INVENTORY CONTROLS
RAIL PARTS
(#25-18)

Terry Follmer, Chief Audit Executive

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Executive Summary

The fiscal year 2025 Audit Plan approved by the CapMetro Board of Directors included an assurance review of rail inventory parts to ensure adequate controls and compliance with contracts, policies, procedures and regulatory requirements. The audit results including the objective, scope and conclusion are included below.

Background

In 2020, CapMetro implemented the Hexagon Enterprise Asset Management (EAM) system to manage fixed assets (e.g., vehicles, facilities, HVAC, etc.) and spare parts inventory for vehicles and facilities related preventive and unplanned maintenance as recommended by the original equipment manufacturer. The purpose of the EAM system is to enable better and more strategic decisions that extend the asset life cycle, increase safety and reliability, and enable cost efficiencies. EAM systems allow organizations to manage the life cycle of assets from cradle to grave including scheduled preventive work orders and unscheduled repairs in an organized and efficient manner.

In July 2015, Herzog Transit Services (Herzog) was awarded an Operations and Maintenance (O&M) contract with CapMetro to manage the rail fleet, including providing the parts and labor to maintain the diesel multiple units (DMUs). Herzog is responsible for monitoring stock levels and purchasing, receiving, storing, and issuing parts to Hexagon Work Orders to maintain the fleet in a state of good repair. CapMetro DMUs are maintained and stored at the North Operations (9315) Facility.

The contract divides rail parts ownership between CapMetro and Herzog but stipulates that Herzog is to ensure that a sufficient supply of all DMU spare parts – regardless of ownership – is available to maintain the system and meet fleet availability requirements. At contract termination, CapMetro has the option to buy back the remaining parts that Herzog purchased for CapMetro's fleet at the price Herzog paid for them and with sufficient supporting documentation.

The contract requires Herzog to conduct a physical inventory at least once every two years and to use the Hexagon EAM system for inventory management.

CapMetro's rail parts are stored in three primary warehouse locations and across four storerooms and include approximately 3,440 Stockkeeping Units (SKUs) valued at $8.7 million within the Hexagon asset management system, which tracks current inventory levels. The inventory value as of September 24, 2025:

Type	Store	In Service		
		SKU	Quantity	Value on Hand
Rail	9315_RM	2,783	42,749	$6,971,765
	9315_CPRK	322	68,139	$1,419,304
	9315_10	161	2,196	$149,548
	9315_ABBTT	56	4,565	$125,121
Total		**3,322**	**117,649**	**$8,665,738**

Note: $2.5 million of these rail parts are owned by CapMetro.

CapMetro's rail fleet of 10 DMUs (Diesel Multiple Unit) operates on the Red Line, with ten stations between Leander and Downtown Austin, and consists of ten Stadler GTW diesel-electric light rail vehicles covering two generations as follows:

- The initial fleet of six GTW1 (G1) units was purchased in December 2007 for the Red Line which opened in March 2010.

- The second fleet of four GTW4 (G4) units was purchased in September 2017 for fleet expansion to increase service frequency.

CapMetro currently requires six DMUs for peak revenue service, providing a spare ratio of four vehicles (40%). Due to the age of the fleet (both G1 and G4) and the obsolescence of parts, many parts are unavailable or difficult to replace and/or must be sent to third parties for refurbishment. This creates significant lead times on parts orders and a potential impact on service reliability and underscores the need for a robust EAM management system and processes to ensure inventory accuracy and completeness.

Audit Objective & Scope

The objective of the rail parts audit was to evaluate rail part records and internal controls related to the completeness and accuracy of the rail part records, as well as Herzog's procurement to payment controls for rail parts. The scope included: a review of FY2025 rail part records in the Hexagon system and related procure-to-pay records from Herzog; data analytics on the completeness and accuracy of parts data in Hexagon; and a review of the policies and procedures that are used to manage parts records in the Hexagon system. We focused our review on the DMU parts maintained in the 9315_RM store and did not include parts (related to tracks, signals, etc.) located at other stores (9315_10, 9315_ABBTT, and 9315_CPRK) at this time. We obtained and tested inventory data from Hexagon as of September 24, 2025.

Opinion

In our opinion, internal controls are generally in place and functioning over CapMetro's Hexagon Enterprise Asset Management system. We identified some areas where internal controls could be further strengthened as follows:

Issues & Risk	Risk Rating	Status	Target Completion Date
1. Herzog – Not Properly Using Hexagon EAM System	Medium	Open	4/14/2026
2. Herzog – Cycle Count & Physical Inventory Concerns	Medium	Open	3/31/2026
3. Co-Ownership of Rail Parts Needs to be Further Defined	Medium	Open	4/10/2026

More details regarding the issues/risks and recommendations can be found below in the detailed audit report.

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

- Valerie Carson, Senior Auditor II
- Terry Follmer, CAE

Recommendations to strengthen controls and improve accountability were provided to management. Management agrees with the internal audit recommendations and has provided target completion dates

which are included in the detailed audit report below. A follow-up audit is performed semi-annually (in May and November) to ensure management action plans for all issued audit reports are completed in a timely manner.

We appreciate the cooperation and assistance provided to us throughout this audit.

Risk Rating Definitions

Ratings Definitions- Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

Rating	Issues identified	Action required
HIGH	Issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited.	Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.
MEDIUM	Issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited.	Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
LOW	Issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited.	Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

Ratings methodology- In determining the ratings of audit findings, auditors considered factors such as:

1. Financial impact
2. Potential failure to meet program/function objectives
3. Noncompliance with state statute(s), rules, regulations, and other requirements or criteria
4. The inadequacy of the design and/or operating effectiveness of internal controls
5. Evidence of potential fraud, waste, or abuse
6. Significant control environment issues
7. Little to no corrective action for issues previously identified

Auditors also identified and considered other factors when appropriate.

Audit Report

Issues & Risk	Risk Rating	Recommendation	Management Action Plan
	MEDIUM		
1. HERZOG – NOT PROPERLY USING HEXAGON EAM SYSTEM Herzog is responsible for managing CapMetro Rail parts which includes more than 3,400 unique SKUs valued at more than $8.6 million as of September 24, 2025. We reviewed the controls related to inventory management and procure-to-pay processes performed by Herzog and identified the following concerns: • Herzog does not have a procurement system and uses emails to vendors for each quote request and order, and a manual process to track the order, receipt, unit prices, etc. Herzog has recently begun using an Excel file to assist with parts ordering and receipt. See sample in Appendix A. We reviewed the file and found it to be missing key data such as quote request and receipt date, purchase order date, order quantity and unit price, estimated delivery date, actual delivery date, etc. • Herzog is not entering their parts PO details into CapMetro's Hexagon system as required by their contract. See Appendix D for key contract excerpts. As a result, CapMetro is unable to evaluate the timeliness, pricing and status of part orders and our EAM system does not contain key data related to rail parts – including supplier name, unit price, quantity ordered, order status, lead times, etc. When a part is delivered, Herzog does a manual "stock take" and enters only the part number and quantity received, with no other details. Since unit prices are not entered into Hexagon, the average unit prices in CapMetro's EAM have not been updated since the system go-live date of December 2020. • CapMetro has instructed and trained Herzog multiple times but neither Herzog nor CapMetro have developed written procedures or SOPs related to ordering and receiving rail parts in the Hexagon EAM. Due to the value and complexity of Rail parts, an EAM system with accurate and complete historical records is necessary to effectively manage inventory.		The VP of Rail should consider the following actions to improve controls: a) Develop written procedures for Herzog and conduct training and regular monitoring to ensure Herzog is properly using the Hexagon EAM system. b) Work with Herzog to determine if all procurement records (missing since Hexagon was implemented in December 2020) can be recreated and loaded into Hexagon. Some key records that would be beneficial are as follows: quote request and receipt date; purchase order date; unit price; quantity; vendor name; receipt date; etc. If missing records cannot be recreated, determine if, at a minimum, unit purchase prices and current vendor names can be captured and shared with CapMetro and loaded into Hexagon EAM system.	Management agrees and has developed the action plan below. • Establish written procedures and governance. Target Completion Date: 1/8/2026 • Reinforce contract compliance and expectations. Target Completion Date: 12/18/2025 • Implement daily and weekly EAM requirements for the contractor. Target Completion Date: 1/13/2026 • Monthly monitoring and quarterly compliance reviews. Target Completion Dates: ○ Monthly audits begin 2/3/2026 ○ Quarterly KPI reviews begin 4/14/2026 (ongoing thereafter)

Issues & Risk	Risk Rating MEDIUM	Recommendation	Management Action Plan
2. HERZOG – CYCLE COUNT & PHYSICAL INVENTORY CONCERNS We reviewed the controls related to the accuracy of Rail Part quantities and noted the following concerns: • Herzog and CapMetro have not developed written procedures related to how/when to conduct cycle counts and/or physical inventories. • Herzog and CapMetro job descriptions do not mention responsibilities for inventory management. • Herzog has not been regularly performing cycle counts for the last couple of years and our analysis showed that only 26% of the 3,440 SKUs has been counted in the last 12 months. See Appendix B. • Herzog hired RCI Tech to perform a physical inventory of the 3,440 SKUs starting on April 29, 2025. We reviewed the results and related adjustments and have the following concerns: 745 (22% of total rail SKUs) could not be found and no adjustment was made; 514 (15%) were not included in the count; 1,312 (38%) were counted with no variance; 851 (25%) of the SKUs had a variance, but 146 were not adjusted; and for the remaining 127, it is not clear whether a corresponding adjustment was made in Hexagon EAM. Herzog did not explain why some parts were not included in the count or why adjustments were not made for the parts not found or found with noted variances. See Appendix C for details. Clearly defined policies and procedures related to rail parts cycle counts, physical inventories and related recordkeeping help ensure the accuracy of the 3,440 SKUs.	The VP of Rail should consider the following to help improve the accuracy of parts inventory: a) Create written policies and procedures related to performing cycle counts and physical inventories and require Herzog compliance. b) Update job descriptions to clearly define responsibilities surrounding inventory management. c) Join the new cross-functional working group which includes Bus and DR Operations, Finance, and IT to identify process and system improvements related to parts management. d) Coordinate future physical inventories conducted by Herzog/their vendor with CapMetro Rail and Accounting Departments to ensure proper controls of records, reconciliations and adjustments. e) Set cycle count target goals for Herzog and periodic reporting and monitoring (monthly/quarterly). For example, all 3,440 SKUs should be cycle counted once per year, and accuracy of cycle counts without variance is 80%, etc. See Appendix B for a historical baseline.	Management agrees and has developed the action plan below. • Develop written cycle count and physical inventory procedures. Target Completion Date: 1/15/2026 • Update Job Descriptions to include inventory responsibilities. Target Completion Date: 1/31/2026 • Participate in cross-functional parts management working group. Target Completion Date: 1/8/2026 (initial meeting), with monthly meetings ongoing • Implement controlled physical inventory procedures. Target Completion Date: 3/31/2026 • Establish cycle count targets and monitoring program. Target Completion Date: 2/28/2026, with monthly meetings ongoing Oversight and accountability controls. Target Completion Date: 1/1/2026, with ongoing monthly exception reporting

Issues & Risk	Risk Rating	Recommendation	Management Action Plan
	MEDIUM		
3. CO-OWNERSHIP OF RAIL PARTS NEEDS TO BE FURTHER DEFINED As of September 24, 2025, the Hexagon EAM system shows total Rail Parts of $8,665,738. The CapMetro Balance Sheet shows that CapMetro owns $2,552,439 of the total rail parts inventory as of September 30, 2025 (see Appendix F); however, the value owned by CapMetro has been unchanged for several years. Note that the original Herzog contract dated July 27, 2015, included Exhibit J – Attachment 20 (October 20, 2014), listing CapMetro's Initial Spare Parts Inventory valued at $7,245,563.13 (see Appendix E). It is unclear which parts are owned by CapMetro and which ones are owned by Herzog. Additionally, since Herzog has not been using the Hexagon EAM properly for procurement receipts, the average unit price for each of the 3,440 SKUs has not been updated since the Hexagon system went live on December 2020.		The VP of Rail should consider the following: a) Work with Procurement and Legal to develop a written Memorandum of Understanding (MOU) as to ownership of current parts and use the existing field in the Hexagon EAM (Vendor Owned) to allow tracking and reporting from a centralized system. b) For parts owned by Herzog, use the Hexagon field called "Vendor Owned" to clearly keep track of parts owned by Herzog. c) Work with the Accounting Department to obtain supporting purchase price documentation from Herzog and develop a process to update the average unit price for the existing SKUs.	Management agrees and has developed the action plan below. • Develop a Memorandum of Understanding to define ownership of rail parts. Target Completion Date: 2/14/2026 • Use Hexagon Vendor Owned field for Herzog owned parts. Target Completion Date: 3/13/2026 • Establish process to update average unit prices. Target Completion Date: 4/10/2026 • Address historical inventory valuation issues. Target Completion Date: 3/31/2026 • Implement inventory accountability and compliance controls. Target Completion Date: 1/1/2026

Appendices

Appendix A – Sample of Herzog Excel Tracking Worksheet

Warehouse	Item Type	Item Code	Item Description	Stock Condition	Issue Unit	Initial Quantity	Current Quantity	Note	Supplier Name	On Order	Estimated Delivery Date
NOPS - North Ops	DMU	26869	Switch Cylinder For Drive Controller	New	Each	1	4		Stadler		
NOPS - North Ops	DMU	32623	Grab Rail	New	Each	1	1		Fabricated by outside vendor		
NOPS - North Ops	DMU	32624	Plow Extension, Right	New	Each	4	0		Fabricated on site by HTSI		
NOPS - North Ops	DMU	32629	Operating Shaft - Mirror	New	Each	9	13		Fabricated by local vendor (varies)		
NOPS - North Ops	DMU	33928	Brake Control Moduel PU-P	New	Each	2	2		Knorr	Quote requested	
NOPS - North Ops	DMU	33929	Brake Control Module PU-M	New	Each	4	**4**		Knorr	Quote requested	
NOPS - North Ops	DMU	20341	Circuit Breaker, shop power supply, 6A 2 pole	New	Each	2	2		ABB Schweiz AG	Quote requested	
NOPS - North Ops	DMU	20342	Circuit Breaker, 16A 3 pole	New	Each	1	5		ABB Schweiz AG	Quote requested	
NOPS - North Ops	DMU	20343	Circuit Breaker, Isolation Transformer	New	Each	1	0		ABB Schweiz AG		
NOPS - North Ops	DMU	20344	Circuit Breaker, power supply 480 VAC	New	Each	1	1		ABB Schweiz AG	Quote requested	
NOPS - North Ops	DMU	20345	Circuit Breaker, AC Heating 480 V	New	Each	1	1		ABB Schweiz AG	Quote requested	
NOPS - North Ops	DMU	26628	Isolation Control 120 V AC	New	Each	4	7		ABB Switzerland		
NOPS - North Ops	DMU	20317	Contactor, Phase Control	New	Each	5	2		ABB Switzerland Ltd	Quote requested	
NOPS - North Ops	**DMU**	**26628**	**Isolation Control 120 VAC**	**New**	**Each**	**2**	**7**		ABB Switzerland Ltd		
NOPS - North Ops	DMU	27163	IGBT Module 3-3 cpl	New	Each	1	5		ABB Switzerland Ltd		
NOPS - North Ops	DMU	29079	PEBB unit cpl	New	Each	2	0	out for repair	ABB Switzerland Ltd	Quote requested	
NOPS - North Ops	DMU	29186	Converter Controller	New	Each	1	4		ABB Switzerland Ltd		
NOPS - North Ops	DMU	29189	Power Supply 24VDC/100W 2x24V BQ2660-7R	New	Each	4	3		ABB Switzerland Ltd	Quote requested	
NOPS - North Ops	DMU	29190	Power Supply 24VDC/60/60W 5/15V BP3040-7R	New	Each	4	4		ABB Switzerland Ltd		
NOPS - North Ops	DMU	29192	Inverter-Filter Complete	New	Each	2	2		ABB Switzerland Ltd		
NOPS - North Ops	DMU	29193	Bordline Depot Power Socket	New	Each	2	38		ABB Switzerland Ltd		
NOPS - North Ops	DMU	42468	CAN Converter XF D151 A101	New	Each	0	0		ABB Switzerland Ltd	Quote requested	
NOPS - North Ops	DMU	33468	Contactor, TAL30-30-01, 3P CONTR, 24VDC, 1NC AUX	New	Each	8	6		Allied Electronics		
NOPS - North Ops	DMU	33470	Auxiliary Contact Block, CAL5-11	New	Each	10	10		Allied Electronics		
NOPS - North Ops	DMU	37108	connector, metal circ, rt angle plug, size 14s, 4 #16 solder	New	Each	20	19		Allied Electronics	Quote requested	
NOPS - North Ops	DMU	20334	Circuit Breaker, 16A 1 Pole	New	Each	1	10		ALLIED ELECTRONICS, INC.		
NOPS - North Ops	DMU	20357	Relay, Spring Brake / Emergency Stop	New	Each	10	13		ALLIED ELECTRONICS, INC.		
NOPS - North Ops	DMU	20359	Time Relay, Interior light/emergency light, vehicle off	New	Each	5	6		ALLIED ELECTRONICS, INC.		
NOPS - North Ops	DMU	20363	Single Chip LED For Push Button Drivers Desk	New	Each	39	46		ALLIED ELECTRONICS, INC.	40	Delivered 7/7/2025

Rail Inventory Cycle Count Performance Baseline* for the last 12 months: (filtered for In Service parts)

Type	Value on Hand	Total SKUs in Listing	Counted SKUs	Percent of SKUs counted annually	Results		
					Quantity Accurate – No Adjustments	Quantity Positive Adjustments	Quantity Negative Adjustments
Rail	$8,683,053	3,440	908	26.4%	0%	44.7%	55.3%

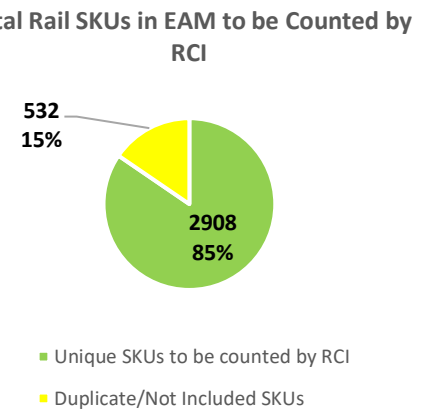
Notes:

- The SKU counts and adjustment data shown above are likely inaccurate as Herzog was not properly recording cycle and physical inventory counts in Hexagon (i.e. more parts were likely counted and variances of zero value were not recorded, skewing the count accuracy and adjustment results).
- The above table accurately reflects Rail parts from all four stores (9315_RM, 9315_CPRK, 9315_10, and 9315_ABBTT) but our independent cycle count testing focused only on the DMU parts at 9315_RM.

** **Baseline:** A historical statistic to measure against in the future to gauge progress. In the table above, some baselines to measure progress against are: 26.4% of SKU's are cycle counted annually; 0% of cycle counts require no adjustment as physical quantity matches Hexagon; positive adjustments are required 44.7% of the time versus 55.3% of adjustments are negative.*

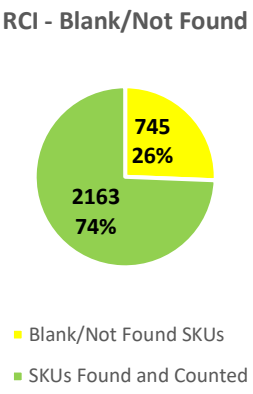
Appendix C – RCI Physical Inventory and Related Hexagon Adjustments

Exhibit 1 – Total Rail SKUs in Hexagon vs. RCI Count Sheet:



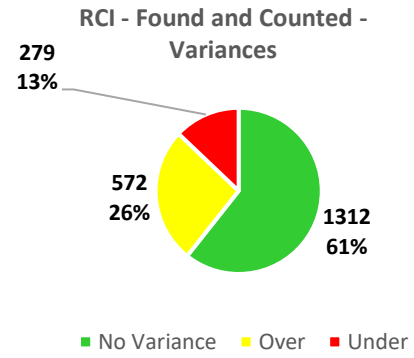
	SKU Count	Percentage of Total Rail SKUs
Total Rail SKUs in Hexagon EAM	3440	100%
SKUs not included in Count Sheet provided to RCI	(514)	(14.94%)
RCI Count Sheet	2926	85.06%
Duplicate SKUs in RCI Count Sheet	(18)	(.53%)
Unique SKUs to be counted by RCI	**2908**	**84.53%**

Exhibit 2 – Unique SKUs to be Counted by RCI – Blank/Not Found:



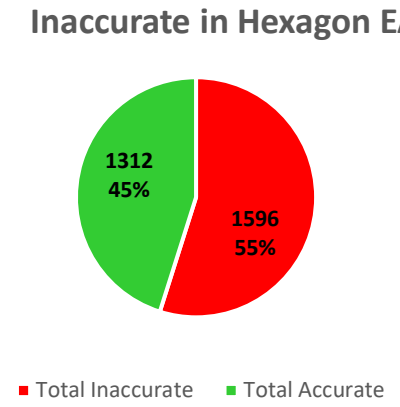
	SKU Count	Percentage of Unique Parts Counted by RCI	Percentage of Total Rail SKUs in Hexagon EAM
Unique SKUs to be counted by RCI	2908	100%	84.53%
Blank/Not Found SKUs	(745)	(25.62%)	(21.66%)
SKUs Found and Counted	**2163**	**74.38%**	**62.88%**

Exhibit 3 – RCI SKUs Found and Counted – Variances:



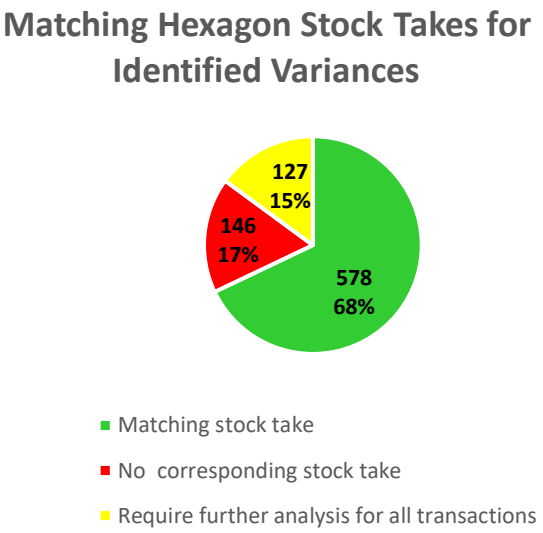
	SKUs Found and Counted	Percentage of Unique Parts Counted by RCI	Percentage of Total Rail SKUs in Hexagon EAM
No Variance	1312	60.66%	38.14%
Over	572	26.44%	16.62%
Under	279	12.90%	8.11%
Total Over/Under	**851**	**39.34%**	**24.74%**

Exhibit 4 – Inaccurate Hexagon Inventory Stock Values:



	Unique SKUs to be counted by RCI	Percentage of SKUs to be Counted by RCI	Percentage of Total Rail SKUs in Hexagon EAM
Not Found/Blank	745	25.62%	21.66%
Over	572	19.67%	16.62%
Under	279	9.59%	8.11%
Total	**1596**	**54.88%**	**46.40%**

Exhibit 5 – Hexagon Stock Takes as a Result of RCI Physical Inventory Variances (851 total):



	SKU Count	Percentage of Total Variances
SKUs with matching stock take	578	67.92%
SKUs with no corresponding stock take	146	17.16%
SKUs requiring further analysis for all transactions	127	14.92%

Appendix D – Herzog Contract Requirements

Contract 137666-Mod-47 – Page 62 of 108 – Section 12.19

12.19. **Material Supply and Management**

12.19.1. CMTA's objective is for the Contractor to have a sufficient supply of spare DMU parts available to maintain the system to the required standards and levels of maintenance and repairs.

12.19.2. CMTA will provide an initial spare parts inventory (**Exhibit J – Attachment 20**) thereafter, the Contractor is responsible for purchasing spare parts and ensuring there is sufficient quantity of spare parts on hand to meet fleet availability requirements. CMTA reserves the right to purchase back spare DMU parts, if desired, at the purchase price entered into the asset management system at the end of the contract term. If CMTA does not purchase the remaining inventory, the Contractor shall make the remaining inventory available at the original purchase price to the next contractor.

12.19.3. The Contractor shall maintain the value of CMTA inventories of materials, consumables, and spares.

12.19.4. The Contractor is responsible for procuring a spare parts inventory for additional vehicles added, during the contract period, in advance of the vehicles arrival sufficient to maintain the equipment according to OEM requirements.

12.19.5. Twelve months prior to the end of the contract period, CMTA and ~~the Contractor will~~the Contractor shall jointly review the initial spare parts inventory (**Exhibit J – Attachment 20**) and determine what changes need to be made based on additional vehicles and part obsolescence, what future quantities are necessary, and what quantities should be made available at the end of the contract to either CMTA or the next contractor.

Contract 137666-Mod-47 – Page 91 of 108 – Section 19: Materials Management Services (select sections)

~~8.35.~~19.3. The Contractor shall keep the material yards and any other storage facilities neat and in an orderly fashion at all times. All surplus materials or quantities above the minimum needed for routine maintenance shall be stored at the material yards unless otherwise approved by CMTA. The ~~contractor~~Contractor will utilize the CMTA Asset Management System to track all inventory, as well as tracking work orders. The ~~contractor~~Contractor will be responsible for procuring all additional materials and parts inventory for continuing operations.

~~8.39.~~19.7. Six (6) months prior to the ~~-~~expiration of the contract, the ~~contractor~~Contractor shall provide and ~~Capital Metro~~CMTA will verify a list of all of the parts and material in inventory.

~~8.40.~~19.8. At the end of the contract, ~~Capital Metro~~CMTA reserves the right to purchase from the ~~contractor~~Contractor any or all of the inventory of parts and materials based on the number of items transferred to the ~~contractor~~Contractor at the beginning of the contract.

~~8.41.~~19.9. ~~Capital Metro~~CMTA's purchase price shall be based on the Contractor's actual purchase cost(s) as verified with the supporting documentation acceptable to ~~Capital Metro~~CMTA and shall be payable within 60 days after the expiration of the contract.

~~8.42.~~19.10. The Contractor shall ~~adequately~~ stock and procure replacement parts, supplies and materials for vehicles, track, bridges, signals and communications at sufficient levels to ensure that no reduction in service or system failure occurs because of low parts inventory.

~~8.44.~~19.13. The Contractor shall manage the inventory using CMTA Asset Management System software.

Contract 137666-Mod-47 – Page 20-26 of 29 – Section 54: Management of Capital Metro Property in the Possession of Contractor (select sections)

Notes:

- Texas Transportation Code §112.062(c): Declares that *"rolling stock and all other movable property"* of a railroad is personal property.
- "Personal property" in a Rail Operations vendor contract includes rolling stock and inventory of materials and spare parts. (*Sourced from M365 Copilot Researcher Agent inquiry and verified by CapMetro staff.*)

(9) "~~Property~~ property," as used in this ~~part~~ section , means all property, both real and personal.

(c) Contractor Responsibility

(1) The ~~contractor~~ Contractor is directly responsible and accountable for all Capital Metro-~~furnished~~ property in accordance with the requirements of ~~the~~ this contract. This includes Capital Metro property in the possession or control of a subcontractor. ~~The contractor shall establish and maintain a system in accordance with this section to control, protect, preserve, and maintain all Capital Metro property.~~ The Contractor shall utilize Capital Metro's property control system (~~Spear~~"Spear 4i system" including any successor system) for inventory management, except for office furnishings. ~~This property control system shall be in writing unless the property administrator determines that maintaining a written system is unnecessary. The system shall be reviewed and, if satisfactory, approved in writing by the property administrator.~~

(h) Records and Reports of Capital Metro Property

(1) ~~The contractor's property control records shall~~ The Spear 4i system shall ~~constitute~~contain ~~the~~ Capital Metro's official property records ~~unless an exception has been authorized.~~ For management of inventory of Capital Metro-~~furnished~~ property (except for office furnishings which ~~contractor~~ Contractor shall inventory separately using an inventory system approved by Capital Metro). The ~~contractor~~ Contractor shall establish and maintain adequate control records for all Capital Metro-~~furnished~~ property, including Capital Metro-~~furnished~~ property provided to and in the possession or control of a subcontractor. Any subcontractor shall utilize Capital Metro's Spear 4i system for records management of inventory of Capital Metro-~~furnished~~ property (except office furnishings). ~~The property con-~~

(r) Physical Inventories. The ~~contractor~~ Contractor shall periodically, but not less than every two (2) years, physically inventory all Capital Metro-furnished p~~P~~roperty ~~(except materials issued from stock for manufacturing, research, design, or other services required by the contract)~~ in its possession or control and shall cause subcontractors to do likewise. The ~~contractor~~ Contractor, with the approval of the property administrator, shall establish the type, frequency, and procedures. These may include electronic reading, recording and reporting or other means of reporting the existence and location of the property and reconciling the records. Type and frequency of inventory should be based on the ~~contractor's~~ Contractor's established practices, the type and use of the Capital Metro property involved, or the amount of Capital Metro property involved and its monetary value, and the reliability of the ~~contractor's~~ Contractor's property control system. ~~Type and frequency of physical inventories normally will not vary between contracts being performed by the contractor, but may vary with the types of property being controlled.~~ Personnel who perform the physical inventory shall not be the same individuals who maintain the property records or have custody of the property. ~~unless the contractor's operation is too small to do otherwise.~~

(t) Reporting Results of Inventories

The ~~contractor~~ **Contractor** shall, as a minimum, submit the following to the property administrator promptly after completing the physical inventory:

(1) A listing that identifies all discrepancies disclosed by a physical inventory.

(2) A signed statement that physical inventory of all or certain classes of Capital Metro ~~furnished~~ pProperty was completed on a given date and that the official property records were found to be in agreement except for discrepancies reported.

(u) Quantitative and Monetary Control

When requested by Capital Metro, the ~~contractor's~~ Contractor's reports of results of physical inventory shall be prepared on a quantitative and monetary basis and segregated by categories of property.

Appendix E – Exhibit J – Attachment 20 of Original Herzog Contract #13766 (dated August 20, 2014)

CapMetro-Owned Parts from Original Herzog Contract:

Total Parts/SKUs	2078
Total Value	$7,245,564

Warehouse	Item Type	Item Code	Item Description	Stock Condition	Issue Unit	Quantity	Issue Price	Value

(portion omitted to save space – complete Attachment 20 spreadsheet available upon request)

NOPS - North Ops	Signal	48351	Ratchet Wheel Key	New	Each	0.0000	2.4400	0.0000
NOPS - North Ops	Signal	48352	Snap Ring	New	Each	0.0000	2.4400	0.0000
NOPS - North Ops	Signal	48658	Graphite Dry Film Lubricant, Brush-on, 1-Gallon Container	New	Each	0.0000	51.9700	0.0000
NOPS - North Ops	Signal	49038	Buffer Leg Assembly	New	Each	0.0000	57.0000	0.0000
								7,245,563.6113

CapMetro

Account Reconciliation Summary

Fiscal Year	2025
Month	September 2025
Account #	1030151
Account Name	Rail Capital Spare Parts
Natural Balance	Debit
Sources Used to Complete:	1) Inventory snapshot from Infor Hexagon (EAM) 2) Oracle GL details 3) Oracle GL balances
Purpose of Account:	Track inventory for rail spare parts located at 9315 McNeil Road. Spare rail parts were purchased when CapMetro purchased DMU trains. - Rail parts can be used by Herzog for repairs if they don't have any on-hand, but must replace CapMetro inventory soon after. If any rail parts are missing after contract ends, Herzog must pay CapMetro for those parts. - No usage is reported monthly. - The last complete inventory count was done 9/20/2023 with Christina Palermo and Michele Tran from Finance. - Sample count was done 10/24/2024 with Finance, CapMetro Rail Ops, and Herzog team members. See tab YE Count for results.

Reconciliation Total		**$2,552,439.06**	
General Ledger Balance			
	GL 1030151	**$2,552,439.06**	
Diff		***$0.00***	***(should be zero)***