

SORTA FINANCE COMMITTEE MEETING

TUESDAY, SEPTEMBER 8TH, 2020 - 8:30 A.M.

General Items:

- Call to order
- Pledge of Allegiance
- 1. Approval of Finance Committee Minutes: August 11th, 2020

Briefing Items

- 2. Internal Audit: Maintenance (**Clark Schaefer**)
- 3. Financial Reports for August 31st, 2020 (**Michelle Jeng**) *To be presented at SORTA Board Meeting*

Action Items

- 4. Investment of Funds Report as of August 31st, 2020 (**Michelle Jeng**)
- 5. Proposed Motion: Approval of Contribution to the Medical Reserve Fund and Policy Update (**Michelle Jeng**)

Other Items:

Adjournment

The next regular meeting of the Finance Committee has been scheduled for
October 13th, 2020 at 8:30 a.m.

FINANCE COMMITTEE
TUESDAY, AUGUST 11TH, 2020 – 8:30 A.M.

COMMITTEE/BOARD MEMBERS PRESENT: Heidi Black, Blake Ethridge, Robert Harris Roderick Hinton, Thaddeus Hoffmeister, Pete McLinden, and Mary Miller

COMMITTEE MEMBERS ABSENT:

STAFF MEMBERS PRESENT: Darryl Haley, Donna Adkins, Pat Giblin, Adriene Hairston, Brandy Jones, Caprice Jones, Maria Jones, Michelle Jeng, John Ravasio, Shannel Satterfield and Khaled Shammout

OTHERS PRESENT: Kim Schaefer (Vorys, Sater, Seymour & Pease, LLP)

1. **Call to Order**

Ms. Black called the meeting to order.

2. **Pledge of Allegiance**

The Pledge of Allegiance was recited.

3. **Approval of Minutes of July 14th, 2020**

Ms. Black moved and Mr. Hinton seconded that the minutes of the July 14th, 2020 meeting be approved as previously emailed.

4. **Quarterly Internal Audit Update: Q2**

Ms. Jeng presented a summary of internal and external audit findings that had been performed during the years 2017-2020 with management responses to findings on outstanding items for quarter two (2).

The Committee accepted the report as presented.

5. **Quarterly Fuel Hedging Report: Q2**

Ms. Jeng presented the quarterly fuel hedging report which indicated that as of June 30th, 2020 fuel is favorable to budget by \$392,470.

The Committee accepted the report as presented.

6. **Financial Reports for July 31st, 2020**

Ms. Jeng presented the July financial reports. Total revenues were \$8.0 million, which is unfavorable to budget by \$158,000. Total expenses were \$8.5 million, which is favorable to budget by \$93,000 or 1.1%. The final result was a net unfavorable variance of \$65,000 for the month. Fare revenue was unfavorable to budget by \$676,000. Ms. Jeng then reviewed the contributing factors to these variances.

The Committee accepted the report as presented.

7. **Investment of Funds as July 31st, 2020**

Ms. Jeng presented the report noting the yield for increase to 0.68% compared to the following month of 0.56% for the month of July.

The Committee accepted the report as presented.

8. **Approval of Agreement with Cincinnati State Technical and Community College**

Ms. Wade-Richardson requested approval one-year agreement with Cincinnati State Technical and Community College for the 2020-2021 academic year for an estimated contract value of \$31,250. Due to COVID-19, Cincinnati State's 2020-2021 academic year will only conduct 30% of classes on campus. As a result, the contract value has decreased from \$62,500 to \$31,250.

The Committee agreed to recommend this resolution to the full Board on the consent agenda.

New Business

The next regular meeting of the Finance Committee has been scheduled for Tuesday, September 8th, 2020 at 8:30 A.M.

9. **Adjournment**

The meeting adjourned at 8:58 A.M.

September 2020

BRIEFING ITEM – INTERNAL AUDIT REPORT: MAINTENANCE

STRATEGIC PLAN GOAL / OBJECTIVE

- Operational Excellence

RECOMMENDATION

This is a briefing item. No action is required at this time.

BUSINESS PURPOSE

- A review was conducted by Clark Schaefer Consulting, LLC of maintenance audit for the period July 13, 2020 through August 7, 2020.
- The review for this audit included: policies and procedures, training requirements & schedules, depreciation rules, incident reports, and preventative maintenance schedule; training history, work-order details, and purchase-order details; and pay rates, spare vehicle ratio, and inventory.
- The attached report provides the results of the audit, including observations and recommendations.

SUBMITTED BY:



Michelle Jeng
CFO/Sr. Vice-President, Finance



SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY ("SORTA")

Maintenance Audit

September 8, 2020



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Management Summary

The purpose of this audit was to examine the processes surrounding SORTA's Fleet and Facility Maintenance and determine whether proper procedural documentation is collected, verified, and maintained. Additionally, the audit was performed to determine whether the policies, practices, procedures, and internal controls involving Fleet Maintenance are adequate and procedures exist to ensure ongoing compliance with government regulations and SORTA policies.

Overall, SORTA has adequate policies, practices, procedures, and internal controls to ensure compliance with government regulations and SORTA policies. However, during our review we found opportunities for control improvements that, if implemented, will help strengthen the control structure and should help mitigate the exposure to maintenance practice risks. The identified areas for improvement include:

- Estimated labor costs associated with work orders
- Periodic policy and procedure review; and
- Foreman and mechanic training

Scope

SORTA provides transportation services throughout the Cincinnati metro area. To help provide assurance over controls within SORTA's Maintenance and Fleet processes, Clark Schaefer Consulting ("CSC") performed an audit of its policies, procedures, and practices. The focus of this audit was to analyze current policies and processes and to perform testing of controls in the following areas:

- Maintenance policy and procedure manuals are complete, appropriately maintained, and updated as required.
- Maintenance Foreman possessing the necessary competency and skills required to perform the necessary job responsibilities.
- That appropriate documentation of coaches unavailable for service due to major repairs are appropriately documented, accounted for, and evidence work is progressing on these assets.
- Appropriate maintenance personnel compensation rates.
- Appropriate training and technical competence.
- Availability of training for maintenance personnel, both Foreman and Mechanics.
- Existence of a preventative maintenance schedule which is approved, documented and performed in a timely manner.
- Ensure maintenance activities are performed in an effective and efficient manner.
- Appropriate labor and material charges.
- Review the FTA mandated 20% spare ratio for coaches.
- Storeroom inventory levels are adequate to meet maintenance demands and are stored in a secure location. Appropriate procedures are in place for the issuance and receipt of inventory items, and inventory is counted periodically.
- Purchasing Process related to the storeroom inventory is effective and efficient.

Methodology

The audit fieldwork was performed from July 13th to August 7th, 2020, and encompassed reviewing and testing a sample of relevant transactions to ensure proper compliance, authorization, and documentation of maintenance records. The audit was performed with cooperation from Jeff Mundstock (Technical Operations Manager & Director of Fleet and Facilities), Jason Holtman (Queensgate Garage Manager), Joe Vilvens (Bond Hill Garage Manager), Adam Wilcoxson (Accounting), Randy Stidham (Maintenance Service Analyst & Production Planner), Jason Roe (Inventory Manager), and Mary Moning (Director of Procurement).

Inquiry, observation, and inspection of the organization's control structure were used to analyze the Maintenance area. Our methodology for this review included the following steps:

1. Performed walkthroughs with key SORTA staff to review Maintenance Policy and Procedures;
2. Inspected training requirements & schedules, depreciation rules, incident reports, and preventative maintenance schedule;
3. Validated training history, work-order details, and purchase-order details;
4. Tested pay rates, spare vehicle ratio, and inventory.

To assist management in analyzing our recommendations, we ranked our suggestions for corrective actions as follows:

Rank	Description
High	Management should immediately remedy the situation to prevent significant risk of loss.
Moderate	Timely remedy by management is suggested.
Low	Does not appear to represent an immediate risk but improvements are still possible.
Informational	General comments and suggestions that management may want to consider that do not represent any material risks but may improve overall efficiency and productivity.

Observations & Recommendations

Based upon CSC's audit of SORTA's maintenance policies, procedures, and practices, we have identified three areas where controls could be enhanced. A ranking of each observation is provided below.

Observation #1: Estimated Labor Costs

Severity: Moderate

Observation

Currently, estimated labor hours are not included in work orders due to the difficulty in managing labor cost for jobs that go over or under that estimation. Previous pay disputes with the Union have halted the inclusion of estimated labor hours on work orders.

Risk

The absence of estimated labor hours on work orders could create inconsistencies in budgeting and employee scheduling.

Recommendation

Resume the inclusion of estimated labor hours for work orders once the Union discrepancies have been resolved.

Management Response

In the public transit industry, use of estimated labor hours for individual work orders is not a very common practice. However, vendors across the industry (Cummins Engines, Gillig, New Flyer, Allison Transmission, etc.) do have labor hour standards that SORTA maintenance management could explore using. In following the auditor's recommendation, we can also reach out to other transit systems to discern any best practices they have developed and implemented. This would lead us to being able to deliver on the recommendation in order to better estimate and budget for labor hours.

Observation #2: Policy and Procedure Review**Severity: Low****Observation**

Management does not have an established periodic review cadence of their policies and procedures. Review and updates are performed on an as-needed basis. Policies and procedures should be reviewed on a regular basis.

Risk

The absence of regular reviews on policy and procedures increase the risk of becoming outdated and can cause interruptions to the SORTA operations.

Recommendation

SORTA should perform a review of policies and procedures as frequently as Management deems necessary to maintain the most up-to-date versions.

Management Response

While we do have policies and procedures in place, a regular review of these policies and procedures is not conducted on a regular basis. Years ago, the maintenance managers would get together on a regular basis to write and review SOP's for our department. Due to attrition in leadership, this has "fallen off of the radar." We will make this a priority moving forward as a team, and also establish a better SOP program for accomplishing day-to-day tasks. This will also help establish better standards and accountability for maintenance as a whole.

Observation #3: Foreman & Mechanic Training**Severity: Low****Observation**

Training records for foreman and mechanics are currently not recorded in a way that allows a view of each individual's history and completion date.

Risk

The absence of a detailed view for an individual's training history increases the risk that management becomes unaware of inadequate training.

Recommendation

Consolidate a detailed training history that lists the classes attended and completion date for each individual, including a note whether that individual's requirements are met to-date or not.

Management Response

Employee development and training is a big part of the maintenance department's future. We have investigated an automated system to streamline the tracking process, and even looked into modules in Maximo, Novatime, and PayCor operating systems to assist with this process. We will make this a priority moving forward, even if the program is as simple as a spreadsheet or Access Database until a more robust system is in place.

September 2020

ACTION ITEM – INVESTMENT OF FUNDS REPORT – AS OF AUGUST 31ST, 2020

STRATEGIC PLAN GOAL / OBJECTIVE

- Operational Excellence

RECOMMENDATION

This item requires Finance Committee approval.

BUSINESS PURPOSE

- Ohio Revised Code Section 135.14 states, "Whenever, during a period of designation, the treasurer classifies public moneys as interim moneys, he shall notify the governing board of such action. Such notification shall be given within thirty days after such classification . . ."
- This report is prepared by the Treasury department at the end of each month.
- The report provides a summary of overnight and long-term investment balances, as well as interest rates, purchase dates and maturity dates.
- In addition, it provides a weighted interest rate yield by investment type.
- Attached is SORTA's Investment of Funds Report as of August 31st, 2020.

SUBMITTED BY:



Michelle Jeng
CFO/Sr. Vice President, Finance



Investment of Funds Report
Aug-20

	Principal Amount	Maturity Date	Purchase Date	8/31/2020 Yield	Sec Days	Days to Maturity
<u>Overnight Investments</u>						
STAR Ohio	\$ 39,019,938			0.25%		
Fifth Third Bank Concentration Account	\$ 156,553			0.05%		
Subtotal Overnight Investments / Average Rate	<u>\$ 39,176,490</u>			0.25%		
<u>Securities & CD's</u>						
R.J. O'Brien (Hedging):						
U.S. Treasury Note	\$ 325,294	10/15/20	10/31/19	1.60%	350	45
Fifth Third Bank Custody Account:						
Commercial Paper	\$ -					
Subtotal Securities & CD's / Weighted Yield / Maturity	<u>\$ 325,294</u>			1.60%	350	45
Total All Securities (08/31/2020) / Weighted Yield / Maturity	<u>\$ 39,501,785</u>			0.26%		2
Total All Securities (07/31/2020) / Weighted Yield / Maturity	<u>\$ 41,047,336</u>			0.37%		2
Funds provided by (required for) Operations during August	\$ 397,561			Monthly Investment Income	\$ 11,072	
Funds provided by (required for) Capital during August	<u>\$ (1,943,113)</u>			Year to Date Investment Income	\$ 147,061	
Change in Cash during AUGUST 2020	<u>\$ (1,545,552)</u>					
Total All Securities (08/31/2019)	<u>\$ 32,833,251</u>					

Reviewed and Approved by:

Michelle Jeng

 Michelle Jeng
 CFO

BOARD OF TRUSTEES
SOUTHWEST OHIO REGIONAL TRANSIT AUTHORITY
MOTION

APPROVAL OF MODIFICATION TO MEDICAL RESERVE POLICY

I move that the SORTA Board approve the modified Medical Reserve Fund policy and authorize the CEO/General Manager/Secretary-Treasurer or the CFO to implement the policy effective immediately.

September 2020

ACTION ITEM – APPROVAL OF MODIFICATION TO MEDICAL RESERVE POLICY

STRATEGIC PLAN GOAL / OBJECTIVE

- Operational Excellence

RECOMMENDATION

In order to establish a meaningful Medical Reserve Fund given the uncertainty in future medical care costs, management recommends that the SORTA Finance Committee approve a \$1.1 million contribution to the Medical Reserve Fund from prior years' Medical Expense surplus. Management also recommends approving the modified policy to allow the CEO/General Manager/Secretary-Treasurer and/or the CFO to approve an annual contribution to the Medical Reserve Fund.

FINANCIAL CONSIDERATIONS

- The final surplus to the medical expense account for the year ended December 31, 2019 was \$1,100,639. To date, \$0 has been contributed to the Medical Reserve Fund. As a self-insured entity, SORTA needs to build a reserve for unexpected swings in medical care costs.

BUSINESS PURPOSE

- On October 16, 2018, the SORTA Board approved the SORTA Medical Reserve Policy, which provided for the establishment of a reserve fund to “act as a reserve for the self-insured medical plan. Any prior year surplus of funds after the run out of all Healthcare claims will be contributed to the reserve fund.” The targeted balance in this fund is to maintain a balance to pay claims and other necessary costs to operate the self-insurance program
- Per section 3 of the Policy, “The Chief Financial Officer will annually recommend the dollar amount that shall be contributed to the reserve fund in accordance with this policy for approval by the Board Finance Committee.” Attached is the revised policy reflecting the proposed changes.

PROCUREMENT CONSIDERATIONS

- None

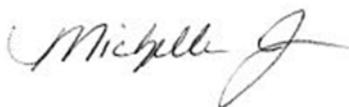
D/M/WBE CONSIDERATIONS

- None

LEGAL CONSIDERATIONS

- None

SUBMITTED BY:



Michelle Jeng
CFO



Darryl Haley
CEO/General Manager/Secretary-Treasurer



Metro Policy Number: FIN - 901	Description: Healthcare Reserve Policy
Revision Number: N/A	Page Number: Page 1 of 2
Prepared by: Finance	Approved by: Chief Financial Officer
Issued by: Director FP&A	Issue Date: September 15, 2020

Approval Signature: _____

Date: 09/15/2020

Change/Review Record

Revision /Review	Date	Responsible	Description of Change
001	09/01/2020	Michelle Jeng	Approval Responsibilities

1.0 INTRODUCTION

SORTA/Metro established a self-insurance program compliant with Ohio Revised Code Section 9.833. This policy defines the self-insurance reserve program that may be used to pay claims and other costs necessary to operate the self-insurance program.

2.0 POLICY

The Medical Reserve Policy will establish a fund to act as a reserve for the self-insured medical plan. Any prior year surplus of funds after the run out of all Healthcare claims will be contributed to the reserve fund. This reserve fund shall be used for such purposes, which may include, but shall not be limited to, payments for health care benefits for the employees and the payment of costs of the self-insurance program including, by way of example and not limitation, the costs of brokers/program, administrators, consultants, attorneys, actuaries, risk management, claims adjustment and related costs. The reserve fund may also be used to purchase additional insurance coverage and/or other services for employees or may be allocated to a common fund for the purposes of making plan changes. If the reserve fund ever exceeds 16% of total expected costs for the year after all run-out claims have been accounted for, SORTA/Metro may use the reserve program dollars to reduce the future employee premiums or use its portion for other needs of the organization.

3.0 RESPONSIBILITIES

3.1 Chief Financial Officer

3.1.1 The Chief Financial Officer (or the Chief Executive Officer) will approve annually, the dollar amount that shall be contributed to the reserve fund in accordance with this policy.



Metro Policy Number: FIN - 901	Description: Healthcare Reserve Policy
Revision Number: N/A	Page Number: Page 2 of 2
Prepared by: Finance	Approved by: Chief Financial Officer
Issued by: Director FP&A	Issue Date: September 15, 2020

3.2 Director of FP&A

3.2.1 The Director of FP&A will annually recommend the dollar amount that shall be contributed to the reserve fund in accordance with this policy for approval by the Chief Financial Officer.

3.3 Finance Department

3.3.1 Make all necessary accounting entries to properly fund the balance sheet reserve account.

3.3.2 Monitor and reconcile, as needed, the amount maintained in the reserve fund.

3.4 This policy will be reviewed and updated periodically as required, but no less frequently than every 3 years.

Distribution List: TBD