near-Term deficit, managing through the economic slowdown that is expected to linger into FY26 while focusing on Agency priorities that require continuous investment.

The FY26 Budget will align with Metro's mission to enhance transit services, maintain infrastructure, and plan for regional projects, adhering to regulations and board-approved policies. Metro will continue collaborating with the Board of Directors with the goal of developing a balanced budget supported by monthly program reviews to reassess needs.

A schedule of budget updates will be presented, concluding with the Board's final adoption in May.

Month	Topic
February	Budget Development Process: <ul style="list-style-type: none"> • Updated Near-Term Financial Outlook & Cost Drivers • FY26 EZBB Development Process and Schedule • Public Outreach and Engagement Budget Development Parameters: <ul style="list-style-type: none"> • Sales Tax Forecast, Resources Assumption • Cost Inflation Estimate
March	Infrastructure Planning and Construction: <ul style="list-style-type: none"> • Transit Infrastructure Expansion • Multimodal Highway Investments • Regional Rail • Regional Allocations and Pass-Throughs
April	<ul style="list-style-type: none"> • Metro Transit – Operations & Maintenance (O&M) and Capital Improvement Program (CIP) • Congestion Management • Planning and Administration
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 April 29, 2025 • Public Hearing on May 15, 2025 • Summary of Public Comment and Stakeholder Review • Final Board Adoption on May 22, 2025

Early and Expanded Public Outreach and Engagement

Metro remains dedicated to fostering transparency with riders, the public, and stakeholders. To uphold this commitment, the budget outreach process continues to engage the public through both traditional and new methods. This includes social media campaigns, stakeholder meetings, and outreach directly on the system with informational flyers. Updates on the budget outreach will be shared in the upcoming monthly reports.

FY26 My Metro Budget Activity

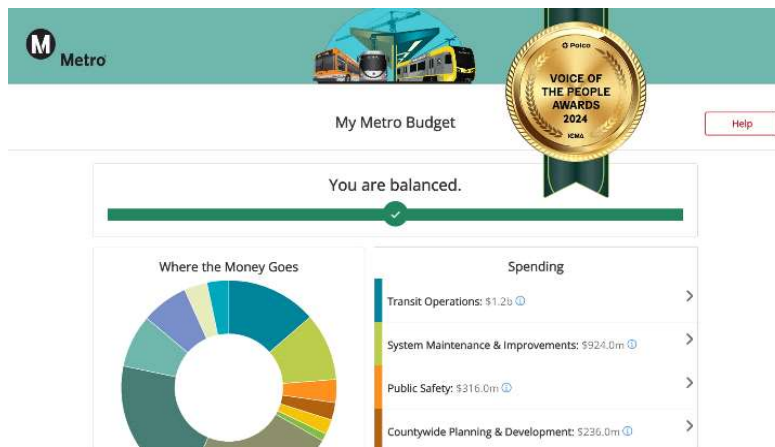
The My Metro Budget Activity, a national award-winning initiative, promotes education and transparency around Metro’s budget. Recognized by the International City/County Management Association (ICMA) with the Voice of the People (VOP) Award for Excellence in Budget & Finance (Figure 3), the program highlights effective community feedback and data-driven decision-making.

Following previous years, a social media campaign is focused on engaging Spanish-speaking, female, and community college student riders, while Equity Focus Communities (EFCs) remain

central to the engagement efforts. Metro station staff and internal groups such as LIFE, Metro Micro, and the On the Move Riders Club are distributing information cards to engage underrepresented groups and riders.

The Fiscal Year 2026 (FY26) activity, launched in October 2024, can be accessed at mybudget.metro.net <<https://mybudget.metro.net/>>.

Figure 3:



New Tactics & Features

Metro continues to improve the budget activity based on feedback received and advancements in technology and incorporates the following new features and tactics:

- The activity includes over 90 unique categories for public comment
- Four new scenario questions
- Translations in nine languages to increase accessibility
- Metro is utilizing the new Community Based Organization (CBO) Database from the Office of Equity & Race for an informational campaign to increase participation of Youth Groups.
- Leveraging Artificial Intelligence (AI) to better analyze the written comments
 - o Categorization of comments for departments
 - o Summarization by topic
 - o Sentiment analysis

The feedback collected will be shared with Metro departments starting in January and will play a vital role in shaping the FY26 budget.

Future Initiatives and Staying Updated

A Budget Telephone Town Hall was held on Tuesday, February 4, 2025. This live, interactive forum is ideal for residents who cannot attend in-person meetings or participate online. Metro will request written comments in advance, with attendees also having the opportunity to ask questions and provide live feedback.

As the FY26 budget develops, further updates on outreach initiatives will be provided. Stay informed at the Budget Portal: <https://budget.metro.net>.

EQUITY PLATFORM

As we move forward with the development of the FY26 Budget, our commitment to equity will continue to guide our approach and decisions. While addressing public safety, cleanliness, system expansion, labor equity, and environmental sustainability, we strive to create a transit system that is not only efficient and safe but also inclusive and equitable for all Los Angeles residents and riders.

Additionally, Metro's EZBB processes will undergo enhancements following the recent awarding of a contract for an Agencywide Budget Equity Assessment. The assessment will refine Metro's budget tools and process to better incorporate both procedural and distributional equity considerations, extending beyond the analysis of impact or proximity to Equity Focus Communities (EFCs). Metro will continue to conduct the EFC Budget Assessment for FY24 Actuals and FY26 Proposed Budget and analyze the FY26 budget against budget equity principles as aligned with Metro's Equity Platform framework. However, the Agency will not be applying the Metro Budget Equity Assessment Tool (MBEAT) to the FY26 capital and operating budgets until the consultant's assessment is completed.

VEHICLE MILES TRAVELED (VMT) OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active transportation, it is a vital part of Metro operations, as it reflects the agency's commitment to fiscal discipline while making the investments needed to ensure a safe, clean, comfortable, reliable, and easy ride for all patrons. Because the Board has adopted an agency-wide VMT Reduction Target, and this item supports the overall function of the agency, this item is consistent with the goals of reducing VMT.

*Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports the following Metro Strategic Plan Goal:

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

NEXT STEPS

Metro staff will provide regular Budget briefings to Board members and their staff starting this month. We will also provide receive-and-file reports monthly, as previously detailed.

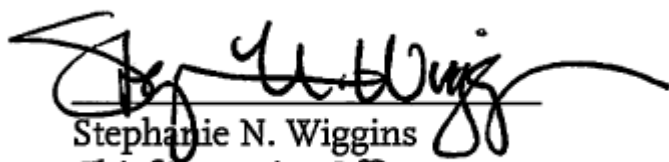
ATTACHMENTS

Attachment A - FY25 30 Near-Term Cost Growth Drivers

Prepared by:

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FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS

Near-Term Forecast Update and Assumptions on Cost Growth Drivers

The Agency's Near-Term Outlook through FY30 includes continued cost growth in Metro Transit O&M and CIP in the following areas:

Public Safety

- In response to societal issues that have caused violence and criminal activity within the Metro bus and rail system—resulting in fatalities, injuries, and increased safety concerns for riders and frontline employees—the Metro Board of Directors took decisive action by introducing Metro Public Safety Surge Board Motion 31 on May 23, 2024.
- In June 2024, in line with the In-House Public Safety Implementation Plan Board Motion 21.1, the Metro Board approved the establishment of the Transit Community Public Safety Department (TCPD). With TCPD, law enforcement costs are trending down as a percentage of total public safety costs.
- In response to Board Motion 34.1, and ongoing commitment to enhancing public safety, Metro is expanding its strategies by investing in a new pilot for taller fare gates, expanding the current TAP-to-Exit pilot, and launching a pilot for concealed weapons detection system.

Cleanliness and Station Experience Expansion

- Metro remains steadfast in its commitment to upholding the highest standards of cleanliness and has made a substantial investment to bolster its cleaning operations, including the recruitment of custodial and facilities maintenance staff and increasing the frequency of cleanings.
- The Agency has expanded several of its Station Experience strategies and made several key enhancements including improvements in lighting, ventilation, fare gates, surveillance systems, elevators, escalators, and restroom facilities.
- Technological innovations are also implemented, including Intelligent Cleaning Equipment (ICE) auto-scrubbers, Elevator Open Door Program, classical music on platforms, testing commercial-grade vacuum cleaners for track maintenance, and piloting the use of bear-resistant trash receptacles.

System Expansion

- As part of Metro's growing system expansion, the LAX/Metro Transit Center is scheduled to open soon, offering customers transit access to LAX in two phases: (1) the launch of a new Aviation/Century station and (2) reconfiguration of the C Line and K Line. Additionally, a new security facility, Metro Center, is ramping up to be fully operational.

Attachment A

- At the July 2024 Board meeting, the Board approved amending the FY25 Budget to add Full-Time Equivalent (FTE) positions to support the LAX/Metro Transit Center and support the systemwide security services at Metro Center.
- Given the expanding system – at least one major rail opening annually leading up to the 2028 Games which assumes additional resources and staff will be needed to support these efforts.

Labor Costs

- Throughout 2024, staff facilitated workshops for Labor and Management to discuss mutual interests, foster collaboration, and engage in contract negotiations with four of the five unions (ATU, TCU, AFSCME and TEAMSTERS).
- As a result, the FY25 Budget was amended to reflect the finalized four collective bargaining agreements (CBAs), which includes an average annual salary increase of 4.4% over the five-year term, along with a 0.25% quarterly wage adjustment each year. Health and welfare benefit increases are also incorporated by the contract terms.

WC, PLPD and Insurance Market Premiums

- Workers' Compensation (WC) Division partnered with Bus Operations, Corporate Safety, and the Return-to-Work Program, prioritizing meetings with divisions experiencing high volume of claims, effective December 2023, highlighting discussions around claims investigations, Transitional Duty Program enhancement, and Safety Specialists' visibility at divisions.
- The Return-to-Work program has enhanced transitional duty opportunities. Corporate Safety has increased visibility at the divisions, is attending Local Safety Committees, and promotes a wide array of Safety programs, including de-escalation training and bus barrier retrofits.
- To mitigate the cost of insurance driven by the hard market, Metro has issued a Request for Proposal (RFP) for insurance services, allowing Metro to test the market to ensure it receives the most competitive rates.

Zero-Emissions Bus (ZEB) and Infrastructure

- Recently, Metro released a Request for Proposal (RFP) to procure 1,980 zero-emissions buses (ZEBs), marking the largest ZEB order in U.S. history. This initiative is a key component of Metro's goal to achieve a fully zero-emission fleet by 2035, which will require a minimum investment of \$2.1 billion in both buses and charging infrastructure over the next few years.
- New zero emission bus acquisitions and supporting infrastructure development will proceed as available industry infrastructure, manufacturing capacity, available technology, and funding permit.

Attachment A

- In response to the Zero Emission Buses Motion 31.1 Metro staff provides quarterly updates to the Board of Directors on electrification efforts with revised forecasts

Major Capital Project Risks

The Agency still faces ongoing cost escalations in its major capital projects with scope modifications, schedule changes and project close-out risks and will continue to conduct project reviews to mitigate these challenges. Due to these cost escalations with lower sales tax received vs. ordinance projections, we are seeing a financial gap in the Transit Infrastructure Development (TID) program. Metro may be able to mitigate a portion of the gap by issuing debt within debt capacity limits. However, there remains the risk of drawing down operational eligible funding which impacts bus and rail service.



FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS – NEAR-TERM OUTLOOK AND ANTICIPATED CHALLENGES

February 2025 | Finance, Budget and Audit Committee





1. Near-Term Financial Outlook

- Near Term Outlook Deficit
- Cost Growth Drivers Summary

2. Additional Risks and Challenges

3. FY26 Equitable Zero-Based Budgeting (EZBB)

4. Next Steps

Near-Term Financial Outlook

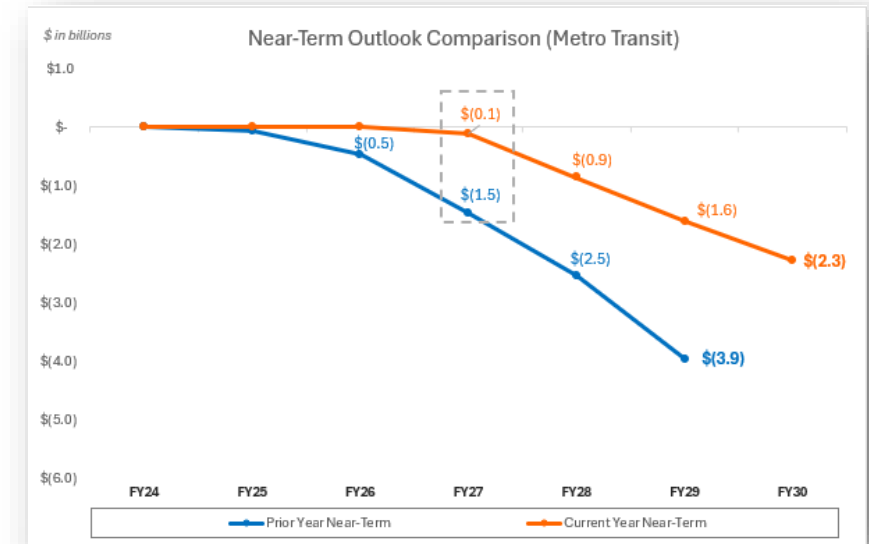
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- The Agency has improved **prior year's Near-Term** cumulative gap of \$1.5 billion in FY27 to \$0.1 billion per **current year's Near-Term** outlook as a result of:
 - Zero-Emissions Bus (ZEB) & infrastructure revised forecast
 - Incremental grant revenues from SB125 ZETCP
 - Constrained and prioritized budgeting efforts through the Equitable Zero-Based Budgeting (EZBB) process
 - Delayed spending on capital projects based on year-end actuals
 - Board approved policy changes with newly established Transit Community Public Safety Department (TCPSD)
- However, a cumulative gap of \$900M remains by FY28 growing to \$2.3 billion by FY30 between the two programs:
 - Metro Transit Operations & Maintenance (O&M): cumulative \$1.3 billion deficit through FY30
 - Metro Transit Capital Improvement Program (CIP): cumulative deficit of \$1.0 billion through FY30



Note: These figures do not include cost assumptions for the 2028 Games.



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- The Agency’s Near-Term Outlook through FY30 includes continued cost growth in Metro Transit Operations & Maintenance (O&M) and Capital Improvement Program (CIP)

5 Year Near-Term Outlook						
Cost Growth Drivers <i>(in \$Millions)</i>	FY25	FY30	Current Near-Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate (FY24-29)	
	Adopted	Forecast			Rate	% Change
Labor Costs	\$ 1,188.5	\$ 1,559.1	\$ 8,148.0	5.6%	5.5%	0.1%
Parts, Fuel & Outside Services	714.1	961.4	5,019.4	6.1%	3.5%	2.6%
Public Safety	351.2	420.5	2,472.8	3.7%	6.2%	-2.5%
Cleaning	248.0	347.5	1,794.1	7.0%	5.5%	1.5%
Insurance, WC, PL/PD	192.3	253.6	1,336.7	5.7%	11.1%	-5.4%
System Expansion	15.2	113.0	457.2	7.0%*	7.2%	-0.2%
TOTAL O&M	\$ 2,709.3	\$ 3,655.1	\$ 19,228.1	6.2%	6.5%	-0.4%
ZEB and Infrastructure	\$ 107.8	\$ 436.9	\$ 2,133.3	32.3%	54.7%	-22.4%

* System expansion growth based on total rail.

- While every operational cost growth driver is anticipated to grow at a faster rate than sales tax revenues at 2.9%, there are a few areas where the growth has slowed:
 - **Public Safety** due to Board Approval in establishing the Transit Community Public Safety Department (TCPSPD)
 - **Insurance/WC/PLPD premiums** by reinstating the Operations Safety Steering Committee (OSSC), which meets quarterly to review risk exposure trends and evaluate mitigation measures
 - **Zero-Emissions Bus (ZEB) & infrastructure** costs due to forecast revision

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5 Year Near-Term Outlook						
Cost Growth Drivers (in \$Millions)	FY25 Adopted	FY30 Forecast	Current Near-Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate	
					(FY24-29)	% Change
Labor Costs	\$ 1,188.5	\$ 1,559.1	\$ 8,148.0	5.6%	5.5%	0.1%
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ZEB and Infrastructure	\$ 107.8	\$ 436.9	\$ 2,133.3	32.3%	54.7%	-22.4%

* System expansion growth based on total rail.

- The remaining cost growth drivers are relatively flat or growing due to increased investments:
 - Labor Costs** remain relatively flat even after incorporating the increases in the latest collective bargaining agreements starting in the current fiscal year and for the next five years
 - Parts, Fuel & Outside Services** growth driven by high inflation, propulsion power, utilities, other parts & supplies and professional services
 - Cleaning Costs** are driven by Metro’s strategic investment in the expansion of its Station Experience initiatives and implementing technological innovations (i.e., Intelligent Cleaning Equipment (ICE) auto-scrubbers, Elevator Open Door Program, etc.)
 - System Expansion** remains relatively flat with annual openings through FY30, which will strengthen connectivity and enhance integration across our transit network



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- As Metro works to mitigate the cost growth drivers presented in the Near-Term Outlook, there are additional risks and challenges that have not been quantified in the current forecast.
- These additional risks that may impact the Agency in the Near-Term include:
 - Geopolitical uncertainty
 - Potential increases on tariffs and impact to Metro’s purchase price
 - Change in tax exemption status
 - The availability and impact of traditional Federal programs and grants
 - Ongoing inflationary pressures
- Internal factors that also add financial pressure to the Agency include:
 - Operating Metro’s expanding rail system in the future will be more costly than operating the same level of service today
 - Ongoing financial risks that stem from capital cost increases which may impact operations eligible funding
 - Preparation for the 2028 Olympic and Paralympic Games in absence of additional funding presents significant challenges



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- FY26 EZBB objectives:
 - Collaborate internally and with the Board of Directors to implement cost controls and develop a balanced budget with limited resources
 - Continue efforts to mitigate and defer the Near-Term deficit
 - Manage through economic slowdown that is expected to continue into the better part of FY26
 - Continue to invest in the major cost growth drivers
- Development of program budgets will consider:
 - Actual spending trends
 - Capital project cashflows based on phase and schedule
 - Sustaining levels of bus and rail service as well as adjusting for new rail openings
 - Agency priorities that require continuous investment



Infrastructure Planning and Construction:

- Transit Infrastructure Expansion
- Multimodal Highway Investments, Regional Rail
- Regional Allocations and Pass-Throughs

Mar.



- Metro Transit – Operations & Maintenance (O&M) and Capital Improvement Program (CIP)
- Congestion Management
- Planning and Administration

Apr.



FY26 Proposed Budget:

- Public Hearing and Board Adoption

May



Board Report

File #: 2025-0020, **File Type:** Informational Report

Agenda Number: 20.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
FEBRUARY 20, 2025**

SUBJECT: FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS: RESOURCES & PARAMETERS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2026 (FY26) Budget Development Process: Resources & Parameters.

ISSUE

This report sets up the economic context for the upcoming fiscal year with the forecast of sales tax revenues and other resources, cost inflation and other financial risks. 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.

Metro will focus on aligning the budget with a common set of strategic imperatives and priorities, working collaboratively across their respective departments to maximize funding availability by program.

BACKGROUND

The first phase of the FY26 Equitable Zero-Based Budget (EZBB) process began with an oral report in November 2024, followed by the Near-Term Outlook Update and analysis of cost growth drivers this month, as discussed in Board Report #2025-0026.

Resource projections set the foundation for the financial framework guiding our fiscal planning. This report outlines the budget development parameters, incorporating key assumptions related to the sales tax forecast, operating revenues, grants, bond proceeds, and prior-year carryover. These assumptions will guide the determination of available resources for eligible projects and programs in FY26.

DISCUSSION

Metro is committed to maximizing the use of revenues for all programs, based on each of the

ordinances that govern the eligibility and use of funds. However, the most critical step is to develop accurate projections of sales tax revenues.

Sales Tax Revenues

Sales taxes are the primary revenue sources for Metro, representing close to two-thirds of the total annual resources. Metro's local sales tax ordinances (Proposition A, Proposition C, Measure R, and Measure M) have voter approved directives on how each sub-fund should be spent, which determines the funding available for programs. Metro utilizes multiple modeling approaches and sources to estimate sales tax revenues.

Economic Sector Model

During the pandemic, Metro staff developed an economic sector model to isolate and evaluate local sales tax impacts of changes in specific sectors of the economy. A list of the sector breakdowns is given in Attachment A. Post-pandemic, this model has continued to prove valuable in refining the agency's annual budget projections. The FY26 sales tax revenue projection assumptions considered the following external factors:

- The region's economic activity declined slightly in FY24 due to the Federal Reserve's high-interest rate policy, increasing housing costs, office vacancies, and a slowdown in logistics.
- Consumer spending slowed as a result, with year-over-year sales tax revenues down slightly in FY24 and the first quarter of FY25.
- Online sales and restaurants have been the strongest performing groups over the past year, while car sales and service stations have been the weakest.
- Reconstruction, repair, and replacement activities due to the recent wildfires will shift spending into categories such as building materials, furnishings, and autos at the expense of other categories. The net impact on sales tax revenues is still to be determined.
- Spending on services, insurance, and housing continues to grow faster than taxable retail sales.
- Increases in consumer debt and delinquencies continue to impede growth in the near term.
- Gasoline and diesel fuel prices have a larger impact on taxable sales than the transition to electric vehicles (EVs). They have been trending down on a year-over-year basis but are particularly volatile and influenced by a wide variety of factors.
- FY26 cost inflation, as measured by the Consumer Price Index (CPI), is expected to slow down but remain above the Fed's 2% target even as mitigating efforts of the Federal Reserve ease.

Multiple Regression Model

Metro staff also developed a statistical multiple regression analysis model to validate the business sector model results. This regression model determines the correlations between sales tax revenues and other independent variables such as unemployment rate, CPI, and personal income in Los Angeles County, and derives a formula using historical data to make future projections.

Trend Analysis

Trend analysis is also used to evaluate long and short-term historical receipts and develop projections. These trends are compared to professional forecasting agencies, including UCLA Anderson, Muni Services and Beacon Economics, to ensure projections are within range.

Forecasting Results

These models and trend analysis indicate a moderate growth in sales tax in the upcoming fiscal year, projected at 2.1%.

FY25 Sales Tax Update

Metro monitors actual monthly sales tax receipts from the California Department of Tax and Fee Administration (CDTFA) and the first quarter actual receipts for FY25 are below budget. The FY25 year-end receipts are projected to be \$1,048.0 million per ordinance, rather than \$1,156.0 million, 9.3% below budget.

Preliminary FY26 Sales Tax Assumption

Based on the forecasting results, sales tax is projected to be \$1,070.0 million per ordinance, an increase of 2.1% over the FY25 Reforecast of \$1,048.0 million. This moderate increase is based on the forecast modeling that indicates a gradual economic recovery in the next year. Figure 1 displays Metro’s historical sales tax revenue actuals and latest projections for FY25 and FY26.

Figure 1:

	FY23 Actual	FY24 Actual	FY25 Reforecast	FY26 Preliminary
1 (\$ in Millions)				
1 Sales Tax Revenue per Ordinance ⁽¹⁾	\$ 1,111.5	\$ 1,093.0	\$ 1,048.0	\$ 1,070.0
2 % Change	1.8%	-1.7%	-4.1%	2.1%

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

Figure 2 compares Metro’s historical and current budget estimates to actual receipts and leading regional forecasts. FY26 sales tax revenue projections from UCLA, Beacon Economics and Muni Services are between \$1,020.9 million to \$1,109.7 million per ordinance, and Metro’s preliminary assumption of \$1,070.0 million falls within range.

Figure 2:

Sales Tax Revenue per Ordinance Forecast Comparison

(\$ in Millions)

Forecast Source	FY23	FY24	FY25 Reforcast	FY26 Preliminary
1 Actual	\$ 1,111.5	\$ 1,093.0	\$ 1,048.0 ⁽¹⁾	N/A
2 Metro- Adopted	1,031.8	1,200.0	1,156.0	1,070.0 ⁽²⁾
3 UCLA	1,058.1	1,103.8	1,144.4	1,103.3
4 Beacon Economics	1,013.4	1,091.7 - 1,232.4	1,011.0 - 1,082.2	1,032.3 - 1,109.7
5 Muni Services	1,017.1	1,145.1	1,099.7 - 1,203.3	1,020.9 - 1,056.2

(1) FY25 Reforcast as presented in Figure 1.

(2) FY26 preliminary assumption.

Other Resources

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 FY26 preliminary assumption of \$281.8 million will be revised in late February 2025 to reflect the State Controller’s Office (SCO) FY25 allocations.

Passenger Fares

Recent trends reveal an increase in boardings and fare revenues, driven by enhanced safety measures and improved station experience. While ridership growth is expected, revenue growth is impacted by the various free and reduced fare policy and programs:

- Fare Capping: Limits daily and weekly payments, allowing additional rides at no extra cost once the cap is reached.
- GoPass: A K-14 program providing unlimited free rides for students.
- Low Income Fare is Easy (LIFE) Program: Offers free 20-trip passes monthly and free 90-day passes for new enrollees.

Metro’s preliminary FY26 fare revenue projections are based on five months of collected data, average fare per boarding and anticipated ridership growth. Assuming a 10% ridership increase over estimated year-end actuals, preliminary passenger fare revenue and related fees for FY26 is projected at \$176.2 million.

Staff is currently refining and finalizing ridership forecasts. Building on Operations' projections, staff will refine fare revenue estimates.

Advertising

The overall FY26 advertising revenue is \$41.5 million. Advertising revenue from bus and rail is expected at \$27.5 million which is based on the adjusted minimum annual guarantee (MAG) payments from the advertising contract modifications approved by the board in March 2023.

Corporate sponsorship revenue is expected at \$3 million, including new sponsorships for the Metro Airport Connector Station, J Line Bus Rapid Transit (BRT), the Dodger and SoFi shuttles, and other services as businesses secure media space and assets in preparation for the World Cup and Super Bowl. The Board approved two policy amendments in November 2024 that allow for Public Service Announcements (PSAs) from Non-Profit organizations, right size short-term and long-term commercial sponsorship durations, and streamline and expedite sponsorship business process.

The new Transportation Communication Network (TCN) project establishes a network of digital transportation communication displays that will create a connected communication system by using outdoor advertising infrastructure on Metro's property throughout the City of Los Angeles. The project is estimated to generate \$11 million in FY26.

Toll and Other

Toll revenues are projected to be \$107.6 million in FY26, which include ExpressLanes usage and fees from the existing I-10 and I-110. Other revenues include bike program, Union Station, park and ride, lease, film, Service Authority Freeway Emergencies (SAFE), auto registration fees, transit court fees, Measure W, Low Carbon Fuel Standard (LCFS) and Renewable Index Numbers (RINs) credit sales, investment income, and other miscellaneous revenues are anticipated at a total of \$56.5 million in FY26.

Grant Resources

The FY26 projection for grant revenues is still being developed and will be finalized at a later point in the budget development process. Local, state and federal grant resources are used to support Metro's transit planning, operating, State of Good Repair and construction activities.

Federal grants include Federal Transit Administration (FTA) formula grants, Capital Investment Grants for new transit project construction, and a variety of other discretionary grant programs - including but not limited to - Bus and Bus Facilities and Low or No Emission grants programs. The nature of federal formula programs and discretionary grants is likely to change as Congress prepares to craft a new surface transportation authorization bill to replace the Bipartisan Infrastructure Law (P.L. 117-58) that will expire in Fall 2026.

State grants include Transportation Development Act (TDA), State Transit Assistance (STA), State of Good Repair and other discretionary grants funded through Senate Bill 1 (SB1). Senate Bill 125 (SB125) amended the 2023 Budget Act to provide new funding through the Transit and Intercity Rail (TIRCP) program and a new Zero-emission Bus (ZEB) program. SB125 funds will be included in the proposed FY26 Budget.

The grant outlook for FY26 is cloudy, particularly at the federal level. The recent flurry of Executive Orders issued by the new administration indicates a shift in priorities. How this will impact transportation funding specifically has yet to be determined. However, Metro staff continue to aggressively pursue discretionary grant opportunities at both the state and federal levels. Metro's significant local funding will continue to be used as matching funds to leverage our local commitment to continue providing safe and efficient transit service and maintain momentum on the Measure R and M programs.

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 the issuance and management of 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 FY25, \$1,502.9 million of debt proceeds and prior year carryover are available for transit expansion, highway, State of Good Repair and Transit Improvement/Modernization projects. The debt and carryover amounts for FY26 will be determined when we finalize the FY26 expense budget and are subject to CEO approval.

Resource Assumption Summary

Referring to Figure 3 below, sales tax and TDA revenues are projected to increase conservatively at 2.1%. Line 6 represents a total increase of 2.1% in overall resources excluding grant resources, bond proceeds and prior year carryover.

Figure 3:

Resources (\$ in Millions)	FY25 Reforecast	FY26 Assumption	% Change
1 Sales Tax and TDA Revenues ⁽¹⁾	\$ 4,716.0	\$ 4,815.0	2.1%
2 STA and SB1 Revenues ⁽²⁾	279.6	281.8	0.8%
3 Passenger Fares ⁽³⁾	174.6	176.2	1.0%
4 Advertising ⁽⁴⁾	27.2	41.5	52.3%
5 Toll and Other ⁽⁵⁾	169.7	164.1	-3.3%
6 Subtotal Resources	\$ 5,367.1	\$ 5,478.5	2.1%
7 Grant Resources ⁽⁶⁾	\$ 1,660.4	TBD	
8 Bond Proceeds and Prior Year Carryover ⁽⁶⁾	1,502.9	TBD	
9 Total Resources	\$ 8,530.4	TBD	

Note: Totals may not add due to roundings.

⁽¹⁾ Sales Tax (Proposition A, C, Measure R and M) and TDA Revenues reflect current year revenues only. The Percentage Change of 2.1% compares the FY26 Assumption of \$1.070 billion per ordinance to the FY25 Reforecast of \$1.048 billion per ordinance. 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⁾ FY26 preliminary STA and SB1 projections are based on the latest FY25 State Controller's Office (SCO) estimates and reduced by 10% in anticipation of a revenue shortfall in FY25. Estimates will be revised around mid-February 2025 to reflect the SCO FY26 estimates.

⁽³⁾ Fare revenue is projected at \$176.2 million, a 1.0% increase over the FY25 Budget. This includes a preliminary estimate for TAP card fee revenues of \$2.2 million.

⁽⁴⁾ The adjusted minimum annual guarantee (MAG) is based on contract modifications which was approved by Metro board in March 2023 (#2023-0074). MAG Bus and Rail advertising revenue is projected at \$27.5 million, 1% increase over the FY25 budget. \$3 million new commercial sponsorship revenues are assumed for Metro Airport Connector Station, J Line BRT, Dodgers/SoFi Shuttle, and other services as brands will lock-up media space and assets prepping for World Cup and Super Bowl. Also includes \$11 million new revenue generated by Transportation Communication Network (TCN) digital displays.

⁽⁵⁾ Toll and Other FY26 revenue estimates are projected at \$164.1 million, a 3.3% decrease from the FY25 budget of \$169.7 million. The increase in ExpressLanes toll revenues are being offset by the decrease in federal CNG tax credits, Measure W revenues, and the decrease in LCFS and RINs credit sales due to a conservative estimate on the credit market prices due to volatile market and to account for short-term political uncertainty.

⁽⁶⁾ The estimates for FY26 Grants, Bond Proceeds and Prior Year Carryover will be updated when information becomes available.

Consumer Inflation and Other Financial Risks

Cost Inflation Indicator - Consumer Price Index (CPI)

On the expense side, Metro program cost and cash flow requirements are impacted by cost inflation,

labor contracts agreements 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, the Federal Reserve’s monetary policy, and leading regional forecasts are considered when estimating cost inflation. The Fed issued multiple interest rate cuts since September 2024. Experts widely expect inflation to continue cooling with further interest rate reductions in FY25 and FY26. The FY26 CPI growth is projected to be moderate and in between UCLA and Beacon Economics’ projections at 3.0% (Figure 4). Metro staff 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	FY21	FY22	FY23	FY24	FY25	FY26 Preliminary
1 Actual	3.40%	6.54%	1.98%	6.54%	2.04% ⁽¹⁾	
2 Metro	2.30%	2.00%	3.30%	3.71%	3.00%	3.00%
3 UCLA	2.19%	1.68%	3.78%	3.71%	3.82%	3.32%
4 Beacon Economics	2.30%	2.07%	3.86%	2.36%	2.32%	2.47%

⁽¹⁾ FY25 YTD Actual. FY25 Adopted Budget is 3.00%.

Other Financial Risks

One challenge that Metro faces is the uncertain growth in sales tax revenues. Los Angeles County is trailing other Southern California counties such as Riverside and Orange Counties in terms of sales tax growth. Out-migration due to high cost of living and recent wildfires could lead to countywide population decline and labor force reduction. The higher labor costs resulted from the scarce labor supply may drive prices up and challenge the inflation mitigation that the Fed has been implementing. The persistently high housing costs, along with increasing insurance rates, grocery prices and other essential living expenses, continue to erode consumers’ purchasing power by reducing their disposable income.

Uncertainty over grant funding is another concern that Metro faces. The grant process is likely to get tighter and more competitive as the federal and state governments explore ways to mitigate shortfalls. The federal budget incurred a deficit of \$711 billion in the first quarter of fiscal year 2025, an increase of 39.4% compared to the same period last year. Despite the balanced 2025-26 Governor’s proposed budget, the administration’s multi-year budget forecast anticipates \$13 to \$19 billion annual operating deficits annually over the subsequent three fiscal years.

These challenges, combined with increasing operating expenses, elevated building material costs for Metro’s capital projects, and policy uncertainties around tariffs, taxes, and immigration, have specific financial implications to the available funding for FY26.

Outreach & Engagement Activities Update

Metro employs a variety of tactics to keep Los Angeles County residents and stakeholders engaged in the budget development process. Methods include the “My Metro Budget” activity, Telephone Town Hall, Budget Portal, e-blasts, paid and organic social media campaigns, and the distribution of information cards with quick response (QR) codes. These methods, which prioritize capturing diverse voices and fostering robust participation, are detailed below and in Attachment B.

Public Comments

Stakeholder and public feedback remain crucial to shaping the budget. This year, Metro is using Artificial Intelligence (AI) to analyze thousands of written comments, ensuring that all relevant feedback reaches the appropriate departments. A Power BI dashboard provides department leaders with access to this analysis, directly informing budget decisions.

DETERMINATION OF SAFETY IMPACT

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

EQUITY PLATFORM

Metro's commitment to equitable services and investments is reflected in its budgeting practices. Metro will continue to conduct the EFC Budget Assessment for FY26 Proposed Budget and analyze the FY26 budget against budget equity principles as aligned with Metro's Equity Platform framework.

Acknowledging that people living in EFCs constitute a large portion of ridership, Metro values their input as a critical component of its budget outreach and development efforts. Ensuring their voices are heard is essential, and Metro continues to actively seek and incorporate their diverse perspectives. Language translation in nine languages has been incorporated to better serve the members of these communities. Physical marketing cards with QR codes are being distributed across the system to help engage people traveling from and to EFCs. OMB is collecting location data to visualize where outreach activity participants are located and adjust marketing strategies to capture regions that are less represented.

VEHICLE MILES TRAVELED (VMT) OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active transportation, it is a vital part of Metro operations, as it reflects our commitment to fiscal discipline while making the investments needed to ensure we can provide a safe, clean, comfortable, reliable, and easy ride for all patrons. Because the Metro Board has adopted an agency-wide VMT Reduction

Target, and this item supports the overall function of the agency, this item is consistent with the goals of reducing VMT.

*Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.

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.

NEXT STEPS

Next month's update on the FY26 Budget process will focus on Infrastructure Planning and Construction, encompassing Transit Infrastructure, Multimodal Highway Investments, Regional Rail, and Regional Allocations and Pass-Throughs.

ATTACHMENTS

Attachment A - Economic Sector Model

Attachment B - FY26 Proposed Budget - Public Engagement and Outreach Forums

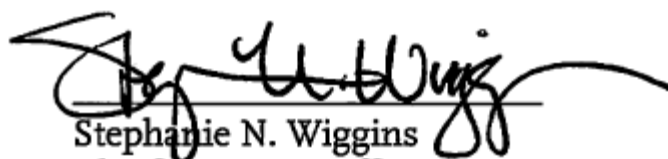
Prepared by: Jessica Lai, Senior Director, Finance, (213) 922-3644

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Stephanie N. Wiggins
Chief Executive Officer

ATTACHMENT A

Economic Sector Model

Metro's Economic Sector model categories and estimated percentages of local sales tax receipts in FY25 and FY26.

Economic Sector and Sub-Sector	Percentage of Sales Tax Revenues	
	FY25	FY26
General Retail	29.7%	29.8%
Apparel Stores	5.2%	5.2%
Department Stores	6.9%	6.9%
Furniture/Appliance Stores	2.9%	2.9%
Drug Stores	0.9%	0.9%
Recreational Product Stores	0.6%	0.6%
Florists/Nurseries	0.3%	0.3%
Online Sales and Miscellaneous Retail	12.9%	12.9%
Food Products	20.9%	20.7%
Restaurants	15.7%	15.6%
Food Markets	3.9%	3.9%
Liquor Stores	0.7%	0.7%
Food Processing Equipment	0.6%	0.6%
Transportation	18.9%	18.9%
Auto Parts/Repairs	2.5%	2.5%
Auto Sales - New	8.8%	8.7%
Auto Sales - Used	1.1%	1.1%
Service Stations	6.0%	6.1%
Miscellaneous Vehicle Sales	0.5%	0.5%
Construction	8.7%	8.9%
Building Materials - wholesale	5.3%	5.4%
Building Materials - retail	3.4%	3.5%
Business To Business	18.2%	18.2%
Office Equipment	2.5%	2.5%
Electronic Equipment	1.0%	1.0%
Business Services	1.4%	1.4%
Energy Sales	1.4%	1.4%
Chemical Products	0.9%	0.9%
Heavy Industry	3.2%	3.2%
Light Industry	4.2%	4.2%
Leasing	3.3%	3.3%
Biotechnology	0.1%	0.1%
I.T. Infrastructure	0.2%	0.2%
Green Energy	0.1%	0.1%
Miscellaneous	3.6%	3.5%
Health & Government	1.5%	1.5%
Miscellaneous Other	2.1%	2.0%

Attachment B

Fiscal Year 2025 Proposed Budget - Public Engagement and Outreach Forums

- My Metro Budget Activity - The "My Metro Budget" activity (<https://mybudget.metro.net/>) is an interactive and educational tool designed to solicit important feedback from the public. Users can click on a plus or minus button to add or subtract funds from budget items to reallocate to services that align with their priorities. **New** this year are four scenario questions pertaining to advertising, TAP-to-exit, the Station Experience Program, and Modern Faregates.

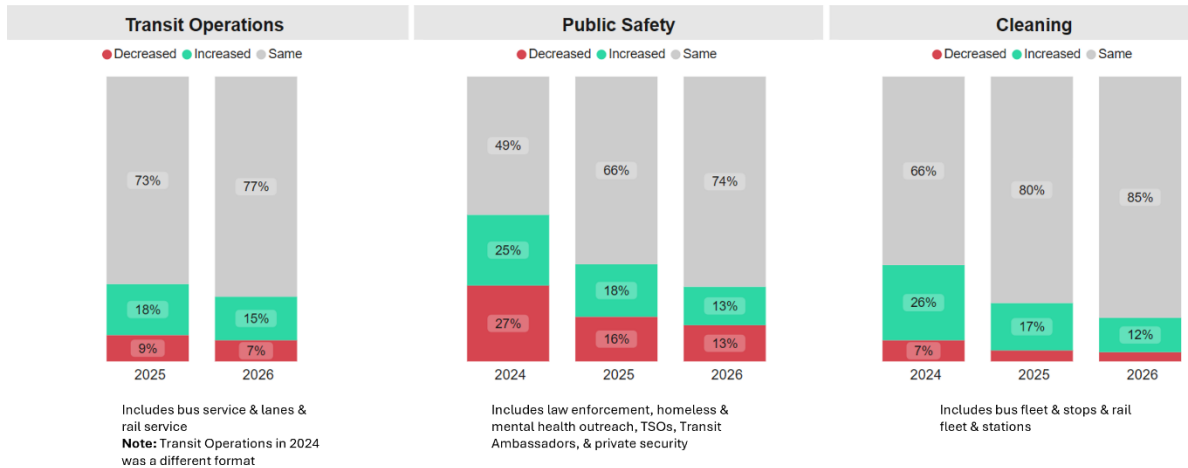
The My Metro Budget Activity was launched in October 2024 and has been continuously promoted via the Budget Portal, e-blasts, paid and organic social media campaigns, and the distribution of information cards with QR codes by Metro Station Staff, Metro Micro, On the Move Riders Club, LIFE, Transit Ambassadors, and other Metro groups. Below are some of the new features and preliminary results from responses collected between October 31, 2024 and January 23, 2025.

New Features/Preliminary Results (October 31, 2024 - January 23, 2025)



Attachment B

Preliminary Year-Over-Year Trends (October 31, 2024 - January 23, 2025)

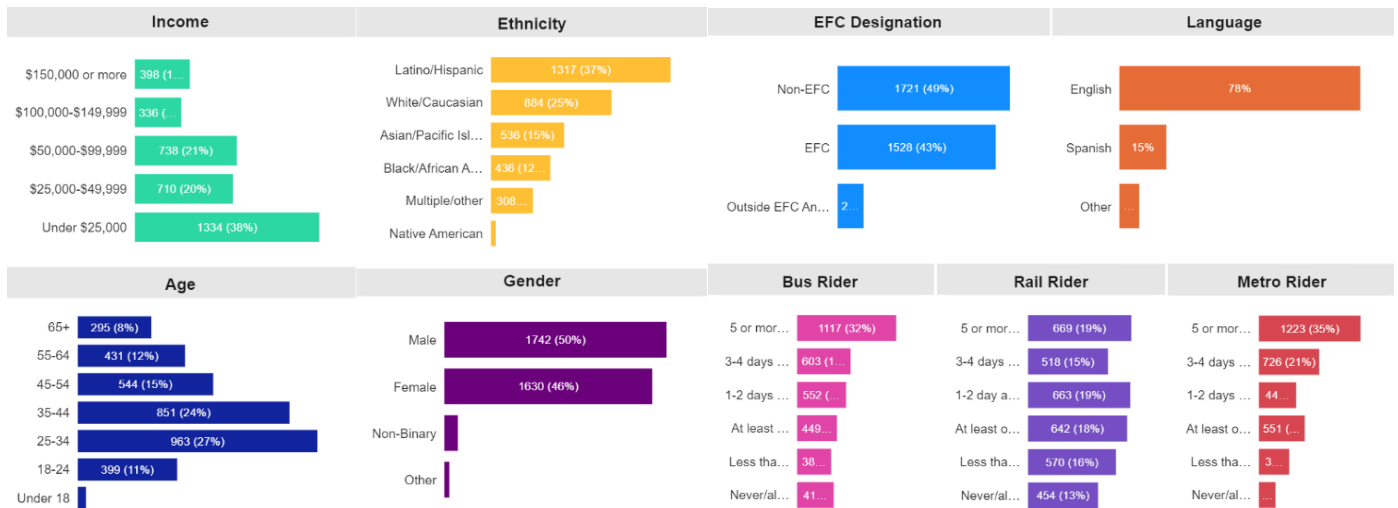


SATISFIED WITH BUDGET Year-over-year trends indicate increasing budget satisfaction, with more respondents leaving budget items unchanged

Note: results from October 31, 2024 – January 23, 2025

- **Gray:** Respondent who kept the budget the same for each category
- **Green:** Respondent who increased the budget for each category
- **Red:** Respondent who decreased the budget for each category

Preliminary Demographic Information (October 31, 2024 - January 23, 2025)



Attachment B

- **Regional Service Councils FY26 Budget Briefings** - Metro's five Service Councils are located throughout LA County to allow residents more opportunities for input on service issues in their communities. OMB staff have met with the Service Councils in November 2024 to demo the My Metro Budget activity. Budget Briefings for all five Service Councils will be scheduled in April 2025, which serve to inform service council members, as well as provide a platform to solicit feedback from the public about their transit needs.
- **Social Media Campaign** – Keeping the public informed on the proposed FY26 Budget will be an objective of the budget outreach campaign. OMB staff will be using Metro's official social media platforms (Instagram posts/stories, organic and paid Facebook posts/ads with videos, NextDoor announcements, LinkedIn, The Source/El Pasajero, and X (formerly Twitter) posts) to ensure the public is provided notice of all opportunities related to providing feedback on Metro's budget.
- **E-blasts** – Official communications are sent to the public from Metro's email lists. These eblasts reach thousands of members of the public and serve to keep the public apprised on budget outreach initiatives.

Example Newsletter/Eblast



Help shape Metro's Budget for Fiscal Year 2026!

Help shape Metro's budget for Fiscal Year 2026 by participating in our FY26 budget process. Your feedback is essential to build a budget that reflects the needs of all LA residents, even if you don't take transit. Take the survey today to share your insights and guide Metro's priorities. The survey is available in multiple languages to ensure accessibility for everyone. Together, let's work toward a responsive and inclusive transit system for LA. Follow us for updates, key dates, and more ways to stay involved. [Complete the survey now.](#)

- **Email** - budgetcomments@metro.net has been established to allow the public an opportunity to comment outside of a public setting.
- **Telephone Town Hall (TTH) Meetings** - A Telephone Town Hall is scheduled for February 4, 2025 from 6-7p.m. As part of Metro's ongoing Putting People First engagement efforts, the Telephone Town Hall invites participants to share their comments and feedback on Metro's initiatives, including public safety, expanding and improving service, and elevating the transit experience. The Telephone Town Hall information will be reported on in the March 2025 budget update.

Attachment B

- Budget Portal - The Budget Portal (<https://budget.metro.net>) remains the one stop shop for Metro's budget information and updates. Visitors can view the budget development process, an up-to-date calendar of budget briefings and meetings, financial documents and reports, local return information for regions, as well as leave a comment. The website will include information on schedules of stakeholder meetings and forums for the public to fully engage in the budget process.
- Internal and External Stakeholder Meetings - To ensure diverse perspectives inform the budget process, Metro engages a broad range of stakeholders, including jurisdictions and public agencies receiving Metro funding, as well as community groups and organizations that promote or rely on Metro services. From February through May 2025, Metro will hold various meetings and forums, including a public hearing and meetings with its advisory councils and subcommittees (such as the Regional Service Councils, COGs, CAC, PAC, TAC, BOS, LTSS, and Streets and Freeways Subcommittee), as well as dedicated meetings with the Aging, Disability and Transportation Network (ADTN), the Accessible Advisory Committee (AAC), the Valley Industry Commerce Association (VICA), and other community groups as requested.
- Public Hearing - A public hearing for the Fiscal Year 2026 Budget will be held on May 15, 2025. The public is encouraged to participate and provide comments to the Board on the proposed budget. Notice of the hearing will be widely publicized in multiple languages through newspapers, social media, e-blasts, stakeholder meetings, and other channels, in accordance with statutory requirements.



FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS

February 2025 | Finance, Budget and Audit Committee



FY26 Resources Summary

**FY
26**

M Metro



- FY26 Sales tax revenue increased 2.1% (\$1.048 billion to \$1.070 billion per ordinance in FY26).



- STA and SB1 will be updated in mid-February 2025.



- Passenger fares estimated at \$176.2 million (preliminary).



- Advertising revenue projected at \$41.5 million (\$11 million new TCN digital displays revenue).



- Toll and Other revenue estimates decreasing due to lower Measure W, federal CNG tax credits, and LCFS and RINS credit sales being offset by the increase in toll revenue.



- It's necessary to instill cost controls measures through EZBB and explore revenue generating opportunities as new initiatives compete for operating eligible funding.

Resources (\$ in Millions)	FY25 Reforecast	FY26 Assumption	% Change
1 Sales Tax and TDA Revenues ⁽¹⁾	\$ 4,716.0	\$ 4,815.0	2.1%
2 STA and SB1 Revenues ⁽²⁾	279.6	281.8	0.8%
3 Passenger Fares ⁽³⁾	174.6	176.2	1.0%
4 Advertising ⁽⁴⁾	27.2	41.5	52.3%
5 Toll and Other ⁽⁵⁾	169.7	164.1	-3.3%
6 Subtotal Resources	\$ 5,367.1	\$ 5,478.5	2.1%
7 Grant Resources ⁽⁶⁾	1,660.4	TBD	
8 Bond Proceeds and Prior Year Carryover ⁽⁶⁾	1,502.9	TBD	
9 Total Resources	\$ 8,530.4	TBD	



- Grant Resources: FY26 estimates are TBD
- Bond Proceeds and Prior Year Carryover:
 - Debt will be used as a last resort and will be determined as budget is developed
 - Prior year carryover will adhere to funding eligibility



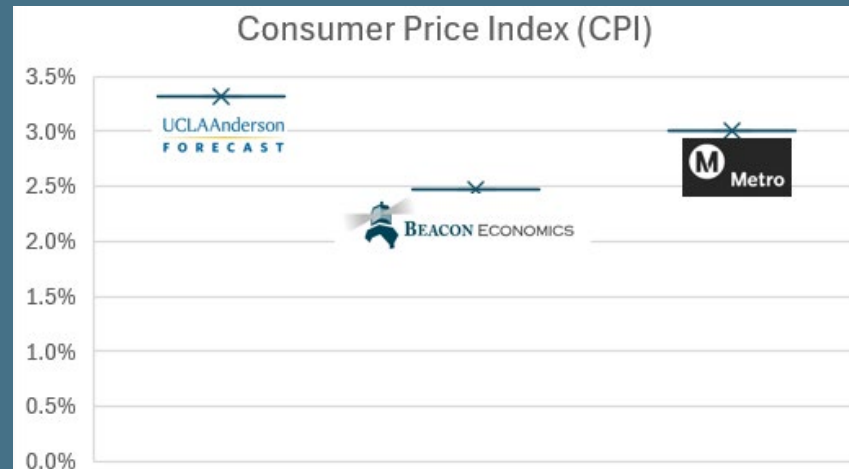
Annual Change in Consumer Price Index (CPI)

Forecast Source	FY21	FY22	FY23	FY24	FY25	FY26 Preliminary
1 Actual	3.40%	6.54%	1.98%	6.54%	2.04% ⁽¹⁾	
2 Metro	2.30%	2.00%	3.30%	3.71%	3.00%	3.00%
3 UCLA	2.19%	1.68%	3.78%	3.71%	3.82%	3.32%
4 Beacon Economics	2.30%	2.07%	3.86%	2.36%	2.32%	2.47%

⁽¹⁾ FY25 YTD Actual. FY25 Adopted Budget is 3.00%.

- Inflation cooling with further interest rate cuts expected.
- CPI impacts sales tax revenues and project delivery costs for Metro.





FY26 CPI assumption of **3.0%** is **within range** of leading forecasts.



CPI of **3.0%** is outpacing the projected sales tax revenue growth of **2.1%**



Uncontrollable

-  Primary funding source is experiencing slow growth
-  Federal/State grant funding impacted by new administration and growing deficits
-  Elevated building material costs for Metro's capital projects
-  Policy uncertainties around tariffs, taxes, and immigration

Controllable

- System-generated revenues (Fares, Advertising, Corporate Sponsorship, Tolls & Other)

Ongoing Issues

- Structural deficit stems from the imbalance between dedicated operating and capital funding available
- Not enough dedicated operating eligible funding
 - With over 130 different colors of funds, less than 15 funds sources, comprising less than 8% of total revenues, are dedicated solely for operations
- Competing priorities for flexible funding
- As we build the system out, operating-eligible funding does not increase at the same rate
- Cost of operations is rising faster than revenues

CONCLUSION

- New initiatives compete for operating eligible funding
- Necessary to instill cost controls through EZBB
- Explore revenue generating opportunities



- Launched October 31st, 2024
- Collection through May 2025



- 3,500+ Responses
- 2,900+ Unique Comments



- 53% Ride rail
- 65% Ride bus
- 69% Ride bus/rail (1+ day per week)



- Social media
- Eblast
- Marketing cards

New Features

1

Language Translation

FY26 activity is now offered in **9** languages



2

Scenario Questions

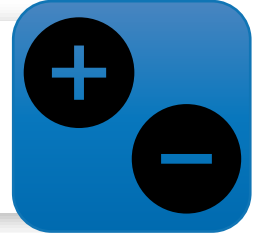
Four new scenario questions allowing the public to help guide leadership decisions



3

Additional +/- options

More subcategories to add/subtract funds



4

90+ comment options

More than 90 unique feedback categories are available





October



- Launched My Metro Budget Activity ([Available in 9 languages](#))
 - Eblasts
 - Newsletters

November



- Regional Service Councils Meetings
 - All five regions
- Distribution of Info Cards
 - On the Move Riders
 - LIFE
 - Metro Micro

December



- Begin Social Media Campaign for My Metro Budget Activity
 - Facebook
 - Instagram
 - X (Twitter)
 - LinkedIn

January



- Distribution of Info Cards
 - Transit Ambassadors
 - Other Metro groups (ongoing)

- Telephone Town Hall on Metro's Budget (February 4, 2025)
- Continued My Metro Budget activity promotion via eblast
- Promotion to Youth Council

- Community Advisory Committee

- Regional Service Council Meetings
 - In all five regions
- Council of Government (COG) Meetings

- Technical Advisory Committee
- Valley Industry & Commerce Association
- Local Transit Systems Subcommittee
- Accessibility Advisory Committee
- **Budget Public Hearing**



February



March



April



May

Note: Updated as additional meetings are scheduled.



Infrastructure Planning and Construction:

- Transit Infrastructure Expansion
- Multimodal Highway Investments, Regional Rail
- Regional Allocations and Pass-Throughs



- Metro Transit – Operations & Maintenance (O&M) and Capital Improvement Program (CIP)
- Congestion Management
- Planning and Administration



FY26 Proposed Budget:

- Public Hearing and Board Adoption





Board Report

File #: 2025-0035, **File Type:** Informational Report

Agenda Number: 21.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
FEBRUARY 20, 2025**

**SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JANUARY 1, 2024,
TO MARCH 31, 2024**

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Office of the Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of January 1, 2024, to March 31, 2024.

ISSUE

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from January 1, 2024, to March 31, 2024. 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's miscellaneous expenses for the period of January 1, 2024, to March 31, 2024. For this period, miscellaneous expenses totaled \$1,976,723 with 619 transactions. We selected 65 expense transactions totaling \$1,018,922 for detail testing.

DISCUSSION

FINDINGS

The miscellaneous expenses we reviewed for the period of January 1, 2024, to March 31, 2024, generally complied with Metro policies and procedures, were reasonable, and were adequately supported by required documents. However, we found exceptions related to Metro's P-Card Rules and Regulations, Non-Travel Business Expense Policy (FIN14) and Business Travel Guidelines (GEN 65).

Purchase Card holders should be reminded to comply with all P-Card Rules and Regulations. All Employees should be instructed to complete Part II of the Travel Business Expense (TBE) Report in accordance with Metro's Non-Travel Business Expense Policy (FIN 14) when submitting non-travel business expenses for reimbursement. Employees returning from travel should ensure that the TBE Report is completed and submitted in accordance with Metro's Business Travel Guidelines (GEN 65).

The staff's non-compliance with Metro policy was due to oversight, lack of planning, and inattention of some staff to thoroughly review the transactions.

In addition, Metro paid for staff to attend an expensive Certification Program, with no policy in place that would require employee to successfully complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.

OIG EVALUATION TO MANAGEMENT RESPONSE

Metro Management 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.

However, we suggest that Vendor/Contract Management reconsider the change that was made to the P-Card Guidelines after the completion of this audit, related to P-Cardholders no longer being required to sign the P-Card Log. Prior to the change, P-Card Rules and Guidelines stated: *"Cardholder must sign and date the certification statement at the bottom of each page of the P-Card log. This certifies that all purchases logged on that page are authorized expenditures to support official Metro business requirements, and all materials or services purchased have been properly accounted for, received, and applied to the intended use."*

We recommend that Vendor/Contract Management reinstate this Best Practice because it provides acknowledgement by the cardholder who prepares the log that all goods and services listed on the log have been received and used for Metro purpose and are in accordance with Metro policy.

RECOMMENDATIONS

We recommend the following:

Transit Security

1. Cardholders should sign and date each page of the P-Card Log as required by P-Card Policies.
2. Approving Officials should ensure cardholders have prepared the P-Card Log and attachments in accordance with P-Card log guidelines before approving.
3. Monitor the need for temporary spending limit increases and ensure a written request is prepared and submitted to the P-Card Administration in accordance with P-Card Policy.
4. Review with staff the proper procedures for submitting a non-travel expense for reimbursement, including the completion of the TBE Report.
5. Approving officials should ensure that TBE Reports are accompanied by required receipts and documents, and information has been completed in accordance with Metro Policy.

Program Management

6. Cardholders should sign and date each page of the P-Card Log as required by P-Card Policies.
7. Approving officials should ensure cardholders have prepared the P-Card Log and attachments in accordance with P-Card Log guidelines before approving.

Vendor/Contract Management - Purchase Card Program

8. Monitor on a continuous basis, the Active Bank Account Report and identify those temporary individual and/or monthly spending limits that should be reviewed and determine if current spending limits need to remain in place.

Chief People Office and Accounting

9. Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.
10. Consider the possible expansion of Account 50915 - Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements.

Talent Development

11. Communicate to employees the importance of using the most current TBE Form.
12. Approving officials should verify that the correct rate for mileage reimbursement was used before approving TBE Report for reimbursement.

Accounting

13. Periodically communicate to all employees the importance of using the most current TBE Report for reimbursement.

Workforce Services

14. Communicate to all employees that emailed TBE Reports and supporting documentation that was allowed during the pandemic will no longer be allowed, and going forward all TBE Reports will be processed in accordance with Metro's Business Travel Guidelines (GEN 65).
15. In situations where a manual TA and/or TBE Report must be processed, establish procedures for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Office of Board Administration

16. Establish procedures for tracking the status of TBE Reports to ensure that they are processed timely and in accordance with Metro's Business Travel Guidelines (GEN 65) going forward, instead of the temporary method that was allowed during the pandemic.

FINANCIAL IMPACT

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

EQUITY PLATFORM

It is the OIG's opinion that there are no equity considerations or impacts resulting from this audit.

VEHICLE MILES TRAVELED OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on

VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active transportation, this report is a vital part of Metro operations, as the OIG is required to report quarterly to the Board of Directors on the miscellaneous expenditures incurred by Metro. Because the Metro Board has adopted an agency-wide VMT Reduction Target, and this item generally supports the overall function of the agency, this item is consistent with the goals of reducing VMT. It is the OIG's opinion, that this report has no direct impact on VMT.

*Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.

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 of January 1, 2024, to March 31, 2024 (Report No. 25-AUD-03)

Prepared by: Dawn Williams-Woodson, Audit Manager, (213) 244-7302
Yvonne Zheng, Senior Manager, Audit, (213) 244-7301
George Maycott, Senior Director, Special Projects, (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
January 1, 2024 to March 31, 2024**

Report No. 25-AUD-03

December 13, 2024



TABLE OF CONTENTS

INTRODUCTION.....	1
OBJECTIVES, METHODOLOGY AND SCOPE OF AUDIT	1
BACKGROUND.....	2
RESULTS OF AUDIT.....	2
1. Non-Compliance with P-Card Rules and Guidelines	3
2. Absence of Policy related to payments for Expensive Certification Programs	4
3. Non-Compliance with Non-Travel Business Expense Policy (FIN 14).....	6
4. Outdated TBE Report Used for Mileage Reimbursement.....	6
5. Non-Compliance with Metro Business Travel Guidelines (GEN 65).....	7
OBSERVATIONS	8
1. Use of P-Card to Purchase Uniforms and Related Accessories for Transit Security	8
2. Metro Travel Card Reconciliations.....	9
COMPARISONS WITH PRIOR PERIODS.....	10
CONCLUSION	13
RECOMMENDATIONS	13
MANAGEMENT COMMENTS TO RECOMMENDATIONS.....	15
OIG EVALUATION OF MANAGEMENT RESPONSE	15
ATTACHMENTS	16
A. Summary of Sampled Expenses Audited	16
B. Management Comments to Draft Report.....	17



Metro

Los Angeles County
Metropolitan Transportation Authority

Office of the Inspector General
818 West 7th Street, Suite 500
Los Angeles, CA 90017

213.244.7300 Tel

DATE: December 13, 2024

TO: Metro Board of Directors
Metro Chief Executive Officer

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

E-SIGNED by Yvonne Zheng
on 2024-12-13 09:30:33 PST

SUBJECT: Final Report: Statutorily Mandated Audit of Metro Miscellaneous Expenses
January 1, 2024 to March 31, 2024 (Report No. 25-AUD-03)

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from January 1 to March 31, 2024. 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 were adequately supported by required documents. However, we noted the following issues with seven of the sampled expenses reviewed:

1. Non-Compliance with P-Card Rules and Guidelines
2. Absence of policy related to payments for Expensive Certification Programs
3. Non-Compliance with Non-Travel Business Expense Policy (FIN 14)
4. Outdated TBE Report used for mileage reimbursement
5. Non-Compliance with Metro Business Travel Guidelines (GEN 65)

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
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

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

- Obtained and reviewed applicable policies and procedures;
- Interviewed Metro personnel including staff in Accounting, Program Management, Talent Development, Transit Security, and Workforce Services; and
- Reviewed invoices, receipts, justification memos, and other supporting documents.

This audit covered a review of Metro's miscellaneous expenses for the period of January 1 to March 31, 2024. For this period, miscellaneous expenses totaled \$1,976,723¹ with 619 transactions. We selected 65 expense transactions totaling \$1,018,922 for detail testing. Thirty (30) of the expense transactions were randomly selected, ten (10) were selected due to their large dollar amounts, and twenty-five (25) were selected to add more samples for account number 50999 (miscellaneous – others) and a few 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 respective 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 with the following transactions:

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

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

1. Non-Compliance with P-Card Rules and Guidelines

a. P- Card Log not signed by Cardholder

P-Card Rules and Guidelines state: *“Cardholder must sign and date the certification statement at the bottom of each page of the P-Card log. This certifies that all purchases logged on that page are authorized expenditures to support official Metro business requirements, and all materials or services purchased have been properly accounted for, received, and applied to the intended use.”* Our review of the January and February 2024 P-Card Logs for the Transit Security Department, found that the cardholder did not sign the P-Card Logs. The cardholder stated: *“This is my error, I was still processing my reconciliation as we had been since we started teleworking.”* Another cardholder in the Program Management Department, also did not sign her department’s December 2023 P-Card Log. The cardholder stated: *“I signed the very first page, assuming that signature would cover the entire submitted P-Card package, including the log. Going forward I will be sure to sign and date the P-Card log as well.”*

Initially, the P-Card Program required the physical signature of both the cardholder and approving official on the log. The P-Card Program advised that shortly after Metro’s Accounting Department implemented its electronic approval of P-Card Statements in April 2020, both Accounting and the P-Card Program realized the redundancy of requiring the approving official’s signature on the log when it was being captured electronically in the system and served the same business purpose. However, the P-Card Administrator stated that cardholders are still required to sign and date each page of the P-Card Log. This helps provide assurance that all materials and services have been properly accounted for and have a business purpose.

After the completion of this audit, the P-Card Administrator advised that the P-Card guidelines had been subsequently updated and cardholders are no longer required to sign the log, only the credit card statement. Specifically, the guidelines now state: *“P-Card Log does not need to be signed by the cardholder, cardholder signature is only required on the US Bank statement as acknowledgement of responsible charges.”*

Recommendations:

Transit Security and Program Management

- Cardholders should sign and date each page of the P-Card Log as required by P-Card Rules and Guidelines.
- Approving officials should ensure the cardholder has prepared the P-Card log and attachments in accordance with P-Card Rules and guidelines before approving.

Statutorily Mandated Audit of Miscellaneous Expenses

January 1, 2024 to March 31, 2024

Office of the Inspector General

Report No. 25-AUD-03

b. P- Card Monthly Spending Limit Exceeded

P-Card Rules and Guidelines state: *“The use of the P-Card is subject to a single transaction limit and monthly spending limit requested by Business Unit management and approved by the Agency Program Coordinator. A written justification for increases on Single Purchase Limits and/or Monthly Cycle Limits must be submitted with a Purchase Card Change form.”*

The cardholder for the Transit Security Department has a monthly spending limit of \$15,000. Our review of the February 2024 P-Card log found that the monthly expenditures were over \$25,000. The cardholder provided written documentation that showed a temporary increase in the monthly spending limit to \$75,000 was requested and approved. However, based on the justification memo submitted to the P-Card Administrator, this temporary increase was supposed to end on December 31, 2023. We inquired whether an extension of the temporary monthly increase was requested, and the cardholder advised that the memo requesting the temporary increase till December 31, 2023 was the last request submitted.

When we discussed this issue with the P-Card Administrator, he stated: *“ There should have been a new memo provided or a permanent request for increase submitted by the department. In addition, P-Card Administration should have flagged this for follow-up with the department. To minimize/avoid this from happening in the future, we have modified how we review monthly card limits by adding a temporary limit column for both single and monthly purchase amounts to the report in addition to having permanent limit columns.”* The P-Card Administrator also advised that Cardholder’s purchase limits have been reduced to the appropriate amounts.

Recommendations:

Transit Security

- Monitor compliance with temporary spending limit increases and ensure that written requests for temporary spending limit extensions are prepared and submitted to the P-Card Administrator in accordance with P-Card Rules and Guidelines.

Vendor/Contract Management – Purchase Card Program

- Monitor on a continuous basis, the Active Bank Account Report and identify those temporary individual and/or monthly spending limits that should be reviewed and determine if current spending limits need to remain in place.

2. Absence of Policy related to payments for Expensive Certification Programs

Metro’s Miscellaneous Expense Account – Seminar/Conference Fee (Acct. 50915) states: *“Fees to attend seminar, conference, and certification programs.”* Our review of miscellaneous

Statutorily Mandated Audit of Miscellaneous Expenses

January 1, 2024 to March 31, 2024

Office of the Inspector General

Report No. 25-AUD-03

expenses for this period found that a department paid for an employee to attend a certification program in calendar year 2024 that costs \$19,000. This same employee was allowed to attend a certification program in calendar year 2023 that costs \$14,500. Currently, Metro has no policy in place for certification programs at this cost level. Implementing a policy, where employees would be required to maintain employment with Metro for a specified period of time after payment for an expensive certification, allows Metro to encourage and invest in the professional development and personal growth of its employees, while at the same time ensuring that Metro receives some benefits from its investment. With no policy in place, an employee could voluntarily leave the agency shortly after receiving the certification or fail to obtain the certification. In these scenarios, Metro may have invested a large sum of money without a reasonable return on investment.

For certification programs with costs above a specified threshold, Metro should consider creating a Certification Program Policy requiring employees to maintain employment with Metro for a reasonable period, such as one year after successful completion of the program paid for by Metro. If the time period requirement is not met, the cost of the program would be automatically deducted from an employee's final paycheck. In addition, the policy should require the employee to complete and obtain the certification or reimburse Metro 100% of the funds disbursed by Metro for the certification program. This would be similar and aligned with Metro's tuition reimbursement policy that requires a minimum passing grade to obtain reimbursement. Metro's Tuition Reimbursement Policy (HR1) states: *"If an employee voluntarily terminates employment, they must reimburse 100% of any LACMTA tuition reimbursement funds received during the last six (6) months of LACMTA employment."* When considering this, Metro should keep in mind that some programs, because of the competitiveness of being accepted, may require payment from participants 6 months or more in advance. Metro's Tuition Reimbursement program is limited to a few thousand dollars per year, whereas a certification program such as the two mentioned above, can be much more expensive, warranting at least equal assurance to Metro that its employee investment is realized.

Recommendations:

Chief People Office and Accounting

- Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to successfully complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.
- Consider the possible expansion of Account 50915 – Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements.

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

3. Non-Compliance with Non-Travel Business Expense Policy (FIN 14)

Metro's Non-Travel Business Expense Policy (FIN14) states: *"Employee must submit a Non-Travel Business Expense Report, ACCT-501: Part II (TBE Report) with all applicable approvals and documents before it will be processed."* In addition, Part II of the Travel Business Expense report requires the employee to document the type of expense and its business purpose.

An employee from the Transit Security Department submitted a non-travel expense for reimbursement, but only completed Part I of the TBE report, indicating the amount of the expense only. Attached to the TBE Report, Part I was only a receipt. There was no documentation on the TBE Report- Part I of the expense's "Business Purpose", which is required by Metro's Non-Travel Business Expense Policy (FIN 14). Part II of the TBE report requires employees to document the type of expense and its business purpose.

Recommendations:

Transit Security

- Review with staff the proper procedures for submitting a non-travel expense for reimbursement, including the completion of the TBE Report.
- Approving Officials should ensure that TBE Report with required documents and information has been completed in accordance with Metro's Non-Travel Business Expense Policy (FIN 14).

4. Outdated TBE Report Used for Mileage Reimbursement

Metro's Non-Travel Business Expense Policy (FIN 14) states: *"If no other means of transportation is practical or available, employees who need to use their personal vehicle for business purposes may be reimbursed at the rate set by the Internal Revenue Service."* The current rate, effective for calendar year 2024 is 67 cents per mile. Metro's TBE Report, Part II provides the current mileage rate to be used for reimbursement.

An employee from the Talent Development Department used an outdated TBE form, that had a mileage reimbursement rate of 62.5 cents per mile. This rate was effective in calendar year 2022 and there has been two rate increases since then. When we advised the employee that she was using an outdated TBE Report, the employee stated: *"I was unaware, I continued using the document that was provided to me in September 2023."*

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

Recommendations:

Talent Development

- Communicate to employees the importance of using the most current TBE form.
- Approving officials should verify that the correct rate for mileage reimbursement was used before approving a TBE Report for reimbursement.

Accounting

- Periodically communicate to all employees the importance of using the most current TBE Report for reimbursement.

5. Non-Compliance with Metro Business Travel Guidelines (GEN 65)

Metro Business Travel Guidelines (GEN 65) states: *“Expenses incurred while on authorized travel must be reported and reconciled electronically on a TBE Report submitted through the Travel.Metro.Net. Site. A report is required to be submitted even if the traveler has no reimbursable expenses. The intent is to reconcile all travel costs whether prepaid by LACMTA and/or by Traveler.”*

A member of Metro’s Board of Directors traveled in August 2023. Our review of supporting documentation in Metro’s Financial Information System (FIS), did not find a TBE Report for travel. Metro’s Travel Program Administrator stated that a manual travel Authorization was prepared for this travel and when she contacted the Office of Board Administration about a TBE being completed, she was advised that they had checked the FIS and could not find a TBE Report either.

After some research, it was discovered that the TBE Report had been submitted to Metro’s travel office by email in October 2023 and had been misplaced and never processed. Metro’s travel policies require TBEs to be submitted electronically through Travel.Metro.Net. Workforce Services advised that during the pandemic, email scanned copies of TBE Reports and supporting documents were allowed. However, Workforce Services stated they will be returning to the best practice of requiring the submittal of TBE Reports and all original receipts to the travel office in accordance with Metro policy so that no Travel Authorization (TA) request or Travel Business Expense (TBE) Report is missed due to an overlooked email. The Office of Board Administration also advised that they would review their process and consider having one point of contact for travel to reduce the potential of issues arising related to travel, including TBE Reports being overlooked.

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

Recommendations:

Workforce Services

- Communicate to all employees that emailed TBE Reports and supporting documentation that was allowed during the pandemic will no longer be allowed, and going forward all TBE Reports will be processed in accordance with Metro’s Business travel Guidelines (GEN 65).
- In situations where a manual TA and/or emailed TBE Report must be processed, establish procedures for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Office of Board Administration

- Establish procedures for tracking the status of TBE Reports to ensure that they are processed timely and in accordance with Metro Business Travel Guidelines (GEN 65) going forward, instead of the temporary method that was allowed during the pandemic.

OBSERVATIONS

1. Use of P-Card to Purchase Uniforms and Related Accessories for Transit Security

Our review of the February 2024 P-Card Log for the Transit Security Department found that the P-Card was used to purchase uniforms and other related accessories totaling \$19,090.69 for its officers. See breakdown below:

VENDOR NAME	AMOUNT SPENT
Galls	\$12,903.94
SQ Station Direct	5,770.65
Zavin’s Uniforms	416.10
TOTAL – FEBRUARY 2024	\$19,090.69

We inquired whether Transit Security had considered contracting with one vendor for the purchase of uniforms and related accessories. Having a contract in place would help ensure that Metro receives quality products at reasonable prices. The Cardholder advised that Transit Security had sent out two solicitations but was unable to obtain a contract. She stated that the third solicitation has been put on hold.

If a contract is not viable, another option may be to establish a voucher system similar to the one established for Metro’s bus operator uniforms. Metro identified and vetted 10 vendors who provide uniforms that meet Metro requirements. Bus Operators are given vouchers, with a

Statutorily Mandated Audit of Miscellaneous Expenses

January 1, 2024 to March 31, 2024

Office of the Inspector General

Report No. 25-AUD-03

maximum value, that can be used at any one of the 10 vendors. Vendors issue uniforms to bus operators and bill Metro monthly. Invoices are reviewed by Central Oversight and then paid through Accounts Payable. Operators are eligible for vouchers when they are hired and on their anniversary. Approved items are explicitly listed on the uniform voucher and a notation indicates no other items can be purchased.

The implementation of the Transit Community Public Safety Department (TCPSD) within five years will result in a significant increase in the number of officers at Metro. It is imperative that Metro have a contract in place or some other purchasing system to help ensure that it is receiving quality goods at the best possible price. Also, if a new solicitation is started, Metro should consider how the implementation of the TCPSD could affect contract terms.

Having a contract in place or some other purchasing system, will give Metro the ability to more easily monitor expenditures for uniforms and related accessories. In addition, when P-Card purchases are being made with multiple vendors for the same items, it is harder to monitor fraud, waste, and abuse.

2. Metro Travel Card Reconciliations

Our review of miscellaneous expenses for the period of January to March 2024 found that the Workforce Services Department submitted Metro's July 2023 Citi Card Travel Bill's Reconciliation for processing to Accounting in January 2024, almost 6 months after receipt of the bill. When we inquired about the long delay, the travel program administrator stated: *"Credit card reconciliation varies because we must obtain invoices from reimbursements that are submitted. Not all expense reports are submitted on time or employees choose to not submit at all, leaving the travel department to have to either wait for the reimbursement to come in to obtain invoices or to hunt down the invoices with hotels or car rental companies. I also was the only admin. working on this at the time."*

The Travel Program Administrator advised that when she receives the travel credit card bill, she submits the bill to Accounting for payment and she performs the reconciliation later. Reconciliations should be performed in a timely manner to help ensure that discrepancies as well as potential fraud are identified and corrected as soon as possible. In addition, if reconciliations are too far behind, and discrepancies are identified, and corrections are necessary, there is a possibility that travel expenses could be understated for one fiscal year and overstated for another.

Performing reconciliations in a timely manner will help to provide assurance that expense transactions related to travel are accurate, properly accounted for and in-compliance with Metro policies.

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

COMPARISONS WITH PRIOR PERIODS

In the course of our audit, we noted the following when comparing the miscellaneous expenses for prior quarters and fiscal years. Note: All amounts were based on the audit population.

1. Reviewed Quarter (FY24 Q3) versus Prior Quarter (FY24 Q2) Miscellaneous Expenses

Miscellaneous expenses in the reviewed quarter totaled \$1,976,723, a 28% decrease in expenses compared to the second quarter in FY 2024. This was mainly due to a reduction in advertising expenses. Advertising expenses for the second quarter of this fiscal year totaled \$1,400,244 and \$313,294 for this current quarter, resulting in a \$1,086,950 (78%) decrease in spending. See Table 1 below.

Table 1: Reviewed Quarter versus Prior Quarter

Account	Jan-Mar 2024	Oct-Dec 2023	Increase (Decrease)
Advertising	\$ 313,294	\$ 1,400,244	\$ (1,086,950)
Business Meals	108,614	194,210	(85,596)
Business Travel	154,358	208,508	(54,150)
Corporate Membership	278,224	182,780	95,444
Employee Relocation	81,099	71,020	10,079
Employee Activities and Recreation	71,795	0	71,795
Professional Membership	20,835	11,343	9,492
Seminar and Conference Fee	194,607	111,589	83,018
Miscellaneous (50999) *	740,492	510,364	230,128
Others (Mileage and Parking, etc.)	13,405	41,868	(28,463)
Total	\$ 1,976,723	\$ 2,731,926	\$ (755,203)
Decrease			-28%

** 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 expenditures for 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)*

2. Reviewed Quarter (FY24 Q3) versus Same Quarter of Prior Year (FY23 Q3) Miscellaneous Expenses

Miscellaneous expenses for the reviewed quarter decreased by \$418,434 or 17% as compared to the same quarter of FY23. This was mainly due to decreases in Account 50918 - Advertising and Account 50999 - (Miscellaneous Expense - Other). Advertising and Miscellaneous

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

Expense-Other, dropped 59% and 38% respectively from the third quarter in the prior fiscal year. See Table 2 below.

Table 2: Reviewed Quarter versus Same Quarter of Prior Year

Account	Jan-Mar 2024	Jan-Mar 2023	Increase (Decrease)
Advertising	\$ 313,294	\$ 766,359	\$ (453,065)
Business Meals	108,614	65,915	42,699
Business Travel	154,358	51,163	103,195
Corporate Membership	278,224	152,273	125,951
Employee Relocation	81,099	0	81,099
Employee Activities and Recreation	71,795	0	71,795
Professional Membership	20,835	18,381	2,454
Seminar and Conference Fee	194,607	124,062	70,545
Miscellaneous (50999) *	740,492	1,188,434	(447,942)
Others (Mileage and Parking, etc.)	13,405	28,570	(15,165)
Total	\$ 1,976,723	\$ 2,395,157	\$ (418,434)
Decrease			-17%

3. April 2023 to March 2024 versus April 2022 to March 2023

Miscellaneous expenses for the period April 2023 to March 2024 totaled \$9,539,318, a 6% decrease from the period April 2022 to March 2023, where expenses totaled \$10, 153,444. In each period, April to June, which is the last quarter of Metro’s fiscal year, incurred the most expenses. In the fourth quarters of Fiscal Years 2022 and 2023, miscellaneous expenses totaled approximately \$4.2 million and \$3.1 million respectively. See Figure 1 below.

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

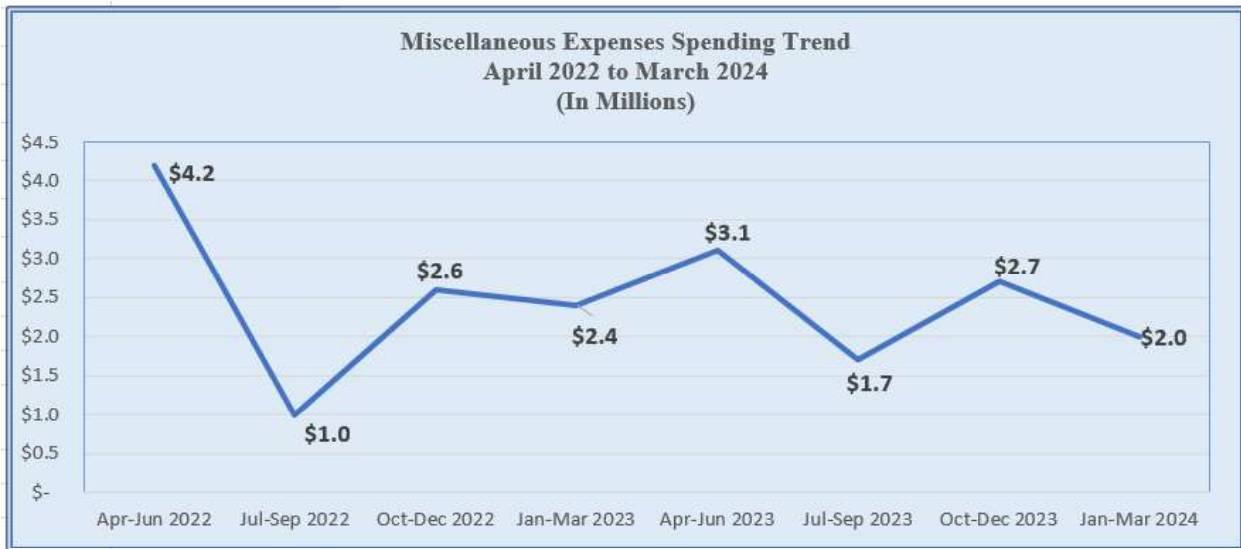
Report No. 25-AUD-03

**Figure 1: Miscellaneous Expenses per Quarter
April 2023 to March 2024 versus April 2022 to March 2023**



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

**Figure 2: Miscellaneous Expenses Spending Trend
April 2022 to March 2024**



As noted earlier, miscellaneous expenses were highest during the last quarter of each fiscal year. Part of this increase can be attributed to the accrual of expenses in June of each fiscal year that are charged to the respective years' budget. It is a common practice to exhaust budgeted funds in the 4th quarter of a fiscal year to avoid trailing expenses to the following fiscal period.

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

CONCLUSION

The miscellaneous expenses we reviewed for the quarter of January 1 to March 31, 2024, generally complied with Metro policies and procedures, were reasonable, and were adequately supported by required documents. However, we found exceptions related to Metro's P-Card Rules and Guidelines, Non-Travel Business Expense policy (FIN14), and Business Travel Guidelines (GEN 65).

RECOMMENDATIONS

We recommend the following:

Transit Security

1. Cardholder should sign and date each page of the P-Card Log as required by P-Card Policies.
2. Approving Officials should ensure the cardholder has prepared the P-Card Log and attachments in accordance with P-Card log guidelines before approving.
3. Monitor compliance with temporary spending limit increases and ensure a written request is prepared and submitted to the P-Card Administrator in accordance with P-Card Rules and Guidelines when necessary.
4. Review with Staff the proper procedures for submitting a non-travel expense for reimbursement, including the completion of the TBE Report.
5. Approving officials should ensure that TBE Reports have required documents and information completed and attached in accordance with Metro Policy.

Program Management

6. Cardholder should sign and date each page of the P-Card Log as required by P-Card Policies.
7. Approving officials should ensure the cardholder has prepared the P-Card Log and attachments in accordance with P-Card Log guidelines before approving.

Vendor/Contract Management – Purchase Card Program

8. Monitor on a continuous basis, the Active Bank Account Report and identify those temporary individual and/or monthly spending limits that should be reviewed and determine if current spending limits need to remain in place.

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

Chief People Office and Accounting

9. Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.

10. Consider the possible expansion of Account 50915 – Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements.

Talent Development

11. Communicate to employees the importance of using the most current TBE Report.

12. Approving officials should verify that the correct rate for mileage reimbursement was used before approving TBE Report for reimbursement.

Accounting

13. Periodically communicate to all employees the importance of using the most current TBE Report for reimbursement.

Workforce Services

14. Communicate to all employees that emailed TBE Reports and supporting documentation that was allowed during the pandemic will no longer be allowed, and going forward all TBE Reports will be processed in accordance with Metro’s Business Travel Guidelines (GEN 65).

15. In situations where a manual TA and/or TBE Report must be processed, establish procedures for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Office of Board Administration

16. Establish procedures for tracking the status of TBE Reports to ensure that they are processed timely and in accordance with Metro’s Business Travel Guidelines (GEN 65) going forward, instead of the temporary method that was allowed during the pandemic.

**Statutorily Mandated Audit of Miscellaneous Expenses
January 1, 2024 to March 31, 2024**

Office of the Inspector General

Report No. 25-AUD-03

MANAGEMENT COMMENTS TO RECOMMENDATIONS

On November 19, 2024, we provided Metro Management our draft report. By December 10, 2024, Metro Management submitted their responses summarizing their corrective actions. See Attachment B.

OIG EVALUATION OF MANAGEMENT RESPONSE

Metro Management 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.

However, we suggest that Vendor/Contract Management reconsider the change that was made to the P-Card Guidelines after the completion of this audit, related to P-Cardholders no longer being required to sign the P-Card Log. Prior to the change, P-Card Rules and Guidelines stated: *“Cardholder must sign and date the certification statement at the bottom of each page of the P-Card log. This certifies that all purchases logged on that page are authorized expenditures to support official Metro business requirements, and all materials or services purchased have been properly accounted for, received, and applied to the intended use.”*

We recommend that Vendor/Contract Management reinstate this Best Practice because it provides acknowledgement by the cardholder who prepares the log that all goods and services listed on the log have been received and used for Metro purpose, and are in accordance with Metro policy.

Summary of Sampled Expenses Audited

Account	Account Description	Audit Population	Sample Amount
50213	Training Program	\$ 9,790	\$6,898
50903	Business Meals	108,614	21,369
50905	Corporate Membership	278,224	139,144
50908	Employee Relocation	81,099	12,945
50910	Mileage and Parking	3,615	995
50912	Professional Membership	20,835	2,400
50914	Schedule Checkers Travel <a>	0	0
50915	Seminar and Conference Fee	194,607	49,363
50917	Business Travel	154,358	16,456
50918	Advertising	313,294	291,866
50930	Employee Activities & Recreation	71,795	14,553
50999	Other Miscellaneous Expenses	<u>740,492</u>	<u>462,933</u>
	Total	<u>\$1,976,723</u>	 <u>\$1,018,922</u>

<a> No expenses incurred for this quarter.

 This total does not include transactions that were less than \$200, offsetting debits and credits, and transactions from the OIG and Transit Court Department

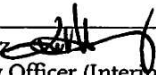
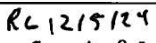
Management Comments to Draft Report

Transit Security



Metro

Interoffice Memo

Date	December 6, 2024
To	Yvonne Zheng Senior Manager, Audit Office of the Inspector General
Through	Kenneth Hernandez  Chief Transit Safety Officer (Interim)
From	Robert Gummer  Deputy Chief, System Security & Law Enforcement
Subject	Response to Draft Report No. 25-AUD-03: Statutorily Mandated Audit of Metro Miscellaneous Expenses

This memo is in response to the draft report of the Statutorily Mandated Audit of Metro Miscellaneous Expenses (Report No. 25-AUD-03). The Metro Office of Inspector General (OIG) performed the audit, which resulted in a series of recommendations to improve Metro’s management practices. The results of the audit identified the following recommendations in relation to the System Security & law Enforcement (SSLE) Department and its compliance with P-Card Rules and Guidelines, and with Non-Travel Business Expense Policy (FIN 14).

1. Non-Compliance with P-Card Rules and Guidelines

a. P- Card Log not signed by Cardholder

Recommendations:

1. Cardholders should sign and date each page of the P-Card Log as required by P-Card Rules and Guidelines.

Response:

System Security & Law Enforcement agrees with the above recommendation. The Transit Security Cardholder agrees to sign and date each page of the P-Card Log as required by the P-Card Rules and Guidelines.

2. Approving Officials should ensure the cardholder has prepared the P-Card Log and attachments in accordance with P-Card Rules and Guidelines before approving.

Response:

System Security & Law Enforcement agrees with the above recommendation. Before approval, the approving official will ensure that the cardholder has prepared the P-Card Log and attachments in accordance with the P-Card Rules and Guidelines.

Date of Completion: The estimated completion date will be ongoing for compliance and was put into effect starting October 1, 2024

Management Comments to Draft Report

Transit Security - Continued

b. P- Card Monthly Spending Limit Exceeded

Recommendation:

1. Monitor compliance with temporary spending limit increases and ensure that written requests for temporary spending limit extensions are prepared and submitted to the P-Card Administrator in accordance with P-Card Rules and Guidelines.

Response:

System Security & Law Enforcement agrees with the above recommendation. Transit Security Cardholder agrees and will ensure that written requests for temporary spending limit extensions are prepared and submitted to the P-Card Administrator in accordance with P-Card Rules and Guidelines.

Date of Completion: The estimated completion date will be ongoing for compliance and was put into effect starting October 1, 2024

3. Non-Compliance with Non-Travel Business Expense Policy (FIN 14)

Recommendations:

1. Review with staff the proper procedures for submitting a non-travel expense for reimbursement, including the completion of the TBE report.

Response:

System Security & Law Enforcement agrees with the above recommendation. Transit Security Management will review with staff the proper procedures for submitting a non-travel expense for reimbursement, including completing the TBE report.

2. Approving Officials should ensure that TBE Report with required documents and information has been completed in accordance with Metro's Non-Travel Business Expense Policy (FIN14)

Response:

System Security & Law Enforcement agrees with the above recommendation. Transit Security will have administration staff review the TBE report before submission to ensure that it contains the required documents and information and is completed in accordance with Metro's Non-Travel Business Expense Policy (FIN14).

Date of Completion: The estimated completion date will be ongoing for compliance and was put into effect starting October 1, 2024


Management Comments to Draft Report

Program Management



Metro

Interoffice Memo

Date	December 5, 2024
To	Yvonne Zheng Senior Manager, Audit
From	Tim Lindholm Chief Program Mgmt Officer 
Subject	Response to OIG Audit No. 25-AUD-03

The Office of Inspector General (OIG) audited Metro’s miscellaneous expenses from January 1, 2024, to March 31, 2024. OIG found that the sampled transactions generally complied with Metro policies, were reasonable, and adequately supported by required documents.

However, there was a finding related to a program management P-card log that was missing the cardholder’s signature. Therefore, Program Management will take the actions below to comply with the audit recommendations.

Noncompliance with the Purchase Card Rules and Guidelines

Recommendation: Cardholders should sign and date each page of the P-Card log as required by policies. Approving officials should ensure the cardholder has prepared the P-Card Log and attachments in accordance with P-Card guidelines, before approving.

Management Response: The Chief Program Management Officer will issue a memo advising all P-Card holders to sign and date the monthly P-Card log and reminding the approving official to confirm that cardholders prepare P-Card Logs and attachments, in accordance with the P-Card Log guidelines before approval.

Completion Date: December 31, 2024.

Please call me at extension 27297 or Kathy Knox at extension 27504 if you would like to discuss this or require additional information.

Management Comments to Draft Report

Vendor/Contract Management – Purchase Card Program



Metro

Interoffice Memo

Date	December 3, 2024
To	Yvonne Zheng Senior Manager, Audit Office of the Inspector General
From	Nalini Ahuja, Chief Financial Officer
Subject	Management Response – Statutorily Mandated Audit of Metro Miscellaneous Expenses – January 1, 2024, to March 31, 2024

The Office of Inspector General (OIG) performed a review of Metro Miscellaneous Expenses from January 1, 2024, to March 31, 2024 (Report No. 25-AUD-03).

Audit Conclusion

This audit found that the transactions reviewed generally complied with Metro policies, were reasonable, and were adequately supported by required documents. Upon engagement with V/CM and Office of Inspector General regarding this review, OIG auditors have reported on the following finding:

- 1. Purchase Card Monthly Spending Limit Exceeded by Transit Security due to temporary limits not reset timely by V/CM Purchase Card Program.

Based on these findings, OIG’s report documented one recommendation to improve transactions of Metro Miscellaneous Expenses. Below is V/CM’s responses for Report No. 25-AUD-03.

OIG Recommendation:

Recommendation:

- Monitor on a continuous basis, the Active Bank Account Report and identify those temporary individual and/or monthly spending limits that should be reviewed and determine if current spending limits need to remain in place.

V/CM Response:

- **Agree.** V/CM has implemented this recommendation. To minimize the risk of this from happening in the future, the Purchase Card Administrator has modified the Active Bank Account Report to add columns which capture temporary single and monthly purchase

Management Comments to Draft Report

Vendor/Contract Management – Purchase Card Program - Continued

limit amounts and their expiration dates in addition to having permanent limit columns. Furthermore, this report update was added into existing desk procedures that are used to administer the program. These program enhancements were completed in August 2024.

Any questions or concerns can be addressed to me, Nalini Ahuja at 213-922-3088.

Cc: Debra Avila, Deputy Chief Vendor/Contract Management Officer
Dr. Irma L. Licea, Executive Officer, Vendor/Contract Management
Abraham Lora, Senior Director, Finance, Vendor/Contract Management

Management Comments to Draft Report

Chief People Office



Metro

Interoffice Memo

Date	December 10, 2024
To	Yvonne Zheng Senior Manager, Audit Office of the Inspector General
From	Dawn Jackson-Perkins Interim Chief People Officer
Subject	Statutorily Mandated Audit of Metro Miscellaneous Expenses January 1, 2024 to March 31, 2024 (Report No. 24-AUD-03)



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 our response below to the recommendation pertaining to the Chief People Office (CPO).

Recommendation

#9. Chief People Office & Accounting: Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.

Response: Staff will consider the recommendation. CPO will collaborate with Accounting and other stakeholders to consider creating a Certification Program Policy where the employee would be required to complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs. CPO will also review HR1 (Tuition Reimbursement) to determine whether updating this policy is necessary based on this audit and recommendation.

Completion Date: March 31, 2025

Management Comments to Draft Report

Chief People Office -Continued



Metro

Interoffice Memo

- #10. Chief People Office & Accounting: Consider the possible expansion of Account 50915 – Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements.

Response: The Chief People Office and Accounting considered the recommendation, and we determined that the use of General Ledger (GL) Expense Account 50915 is not suitable to track any future cost threshold for certification programs. The purpose of the GL expense account is to enable the agency to properly record, classify, and report transactions that fit the nature of the expense account. The cost threshold may be set as part of any future Certification Program Policy and adherence to the policy will be the responsibility of the requestor and the approver. *(see Accounting Response for details)*

Completion Date: NA

- #11. Talent Development: Communicate to employees the importance of using the most current TBE Report.

Response: Staff concurs with the recommendation. Talent Development will communicate to its employees the importance of using the most current TBE Report.

Completion Date: January 31, 2025

- #12. Talent Development: Approving officials should verify that the correct rate for mileage reimbursement was used before approving TBE Report for reimbursement.

Response: Staff concurs with the recommendation. Talent Development will ensure that its approving officials will verify that the correct rate for mileage reimbursement was used before approving TBE Report for reimbursement.

Completion Date: January 31, 2025

- #14. Workforce Services: Communicate to all employees that emailed TBE Reports and supporting documentation that was allowed during the pandemic will no longer be allowed, and going forward all TBE Reports will be processed in accordance with Metro's Business Travel Guidelines (GEN 65).

Response: Staff concurs with the recommendation. Workforce Services has communicated to departments as of October 31, 2024, who commonly submit manual Travel Requests, that emailed TBE Reports and supporting documentation that were allowed to replace manual hard copy submittals during the pandemic will no longer be

Management Comments to Draft Report

Chief People Office-Continued



Metro

Interoffice Memo

allowed, and going forward all TBE Reports will be processed in accordance with Metro's Business Travel Guidelines (GEN 65).

Completion Date: October 31, 2024

- #15. Workforce Services: In situations where a manual TA and/or TBE Report must be processed, establish procedures for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Response: Staff concurs with the recommendation. For situations where a manual TA and/or TBE Report must be processed, Workforce Services has established procedures as of October 31, 2024 for tracking the status of the TA and/or TBE Report to reduce the possibility of it being overlooked.

Completion Date: October 31, 2024

Management Comments to Draft Report

Accounting



Metro

Interoffice Memo

Date	December 6, 2024
To	Yvonne Zheng Senior Manager, Audit Office of Inspector General
Through	Nalini Ahuja Chief Financial Officer
From	Diana Estrada DE Interim Sr. Executive Officer, Finance
Subject	Response to OIG Report on Statutorily Mandated Audit of Miscellaneous Expenses January 1, 2024 to March 31, 2024 (Report No. 25-AUD-03)

The audit recommends that:

1. Outdated TBE Report Used for Mileage Reimbursement

Accounting

Periodically communicate to all employees the importance of using the most current TBE Report for reimbursement

Management Response: Agree

Accounting will periodically communicate to all employees the importance of using the most updated TBE form. On November 18, 2024, we sent out our first communication, via Daily Brief, reminding employees to use the updated TBE form in our intranet. We will continue sending out reminders at the beginning of each calendar quarter, or when changes are made in the TBE form.

Metro Internal (no-reply)
To: All Email Recipients
Retention Policy: Metro 3 Years Inbox folder (3 years)
Expires: 11/18/2027
Mon 11/18/2024 5:01 PM

You replied to this message on 11/18/2024 5:28 PM.

- BR-Equity-Section-Training_111924.ics (15 KB)
- Interoffice Memo_Cashier's Desk Closed between November 28 and 29, 2024.pdf (141 KB)

Updates to the Mileage Rate from Metro Accounting

A friendly notice that Accounting updates the mileage rate in the Travel & Business Expense Report form (TBE) per the guide published annually at the beginning of the year. Posted on the Accounting websites are the TBE forms for your use.

It is important that employees use the current TBE form relevant to the traveling period for appropriate reimbursement.

Here is the link: [https://lacmta.sharepoint.com/sites/Accounting2/SitePages/Forms\(1\).aspx?ga=1](https://lacmta.sharepoint.com/sites/Accounting2/SitePages/Forms(1).aspx?ga=1)

Management Comments to Draft Report

Accounting – Continued**2. Absence of Policy related to payments for Expensive Certification Programs****Chief People Office and Accounting:**

- Review the current status of how Certification Programs are accounted for and consider creating a Certification Program Policy where the employee would be required to successfully complete the program, obtain the certification paid for by Metro, and maintain employment with Metro for a certain period of time after completion of the program, or be required to reimburse Metro for the costs.
- Consider the possible expansion of Account 50915 – Fees for conferences, seminars, and certifications, to track and include a cost threshold for certain certification programs, where employee would have to adhere to the new policy requirements

Management Response:

- We agree to support the Chief People Office for any financial information needed as they consider the creation of a Certification Program Policy.
- We considered the recommendation, and we determined that the use of General Ledger (GL) Expense Account 50915 is not suitable to track any future cost threshold for certification programs. The purpose of the GL expense account is to enable the agency to properly record, classify, and report transactions that fit the nature of the expense account. The cost threshold may be set as part of any future Certification Program Policy and adherence to the policy will be the responsibility of the requestor and the approver.

Should you have any questions, please feel free to call me at ext. 22161

Thank you.

CC: Elaine Dimson, Sr. Director, Accounting
Don Howey, EO Administration
Michelle Thaug, Manager, Accounting
Ernest Ruben, Principal Transportation Planner

Management Comments to Draft Report

Office of Board Administration



Metro

Interoffice Memo

Date	November 19, 2024
To	Yvonne Zheng Sr. Manager, Audit
From	Collette Langston Board Clerk <i>[Signature]</i>
Subject	Response to OIG Audit No. 25-AUD-03

This memo is in response to the Office of the Inspector General audit, 25-AUD-03, which found that a member of Metro’s Board of Directors traveled in August 2023 and the expense report for said travel was not processed due to a number of reasons.

As the audit states, the expense report was submitted in accordance with Metro’s Business Travel Guidelines (GEN 65). The issue arises due to the expense report being submitted via email and being overlooked for processing, instead of being submitted through Metro’s Financial Information System (FIS).

Board Administration determined that our internal procedures will be reviewed by the end of calendar year 2024 to ensure that all future expense reports are submitted through the proper channels and that staff follows up, as necessary.

Please contact me at 213.364.6681 if you would like to discuss or require additional information.

Final Report Distribution

Board of Directors

Kathryn Barger
Karen Bass
James Butts
Jacquelyn Dupont-Walker
Fernando Dutra
Janice Hahn
Lindsey Horvath
Paul Krekorian
Holly Mitchell
Ara Najarian
Gloria Roberts
Tim Sandoval
Hilda Solis
Katy Yaroslavsky

Metro

Chief Executive Officer
Chief of Staff
Board Clerk
Inspector General
Chief Financial Officer
Chief People Officer (Interim)
Chief Program Management Officer
Chief Safety Officer (Interim)
Deputy Chief Vendor/Contract Management Officer
Deputy Chief Auditor

Audit of Miscellaneous Expenses January 1 to March 31, 2024

OIG Report No. 25-AUD-03
Karen Gorman, Inspector General

February 20, 2025



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; and
- Policies and procedures are adequate to ensure that expenses are documented and accounted for properly.



Metro

Results of Audit

- Staff generally complied with Metro policies and procedures; however, OIG found the following:
 - Non-Compliance with P-Card Rules and Guidelines
 - Absence of Policy Related to payments for expensive Certification Programs
 - Non-Compliance with Non-Travel Business Expense Policy (FIN 14)
 - Outdated TBE Report used for mileage reimbursement
 - Non-Compliance with Metro Business Travel Guidelines (GEN 65)

- ❖ OIG provided **16** recommendations.



Board Report

File #: 2025-0031, **File Type:** Informational Report

Agenda Number: 22.

**FINANCE, BUDGET AND AUDIT COMMITTEE
FEBRUARY 20, 2025**

SUBJECT: MANAGEMENT AUDIT SERVICES FY 2025 SECOND QUARTER REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Management Audit Services FY 2025 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 are in progress, including information related to audit follow-up activities.

BACKGROUND

It is customary for MAS to deliver the quarterly status report. The FY 2025 second quarter report covers the period from October 1, 2024, to December 31, 2024.

MAS provides audit services in support of 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, which includes audit support functions. Performance Audit is mainly responsible for internal audits of Metro Departments and their operating units, including Planning and Development, Operations, Program Management, The Chief People Office, Strategic Financial Management, Customer Experience, Safety, Customer Experience, and units of 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, quality assurance,

financial management, including audit support, audit follow-up, and resolution tracking.

DISCUSSION

The following summarizes MAS activity for FY 2025 second quarter:

Performance Audits: 2 audits were completed; 6 projects were in progress.

Contract, Financial and Compliance Audits: 16 audits with a total value of \$96 million were completed; 76 were in progress.

Financial and Compliance Audits of Metro: 8 audits were issued by external Certified Public Accounting (CPA) firms

Audit Follow-up and Resolution: 2 recommendations were closed; 42 recommendations are open.

The FY 2025 Second Quarter Report is included as Attachment A.

EQUITY PLATFORM

Management Audit Services' quarterly audit activities provide an additional level of review and assessment to identify potential equity impacts from Metro's work and performance. There are no known equity impacts or concerns from audit services conducted during this period.

VEHICLE MILES TRAVELED OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active transportation, it is a vital part of Metro operations, as it provides information on audits in support of Metro's various projects and programs. Because the Metro Board has adopted an agency-wide VMT Reduction Target, and this item generally supports the overall function of the agency, this item is consistent with the goals of reducing VMT.

*Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Management Audit Services FY 2025 Second Quarter Report supports 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.

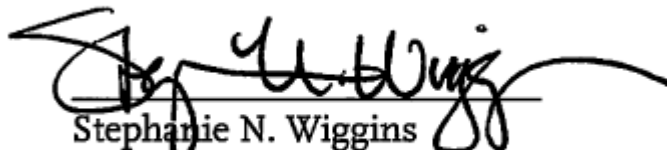
ATTACHMENT

Attachment A - Management Audit Services (MAS) FY 2025 Second Quarter Report

Prepared by:

Monica Del Toro, Senior Manager, Audit, (213) 922-7494
Lauren Choi, Senior Director, Audit, (213) 922-3926
Alfred Rodas, Senior Director, Audit, (213) 922-4553
Kimberly L. Houston, Deputy Chief Auditor, (213) 922-4720

Reviewed by: Sharon Gookin, Deputy Chief Executive Officer, (213) 418-3101



Stephanie N. Wiggins
Chief Executive Officer

Quarterly Report to Metro Board of Directors

FY 2025 Second Quarter



Metro

**MANAGEMENT
AUDIT SERVICES**

Table of Contents

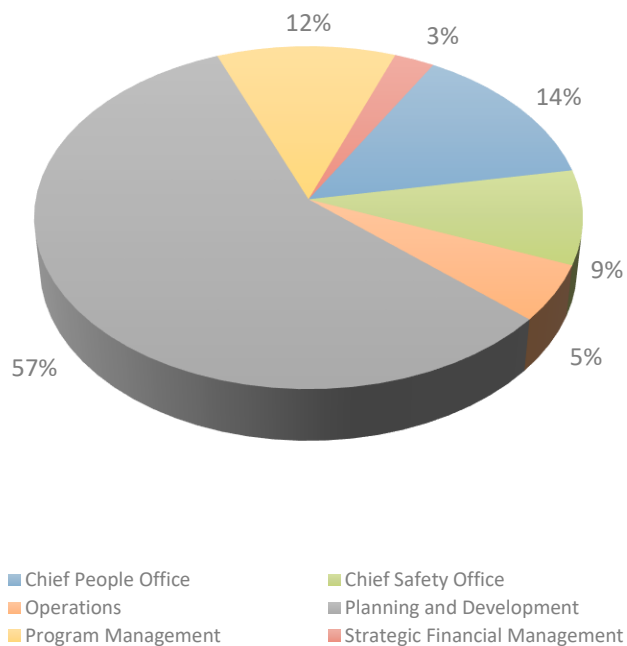
Executive Summary	3
<i>Summary of In-Progress Audit Activity</i>	3
<i>Summary of Completed Audit Activity</i>	3
Performance Audits	4
<i>Third-Party Risk Management – Outsourced Service Providers</i>	4
<i>Bus Operations’ Continuity of Operations Plan</i>	4
Contract, Financial & Compliance Audits	5
Financial and Compliance Audits of Metro.....	6
Audit Follow-Up and Resolution	7
Summary Tables	
Appendix A – Performance Audits in Progress	8
Appendix B – Contract, Financial and Compliance Audits Completed.....	9
Appendix C – Open Audit Recommendations.....	11

Executive Summary

In Progress Projects
as of December 31, 2024



Summary of Audit Activity by Department
Reporting Period
October 1, 2024 – December 31, 2024



Summary of In-Progress Audit Activity

As of December 31, 2024, Management Audit Services (MAS) had 82 in-progress projects, including 6 performance projects and 76 contract, financial and compliance audits. The in-progress performance projects are listed in Appendix A.

As of the reporting period, there are 42 open MAS audit recommendations.

Summary of Completed Audit Activity

MAS completed 26 audit projects. The projects are comprised of 2 performance audits, 16 contract, financial and compliance audits, and 8 financial and compliance audits of Metro issued by external 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 5. The other audits issued by external firms is highlighted on page 6

A summary of the open audit recommendations is included on page 7.

Performance Audits

This section includes performance audits completed in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards, in addition to other types of projects performed by the Performance Audit team to support Metro. Other projects may include independent reviews, analyses, 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.

Third-Party Risk Management – Outsourced Service Providers

MAS completed the Performance Audit of Third-Party Risk Management - Outsourced Service Providers. The audit's objective was to assess Metro's third-party information security risk management.

MAS noted that the Information Security team is in the early stages of implementing a Vendor Risk Management program and uses National Institute of Standards and Technology (NIST) guidelines as guidance. However, a fully developed policy and standard operating procedures still need to be created for this area and distributed agency wide. Also, training is needed for project managers who interact with contracted service providers handling sensitive or confidential information. Finally, enhancements to the Contract Information Management System are necessary to support Metro's information security risk management efforts. MAS provided management with eight recommendations and will follow up to ensure implementation.

Bus Operations' Continuity of Operations Plan

MAS completed the Performance Audit of Bus Operations' Continuity of Operations Plan (COOP). The audit's objective was to assess the adequacy of Bus Operations' COOP and Standard Operating Procedures (SOPs) for supporting mission essential functions during emergencies.

MAS noted Bus Operations has both a COOP and SOPs in place, but they require enhancements to better support the mission's essential functions during emergencies. For instance, Contracted Bus Services need to be included in the Metro Bus COOP for coordination during major emergencies. Also, the Bus COOP is missing some key information necessary for efficiently continuing the mission essential functions during emergencies, such as contact information for executives with COOP responsibilities. Further, periodic Bus COOP training and updates have not been done since the adoption of the Bus COOP, and Bus divisions did not have designated backup locations. Finally, Metro does not have formal emergency service priority commitments with electric utilities to guarantee continuity and provision of power for buses during power shortages or local outages, including warning before service cuts and priority restoration during extended emergencies as an essential public service. MAS provided management with eight recommendations and will follow up to ensure implementation.

Contract, Financial & Compliance Audits

MAS staff completed 16 independent auditor reports on agreed-upon procedures for the following:

Project	Reviewed Amount	Questioned and/or Reprogrammed Amount
City of Hawthorne - Hawthorne Blvd Arterial Improvements	\$5,663,932	\$-
City of Carson - Wilmington Ave Interchange	\$39,154,415	\$11,362,000
Beach Cities Health District - Diamond St to Flagler Bike Lane	\$2,069,263	\$-
City of West Hollywood - Complete Streets	\$5,471,702	\$-
City of Burbank - Traffic Responsive Signal System	\$1,575,227	\$-
City of Pasadena - Rose Bowl Access Systems	\$1,597,372	\$63,843
City of Burbank - Midtown Commercial Corridors Improvement	\$1,389,519	\$-
City of Santa Monica - Signal Synchronization Improvements	\$952,999	\$-
City of South Gate - Garfield Ave Median Improvement	\$395,079	\$-
City of Cerritos – Carmenita / South St Intersection Improvement	\$658,960	\$85,563
City of Torrance - Transportation Management System Improvements	\$423,488	\$-
City of Pomona - Bicycle Network for Community Access	\$9,935,260	\$-
City of Lakewood - Del Amo at Lakewood Blvd Improvements	\$5,981,568	\$984,584
City of Inglewood - Century Blvd Mobility Improvement	\$20,568,349	\$-
<i>Reviewed and questioned costs were not identified for the following, as these audits reviewed labor rates for pre-award or indirect cost rates.</i>		
CTI Environmental, Inc.	N/A	N/A
Gruen Associates	N/A	N/A
Total Amount	\$95,837,133	\$12,495,990

Details on contract, financial and compliance audits completed during FY 2025 second quarter are included in Appendix B.

Financial and Compliance Audits of Metro

The following highlights 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 audits of the financial statements and compliance for the year ended June 30, 2024, 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 the above financial statements present fairly, in all material respects, for the fiscal year ended June 30, 2024, 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, 2024.

The results of the fund audits will be presented to their respective Independent Taxpayer Oversight Committee.

Audit Follow-Up and Resolution

The tables below summarize the open audit recommendations as of December 31, 2024.

MAS and External Audit Recommendations				
Executive Area	Closed	Currently Open	Added in Q3	Past Due
Chief People Office	1	3		
Chief Safety Office	1	1	5	
Operations		14	3	
Strategic Financial Management		10	6	
Total	2	28	14	

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

Appendix A

Performance Audit - In Progress Projects as of December 31, 2024				
No.	Area	Project Number & Title	Description	Estimated Date of Completion
1	Program Management	*24-CON-P01 - Eastside Access Improvement Project (EAIP)	Assess whether usage of EAIP funds, including grants, complied with applicable terms, conditions, and restrictions, and determine whether the executed scope of the EAIP aligned with the scope described in the Board Report, Grant, and other funding agreements and assess reasons for variances, including change orders.	3/2025
2	Program Management	24-CON-P01 - Purple (D-Line) Extension 1 (PDLE1)	Evaluate the state of processes and planning for final-year activities (testing, certification, training, activation) of PDLE1 transit project prior to start of revenue operations.	3/2025
3	Chief People Office	*24-PEN-P01 – Employee Pension Benefits	Verify the accuracy of pension payroll deductions and contributions for active eligible employees.	3/2025
4	Chief Safety Office	24-SEC-P01 – Physical Security Monitoring Equipment	Assess the adequacy of policies and procedures regarding video monitoring equipment at the agency.	4/2025
5	Chief People Office	*24-BEN-P01 – Employee Health Care Benefits	Verify the accuracy and completeness of the health and dental benefits enrollment and the corresponding payroll deductions for all active eligible recipients, excluding represented employees and retirees, and confirm elected coverages correspond with payroll deductions and benefits received.	4/2025
6	Program Management / Operations	25-CON-P01 - Gold Line Extension Phase 2B	Evaluate Metro's oversight of the Metro Gold Line Foothill Extension Construction Authority's project management of Gold Line Extension Phase 2B Project, and Metro Operations' project management over the final year processes leading to revenue service.	5/2025

* Audits 1, 3, and 5 listed above were initiated at the request of Metro's Chief Executive Officer.

Appendix B

Contract, Financial and Compliance Audit - Audits Completed as of December 31, 2024				
No.	Area	Audit Number & Type	Auditee	Date Completed
1	Planning & Development	20-HWY-A09 - Agreed-Upon Procedures	City of Hawthorne	10/2024
2	Program Management	22-CON-A04 - Agreed-Upon Procedures	CTI Environmental, Inc.	10/2024
3	Planning & Development	23-PLN-A01 - Agreed-Upon Procedures	City of Carson	11/2024
4	Planning & Development	24-PLN-A25 - Agreed-Upon Procedures	Beach Cities Health District	11/2024
5	Planning & Development	25-PLN-A02 - Agreed-Upon Procedures	City of West Hollywood	11/2024
6	Program Management	23-CON-A01 - Agreed-Upon Procedures	Gruen Associates	11/2024
7	Planning & Development	24-PLN-A07 - Agreed-Upon Procedures	City of Burbank	12/2024
8	Planning & Development	24-PLN-A09 - Agreed-Upon Procedures	City of Pasadena	12/2024
9	Planning & Development	25-PLN-A03 - Agreed-Upon Procedures	City of Burbank	12/2024
10	Planning & Development	25-PLN-A07 - Agreed-Upon Procedures	City of Santa Monica	12/2024
11	Planning & Development	24-HWY-A08 - Agreed-Upon Procedures	City of South Gate	12/2024

Appendix B

Contract, Financial and Compliance Audit - Audits Completed as of December 31, 2024				
No.	Area	Audit Number & Type	Auditee	Date Completed
12	Planning & Development	25-HWY-A02 - Agreed-Upon Procedures	City of Cerritos	12/2024
13	Planning & Development	25-PLN-A11 - Agreed-Upon Procedures	City of Torrance	12/2024
14	Planning & Development	25-PLN-A14 - Agreed-Upon Procedures	City of Pomona	12/2024
15	Planning & Development	24-HWY-A09 - Agreed-Upon Procedures	City of Lakewood	12/2024
16	Planning & Development	24-PLN-A15 - Agreed-Upon Procedures	City of Inglewood	12/2024

Appendix C

Open Audit Recommendations as of December 31, 2024						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Chief People Office	20-ITS-P03 - Performance Audit of Information Security Awareness	16	We recommend the Deputy Chief Information Technology Officer require Information Technology Services team to instruct system owners to review, update and/or deactivate the user access lists immediately. Update: Closed as of January 2025.	12/31/2024	
2	Chief People Office	20-ITS-P03 - Performance Audit of Information Security Awareness	17	We recommend the Deputy Chief Information Technology Officer require Information Technology Services team to clarify and enforce the roles and responsibilities of system owners and data custodians to review and update the access list periodically. Update: Closed as of January 2025.	12/31/2024	
3	Chief People Office	20-ITS-P03 - Performance Audit of Information Security Awareness	18	We recommend the Deputy Chief Information Technology Officer periodically remind system owners and data custodians to require system user departments to notify them of any changes in the employment/assignment status.	12/31/2024	
4	Chief Safety Office	21-RSK-P03 - Performance Audit of Transit Asset Inventory Records	3	Work with the EAMS implementation team and other functional groups (Accounting, ITS, Operations etc.), who maintain an asset list, to consolidate inventory records in the upcoming EAMS. Update: Closed as of January 2025.	11/30/2022	12/31/2024
5	Operations	21-SEC-P01 - Performance Audit of Rail Operations' Continuity of Operations Plan	6 Total	These recommendations address findings in Metro's Operational System and/or other security-sensitive programs.	Ongoing	
6	Operations	22-OPS-P03 - Performance Audit of Operations Central Instruction & Development Training	1	OCI Management should establish and document a formal process for overseeing training courses that are required under the OCI Training Matrix and delivered by either OCI or the Divisions to ensure compliance with the PTASP.	6/30/2025	
7	Operations	22-OPS-P03 - Performance Audit of Operations Central Instruction & Development Training	2	OCI Management should update the OCI Standard Operating Procedures (SOP), Revision 1, January 22, 2020, to ensure alignment with the PTASP OCI Training Matrix and current practices.	6/30/2025	
8	Operations	22-OPS-P03 - Performance Audit of Operations Central Instruction & Development Training	3	OCI Management should explore the feasibility of adding the proper naming convention within OTTS when an employee completes training courses for the first, second, and third avoidable accidents within 18 months of the first accident. The naming convention should align with the procedures outlined in the PTASP on Post Accident Training.	6/30/2025	
9	Operations	22-OPS-P03 - Performance Audit of Operations Central Instruction & Development Training	4	OCI Management should explore the feasibility of utilizing OTTS or collaborate with Talent Development, to assess the capability of using the Adobe Learning Management System to capture not only employees' training course titles and hours but also as a data repository for all hard copy files associated with an employee's completed training records. This will help ensure that all training files are maintained in a centralized location. Regardless of the chosen approach, OCI Management should pursue an alternative solution, including documenting the process.	6/30/2025	

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

Appendix C

Open Audit Recommendations as of December 31, 2024						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
10	Operations	22-OPS-P03 - Performance Audit of Operations Central Instruction & Development Training	5	To help with archival and retrieval of OCI Matrix training courses, OCI Management should collaborate with the Divisions to develop a standardized method for retaining attendee rosters. This approach should be uniform and adopted across all Bus Divisions.	6/30/2025	
11	Operations	22-OPS-P03 - Performance Audit of Operations Central Instruction & Development Training	6	For consistent record keeping across OCI and the Bus Divisions, OCI and Division Management should document their process for the electronic archiving of training records for employees and Goodyear contractor personnel. This should include a training checklist outlining essential documents (e.g. DL260) required for each type of OCI Matrix training course.	6/30/2025	
12	Operations	22-OPS-P03 - Performance Audit of Operations Central Instruction & Development Training	7	OCI Management should collaborate with the Divisions to formally communicate the need to comply with the OCI Training Matrix as it relates to recommendations 1-7.	6/30/2025	
13	Operations	22-OPS-P03 - Performance Audit of Operations Central Instruction & Development Training	9	OCI Management should work with Corporate Safety to ensure that the OCI Training Matrix includes current course descriptions, and any updates should be communicated to all staff that have responsibility for compliance with the OCI Training Matrix.	6/30/2025	
14	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	1	Logistic Planners (Planners) should document policies and procedures that include processes, methodologies, key parameters, considerations, and filters used by Logistics staff during the monthly review process to establish reorder points, business impact and other relevant criteria.	6/27/2025	
15	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	3	Require Planners to reexamine inventory items classified as Business Impact C for upgrade consideration to Business Impact to "A" or "B" if inventory items are known to cause revenue vehicles to be downed or out of service. This would accurately reflect their criticality.	6/27/2025	
16	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	4	Collaborate with ITS to make the Business Impact field a mandatory data entry field in the MRO/IO system.	6/27/2025	
17	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	5	Logistics Management should eliminate terminated and retired employees' master key access to facilities by either replacing all locks with electronic key card access or altering locks to prevent older master keys from gaining access to the buildings.	10/31/2024	12/27/2025
18	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	6	Ensure newly issued keys are assigned to appropriate individuals. When an individual no longer needs a key, collect and log the key's return.	10/31/2024	12/27/2025
19	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	7	Remove key card access for terminated and retired employees.	10/31/2024	12/27/2025

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Appendix C

Open Audit Recommendations as of December 31, 2024						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
20	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	8	Work with Building Services and Facilities Maintenance to limit access to all their storerooms to those who require it, revoke access for all others, and confirm that their access has been removed. Logistics should also review the logs in detail on a regular basis to ensure they are up to date.	10/31/2024	12/27/2025
21	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	9	Logistics should document any exceptions to policies and procedures regarding general cycle count timelines, including how the respective area counts are to be performed.	10/31/2024	9/27/2025
22	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	2A	Incorporate into Policies and Procedures requirements for Planners to review and populate all prior missing Business Impact fields.	6/27/2025	
23	Strategical Financial Management	23-VCM-P03 - Performance Audit of Critical Spare Parts Inventory	2B	Incorporate into Policies and Procedures requirements for regular review and update to the Business Impact field.	6/27/2025	
24	Strategical Financial Management	23-ITS-P01 - Performance Audit of Third-Party Risk Management - Outsourced Service Providers	6 Total	These recommendations address findings in Metro's Operational System and/or other security-sensitive programs.	Ongoing	
25	Chief Safety Office	23-SEC-P01 - Performance Audit of Bus Operations' Continuity of Operations Plan	1	The Chief Safety Officer should instruct Emergency Management to collaborate with Contracted Bus Services to include Contracted Bus Services in the Bus COOP as a mission essential function and update the Bus COOP and external contractor agreements with any necessary information related to Contracted Bus Service emergency procedures.	4/30/2025	
26	Chief Safety Office	23-SEC-P01 - Performance Audit of Bus Operations' Continuity of Operations Plan	2	Emergency Management should collaborate with Bus Operations for annual Bus COOP training and testing.	12/31/2025	
27	Chief Safety Office	23-SEC-P01 - Performance Audit of Bus Operations' Continuity of Operations Plan	3	Emergency Management should coordinate with the Bus Operations 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; and reference and attach/link all Bus COOP-related SOPs as appendices to the Bus COOP.	4/30/2025	
28	Operations	23-SEC-P01 - Performance Audit of Bus Operations' Continuity of Operations Plan	4	Bus Operations should update the SOP contact details as requested by Emergency Management on a periodic basis, e.g., quarterly or semi-annually; when a revised organization chart is issued with changes to key personnel; or whenever there is a change in executive continuity personnel.	4/30/2025	
29	Operations	23-SEC-P01 - Performance Audit of Bus Operations' Continuity of Operations Plan	5	Bus Operations should create a roster of trained personnel and include it in the Bus COOP or reference the SOP.	4/30/2025	

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Appendix C

Open Audit Recommendations as of December 31, 2024						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
30	Chief Safety Office	23-SEC-P01 - Performance Audit of Bus Operations' Continuity of Operations Plan	6	Emergency Management should collaborate with Bus Operations to ensure that each Bus division has a designated primary and secondary relocation site for maintenance and/or storage for enough of its buses to maintain service, including a schedule of required equipment, tools, and spares that should be relocated with staff and vehicles.	4/30/2025	
31	Chief Safety Office	23-SEC-P01 - Performance Audit of Bus Operations' Continuity of Operations Plan	7	Emergency Management should collaborate with Bus Operations to establish which backup facilities (a primary and secondary location) each employee should report to in an emergency.	4/30/2025	
32	Operations	23-SEC-P01 - Performance Audit of Bus Operations' Continuity of Operations Plan	8	Bus Operations should establish a formal working group to secure agreements with the various utility companies that support Metro Bus Operations to commit these entities to provide Metro with priority for service continuity and restoration in emergency situations, in accordance with Metro's regulatory tier as an essential public service. The working group should include representation from Sustainability, Governmental Relations, Emergency Management, Vendor Contract Management, Project Delivery Third Party Coordination, and County Counsel.	3/31/2025	

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Management Audit Services

FY 2025 Second Quarter Report

Finance, Budget & Audit Committee
February 20, 2025

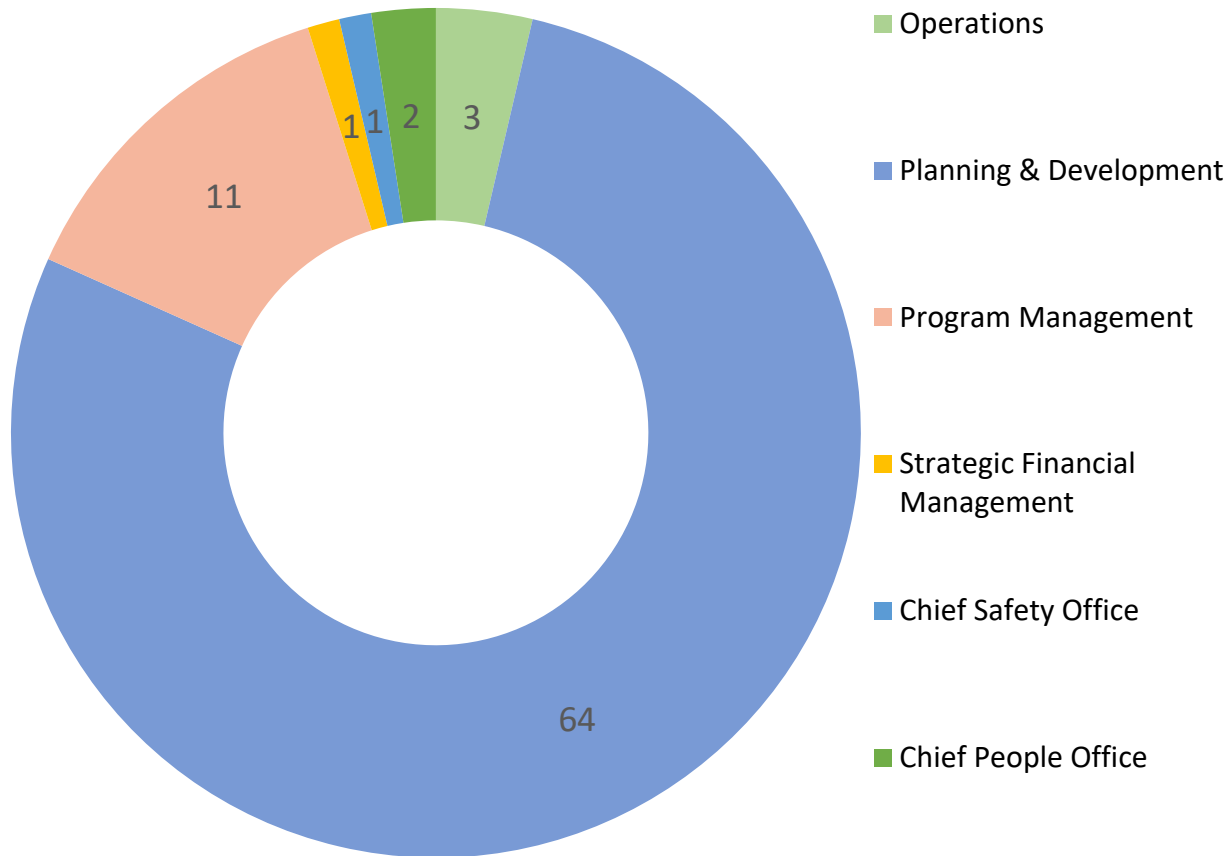
Kimberly Houston, Deputy Chief Auditor



MANAGEMENT
AUDIT SERVICES







In Progress: MAS Audit Activity

Agency Representation



- 6 Performance Audits
- 76 Contract, Financial and Compliance Audits

In Progress: Performance Audits

			Estimated Completion	
	Audit Title	Description	FY25 Q3 Jan - Mar	FY25 Q4 Apr - Jun
1	Eastside Access Improvement Project	Assess whether usage of funds complied with applicable terms and determine whether the scope aligned with the board approved scope and other agreements.		
2	Purple (D-Line) Extension 1 (PDLE1)	Evaluate the state of processes and planning for final-year activities (testing, certification, training, activation) of PDLE1 transit project prior to start of revenue operations.		
3	Employee Pension Benefits	Verify accuracy of pension payroll deductions and contributions for active eligible employees.		
4	Physical Security Monitoring Equipment	Assess the adequacy of policies and procedures regarding video monitoring equipment at the agency.		
5	Employee Health Care Benefits	Verify accuracy and completeness of health / dental benefits enrollment and corresponding payroll deductions for active eligible recipients, excluding represented employees and retirees.		
6	25-CON-P01 - Gold Line Extension Phase 2B	Evaluate Metro's oversight of the Metro Gold Line Foothill Extension Construction Authority's project management of Gold Line Extension Phase 2B Project, and Metro Operations' project management over the final year processes leading to revenue service.		

Completed: Third-Party Risk Management – Outsourced Service Providers

Objective

Assess Metro's third-party information security risk management.

Audit Results

- The InfoSec team is in the early stages of implementing a Vendor Risk Management (VRM) program and uses National Institute of Standards and Technology (NIST) guidelines as guidance.
- A fully developed policy and standard operating procedures still need to be created for this area and distributed agency wide.
- Training for project managers who interact with contracted service providers handling sensitive or confidential information is needed.
- Enhancements to the Contract Information Management System are necessary to support Metro's information security risk management efforts.

Completed: Bus Operations' Continuity of Operations Plan (COOP)

Objective

Assess the adequacy of Bus Operations' COOP and Standard Operating Procedures (SOPs) for supporting mission essential functions during emergencies.

Audit Results

- Bus Operations has a COOP and SOPs in place but require enhancements to better support the mission's essential functions during emergencies.
- Contracted Bus Services need to be included in the Bus COOP for coordination during major emergencies.
- Bus COOP is missing key information necessary for efficiently continuing mission essential functions during emergencies.
- Periodic Bus COOP training and updates have not been done since adoption of the Bus COOP, and Bus divisions did not have designated backup locations.
- Metro does not have formal emergency service priority commitments with electric utilities to guarantee continuity and provision of power for buses during power shortages or local outages, including warning before service cuts and priority restoration during extended emergencies as an essential public service.

Completed: Contract, Financial & Compliance Audits



- Delivered financial audits that reviewed incurred project costs of \$96M and identified \$12M (13%) for potential reprogramming

Thank you