I. Public Comment:

II. Action Items:
1. Approval of Minutes from the August 12, 2019 and September 11, 2019 Finance, Audit and Administration Committee Meetings.

2. Approval by the Board of Directors of Capital Metro’s Investment Policy.

3. Approval of a resolution approving the FY2020 Internal Audit Plan.

III. Presentations:
1. Internal Audit FY2019 Audit Plan Status

2. Internal Audit Rail Audit Report

IV. Items for Future Discussion:

V. Adjournment

ADA Compliance

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

Committee Members: Terry Mitchell, Chair; Wade Cooper, Pio Renteria and Eric Stratton.

The Board of Directors may go into closed session under the Texas Open Meetings Act. In accordance with Texas Government Code, Section 551.071, consultation with attorney for any legal issues, under Section 551.072 for real property issues; under Section 551.074 for personnel matters, or under Section 551.076, for deliberation regarding the deployment or implementation of security personnel or devices; arising
regarding any item listed on this agenda.
Approval of Minutes from the August 12, 2019 and September 11, 2019 Finance, Audit and Administration Committee Meetings.
Call to Order: 10:08 a.m.

I. Public Comment:

II. Action Items:

1. Approval of Minutes from the May 8, 2019 Finance, Audit and Administration Committee Meeting.

   Motion to approve by Board member Cooper, Renteria second. Approved 4-0.

2. Approval of a resolution authorizing the President & CEO, or his designee, to finalize and execute a contract modification with Standard Insurance Company for premium payments for life and disability insurance for an additional $61,000 for the total contract not to exceed an amount of $986,971.

   Executive Vice President of Administration Donna Simmons presented this item.

   This modification will cover minor changes to disability and life insurance coverage for CMTA employees.

   Motion to recommend for the Consent Agenda made by Board member Cooper, Stratton second. Approved 4-0.

3. Approval of a resolution authorizing the President & CEO, or his designee, to extend an Interlocal Agreement (ILA) with Travis County for employee transit passes for a period of one year from October 1, 2019, to September 30, 2020.

   CFO Reinet Marneweck presented this item.

   This extension is the first of three one-year optional extensions to this ILA. Travis County gets a 30% discount for their passes as part of the MetroWorks program. Ridership under this agreement is up approximately 14 percent in the last year.

   Motion to recommend for the Consent Agenda made by Board member Cooper, Renteria second. Approved 4-0.

4. Approval of a resolution authorizing the President & CEO, or his designee, to extend an Interlocal Agreement (ILA) with Austin Community College for student and employee transit passes for a period of one year from September 1, 2019, to August 31, 2020, that establishes a flat-fee for paratransit, rail and fixed-route bus services of $429,000 for the term of the extension.
CFO Reinet Marneweck presented this item.

This extension is the first of four one-year optional extensions to this ILA, which is a flat-fee agreement with Austin Community College. Ridership has gone up approximately 25 percent since we began this new arrangement with ACC.

Board member Stratton asked about how the flat fee was calculated. Reinet explained that it was based on past ridership along with a Producer Price Index (PPI) annual escalation.

Board member Cooper spoke in support of the agreement.

Motion to recommend for the Consent Agenda made by Board member Stratton, Cooper second. Approved 4-0.

5. Approval of a resolution authorizing updates to certain policies adopted by the Board of Directors.

Chief Counsel and Chief Counsel Kerri Butcher presented this item.

This item suggests revisions or makes affirmations of the following board policies:

- the board Personal Financial Statement policy (no changes to policy, only to the form used to report)
- the Public Comment Policy and Procedures (statutory changes required to policy, rescind separate committee policy, suggested changes to procedures)
- the Community Involvement Policy (suggested changes to Consent Agenda practice and removal of the requirement to present an annual plan)

Motion to recommend for the regular agenda as the full board made by Board member Stratton. Cooper second. Passes 4-0.

III. Presentations:


CFO Reinet Marneweck presented the report.

Chair Mitchell asked about the volatility of sales tax revenues and the effect on sales tax from online retailers such as Amazon.

Board member Cooper asked about the slight decline in fare revenue. Reinet replied that free rides for students, more customers using monthly passes, and possible fare collection issues are likely responsible. There was also a discussion of expanding the Capital Expansion Fund in future years.

Reinet also reviewed five budget transfers that took place during the quarter and a financial summary of current Capital Projects.

2. Internal Audit FY2019 Audit Plan Status

Vice President of Internal Audit Terry Follmer presented his report.
Terry reviewed the list of FY2019 projects and their current status. He is also putting together the plan for FY2020 and will be scheduling meetings with each of the board members to review the draft plan. He has also reached out to other peer agencies in Texas to share plans and ideas.

3. Semi-Annual Internal Audit Implementation Status
   Internal Auditor Jeannette Lepe presented the update.
   Staff has followed up on 12 prior recommendations from 4 earlier audit reports. 2 recommendations remain open and are in the process of being implemented. The next update to the committee will occur in November.

4. Internal Audit Report on Capital Projects Expenditure Controls
   Internal Auditor Sarah Daigle presented the audit findings.
   The Capital Projects department is in the process of streamlining and automating their processes with the implementation of a new cloud-based enterprise project management tool. Within the scope of this report there were four areas of improvement which were shared with management: there was no formal policy for when project managers need steering committee approval for changes; an invoice which was not in the contractually agreed format; complete PMP plans not being used on smaller projects; and key procedures not always documented and updated. The new EPPM system will assist in several of these areas.
   As part of this audit, Internal Audit staff also found several areas of process improvement related to DBE contractors and subcontractors. Sarah also reviewed related findings in this area related to capital projects, including DBE certification status and coordination between Capital Projects, Procurement, and Diversity and Compliance staff.

5. Capital Metro Insurance Programs Overview
   Vice President of Risk Management and Safety Gardner Tabon gave the presentation. Director of Risk Management Mike Nyren, and Senior Vice President/Chief Counsel Kerri Butcher, and CFO Reinet Marneweck also participated in the discussion.
   Gardner's presentation included types and levels of coverage for cyber attacks; service providers and commuter rail; and claims and lawsuits. Kerri also provided an overview of governmental immunity on claims and lawsuits. Whether the same immunity that applies to Capital Metro also applies to our service providers is still an open question.

IV. Items for Future Discussion:

V. Adjournment

Adjourn: 11:49 a.m.
ADA Compliance

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

Committee Members: Terry Mitchell, Chair; Wade Cooper, Pio Renteria and Eric Stratton

The Board of Directors may go into closed session under the Texas Open Meetings Act. In accordance with Texas Government Code, Section 551.071, consultation with attorney for any legal issues, under Section 551.072 for real property issues; under Section 551.074 for personnel matters, or under Section 551.076, for deliberation regarding the deployment or implementation of security personnel or devices; arising regarding any item listed on this agenda.
Call to Order: 11:15 a.m.

I. Public Comment:

There was no public comment this month.

II. Action Items:

1. Approval of the Fiscal Year 2020 Operating and Capital Budget and Five-Year Capital Improvement Plan.
   (This item was taken up after the FY2020 Budget Update.)
   CFO Reinet Marneweck presented this item. The budget will move forward for expected approval at the September 23 meeting.
   Motion to recommend for the Action agenda at the full board meeting by Board member Stratton. Cooper second. Approved 4-0.
   President Clarke made remarks after the vote thanking staff for their hard work on the budget and noting the additional public outreach that took place this year.

III. Presentations:

1. FY2020 Budget Update

   Budget Director Kevin Conlan presented this item.
   This presentation was to update the committee on items that may have changed since the last budget update at the August board meeting. The budget is scheduled to be adopted on September 23rd.
   Kevin reviewed a summary of budget public outreach activities that have taken place over the last few months. He also reviewed adjustments to both the Operating and Capital Budgets.
   Board member Cooper asked about an increase in payroll expense. Kevin responded that there is a budgeted increase in health and insurance, and an accounting adjustment to the pension plan. CFO Reinet Marneweck further clarified the breakdown of these expenses and the pension change.
   Board member Stratton asked about carryover of sales tax receipts from FY2019. Kevin explained that in part the plan is to put an additional $15 million into the capital expansion fund for this year so that we will have money in reserve to complete our 5-year Capital Improvement Plan.
Board member Renteria asked about the start of the rental revenue from the ground lease on the Plaza Saltillo property. Kevin explained that it will begin in October of this year and is budgeted at $1.6 million in FY2020.

2. Internal Audit FY2019 Audit Plan Status
   Vice President of Internal Audit Terry Follmer presented this item.
   Terry ran through the list of Internal Audit projects. He expects to bring forward a final FY2019 status of the projects as well as a proposed FY2020 plan for review at the October committee meeting. He has been working with senior staff and meeting with board members to help put together the 2020 plan.

IV. Items for Future Discussion:

V. Adjournment
   Adjourn: 11:41 a.m.

ADA Compliance

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

Committee Members: Terry Mitchell, Chair; Wade Cooper, Pio Renteria and Eric Stratton

The Board of Directors may go into closed session under the Texas Open Meetings Act. In accordance with Texas Government Code, Section 551.071, consultation with attorney for any legal issues, under Section 551.072 for real property issues; under Section 551.074 for personnel matters, or under Section 551.076, for deliberation regarding the deployment or implementation of security personnel or devices; arising regarding any item listed on this agenda.
Approval by the Board of Directors of Capital Metro's Investment Policy.
SUBJECT: Approval by the Board of Directors of Capital Metro’s Investment Policy.

FISCAL IMPACT: This action has no fiscal impact.

STRATEGIC PLAN: Strategic Goal Alignment: 3. Sustainability

EXPLANATION OF STRATEGIC ALIGNMENT: Annual review and approval of this policy is required to comply with the Texas Public Funds Investment Act.

BUSINESS CASE: Capital Metro is required to invest funds in accordance with the Public Funds Investment Act. The governing body of an investing entity is required to review its investment policy and investment strategies no less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

COMMITTEE RECOMMENDATION: This agenda item was presented and is recommended for approval by the Board of Directors on October 28, 2019.

EXECUTIVE SUMMARY: Changes to the Texas Public Funds Investment Act (PFIA) included one change that affects Capital Metro’s policy. Previously, the maturation of Commercial Paper was limited to 270 days or less. Changes to the PIFA effective September 1, 2019, extended the maturation to 365 days or less. The proposed policy reflects this change. Capital Metro’s investment policy was last reviewed and approved by the Board of Directors in October 2018. This policy was reviewed by PFM Asset Management LLC, under contract as Capital Metro’s investment advisory firm, and the recommended change to the existing policy has been incorporated. Attached is a copy of Capital Metro’s investment policy, which complies with the Texas Public Funds Investment Act.
DBE/SBE PARTICIPATION: Does not apply.

PROCUREMENT: Does not apply.

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

STATE OF TEXAS
COUNTY OF TRAVIS

RESOLUTION (ID # AI-2019-1110)
Capital Metro’s Investment Policy

WHEREAS, Capital Metro is required to invest funds in accordance with the Texas Public Funds Investment Act; and

WHEREAS, the Texas Public Funds Investment Act requires an annual review of the investment policy and investment strategies and such review has been performed.

NOW, THEREFORE, BE IT RESOLVED by the Capital Metropolitan Transportation Authority Board of Directors that the attached Investment Policy, which includes Capital Metro’s investment strategies, has been reviewed and the revisions are recommended to the investment policy or strategies.

________________________________________
Secretary of the Board
Eric Stratton

Date: ___________________________
Capital Metropolitan Transportation Authority
Finance, Audit and Administration Committee

Review of Investment Strategy and Performance

Presented by:
Nelson L. Bush
Managing Director

October 9, 2019

PFM Asset Management LLC
221 West 6th Street
Suite 1900
Austin, TX 78701

512.472.7194
pfm.com
Economic Growth Continued in the Second Quarter

U.S. Real GDP
QoQ, SAAR

Source: Bloomberg, as of Q2 2019, third growth estimate. SAAR is seasonally adjusted annualized rate. Orange denotes rolling four-quarter averages.
Economic Data Shows Moderate Inflation and Tight Labor Market

Source: Bloomberg, as of September 2019.

Inflation Measures (YoY)

Unemployment Rate

Core CPI
Core PCE
Fed's Long Term Inflation Target

Source: Bloomberg, as of September 2019.
Trade Wars Weigh Heavily on Economic Activity Surveys

Source: Bloomberg, as of 08/31/19.
Federal Reserve Forecasts No Further Rate Cuts in 2019 and 2020

Fed Participants’ Assessments of ‘Appropriate’ Monetary Policy

- Sep-19 FOMC Projections
- Sep-19 Median
- Fed Funds Futures

FOMC members are divided on future Fed Action

History of Recent Fed Rate Moves

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept ’19</td>
<td>1.75 – 2.00%</td>
</tr>
<tr>
<td>July ’19</td>
<td>2.00 – 2.25%</td>
</tr>
<tr>
<td>Dec ’18</td>
<td>2.25 – 2.50%</td>
</tr>
<tr>
<td>Sept ’18</td>
<td>2.00 – 2.25%</td>
</tr>
<tr>
<td>Jun ’18</td>
<td>1.75 – 2.00%</td>
</tr>
<tr>
<td>Mar ’18</td>
<td>1.50 – 1.75%</td>
</tr>
</tbody>
</table>

Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members’ judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 9/18/19.
Federal Reserve Future Rate Change Probabilities

Source: Bloomberg, as of 9/30/19.
Yields Have Decreased Sharply

U.S. Treasury Yield Curve

Source: Bloomberg, as of 9/30/19.

30-year Treasury recently hit an all-time record low

© PFM
Yield Curve Inversion

Spread Between 10-Year and 2-Year Treasury Yields

Source: Bloomberg, as of 9/30/2019.

Current: 4bps
Yield Curve Inversions Historically Precede Recessions

Spread Between 10-Year and 2-Year Treasury Yields

Source: Bloomberg, as of 9/30/2019.
Assessing Recession Risk

Different Indicators Give Differing Views

Central Banks:
- ECB has announced plans to remain accommodative
- Fed cut rates by 0.25% at July meeting

Economic Growth (U.S.):
- Q2 GDP at 2.1%
- IMF 2019 growth for U.S. revised up to 2.6% from 2.3%

Economic Growth (Global):
- IMF 2019 global growth revised down to 3.2% from 3.3%
- Concerns around slower growth within EM and Eurozone

Trade Tensions:
- Increasing uncertainty with U.S. – China trade talks continues to have a negative impact on market sentiment

Consumer Confidence (U.S.):
- Consumer spending and confidence continue to be strong
- Labor markets and wage growth continue to supportive of growth

Inflation (U.S.):
- Range-bound inflation is supportive of risk assets
- Globally too, inflation remains subdued

Corporate Fundamentals:
- High cash levels, strong buyback activity and higher profit margins point to strong corporate fundamentals

Interest Rates:
- Rise in negative-yielding debt raises concern around long term growth prospects

Geopolitics:
- Rising tensions with Iran could flare up into a global risk
- Hard Brexit is closer to reality and the uncertainty around Brexit still remains

The Conference Board Leading Economic Index Continues to Rise

- Supports the continuing solid growth in the economy
- Suggests no recession in the near-term

Texas Fundamentals Eschew Recession Risks

Texas Manufacturing Outlook Survey

Texas Retail Sales Accelerate in 2019

Source: Federal Reserve Bank of Dallas, as of August 2019 (left) and July 2019 (right).

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Portfolio Update
### Summary of Capital Metro Portfolios

<table>
<thead>
<tr>
<th>Account</th>
<th>Market Value as of 9/30/19</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Metro Transportation Authority</td>
<td>$131,416,636</td>
<td>Diversified portfolio with strategy designed to provide liquidity for forecast capital expenditures</td>
</tr>
<tr>
<td>Capital Metro TXDOT Rail Transit Project Fund</td>
<td>$13,803,127</td>
<td>Diversified portfolio with strategy designed to provide liquidity for forecast capital expenditures</td>
</tr>
<tr>
<td>Capital Metro City of Austin Mobility Port</td>
<td>$16,258,887</td>
<td>Diversified portfolio with strategy designed to provide liquidity for forecast capital expenditures</td>
</tr>
<tr>
<td>Capital Metro Statutory Operating Reserve Account</td>
<td>$39,473,374</td>
<td>Diversified portfolio with 0-3 year investment strategy and able to provide liquidity if needed</td>
</tr>
<tr>
<td>Capital Metro Budget Stabilization Reserve</td>
<td>$21,749,647</td>
<td>Diversified portfolio with 0-3 year investment strategy and able to provide liquidity if needed</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$222,701,672</strong></td>
<td></td>
</tr>
</tbody>
</table>
Capital Metro Composite Portfolio Composition as of September 30, 2019

**Portfolio Statistics**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value</td>
<td>$222,701,672</td>
</tr>
<tr>
<td>Weighted Average Duration</td>
<td>0.52</td>
</tr>
<tr>
<td>Weighted YTM at Market</td>
<td>2.02%</td>
</tr>
</tbody>
</table>

**Credit Quality Distribution**

- AAAm: 36.3%
- AA+: 40.5%
- A-1+ (Short-term): 1.6%
- AAAf: 18.6%
- A-1 (Short-term): 3.0%

**Sector Allocation**

- Texas TERM: 18.6%
- Texas DAILY: 36.3%
- U.S. Treasuries: 35.0%
- Federal Agency Obligations: 5.5%
- Commercial Paper: 4.6%

**Maturity Distribution**

- Overnight (TexasDAILY): 36.3%
- Under 6 Months: 26.1%
- 6 - 12 Months: 16.4%
- 1 - 2 Years: 13.0%
- 2 - 3 Years: 8.3%
Capital Metro Balance and Earnings Growth

Capital Metro Growth

Average Total Balance vs Total Earnings

Source: PFM Asset Management LLC, as of 8/31/2019.
Important Disclosures

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.
TEXAS PUBLIC FUNDS INVESTMENT ACT
ACKNOWLEDGEMENT

These Acknowledgments are executed on behalf of the Capital metropolitan Transportation Authority ("Investor") and TexasTERM Local Government Investment Pool ("Business Organization") pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the "Act"), in connection with investment transactions conducted between the Investor and the Business Organization.

Acknowledgment by Business Organization

The undersigned qualified representative of the Business Organization ("Qualified Representative") acknowledges, represents and agrees on behalf of the Business Organization that:

1. The Qualified Representative (a) is registered under the rules of the Financial Industry Regulatory Authority (FINRA), (b) is the duly appointed and acting representative of the Business Organization, holding the title set forth underneath its name below, and (c) is duly authorized to execute this Certification on behalf of the Business Organization;

2. The Qualified Representative has received and reviewed the Investor’s Investment Policy dated January 2018 and furnished by the Investor;

3. The Business Organization will provide the Investment Officer with periodic investor account and other reasonably requested information that will assist the Investor’s Investment Officer in carrying out his or her responsibility to make investment decisions consistent with the Investment Policy;

4. The Business Organization will not sell to the Investor investments other than those listed in the approved Investment Policy, which may be amended from time to time by the governing body of the Investor. The Investor is responsible for informing the Business Organization of any changes made to the Investment Policy document; and

5. The Investment Policy permits the entity to invest its funds in public funds investment pools organized under the Act.

TexasTERM Local Government Investment Pool
Qualified Representative

Nelson L. Bush
Managing Director
October 3, 2019
METRO

Investment Policy

Approved:
Capital Metropolitan Transportation Authority
Board of Directors
October 28, 2019
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APPENDICES

A. INVESTMENT LEGISLATION

B. MASTER REPURCHASE AGREEMENT (repurchase agreements not currently utilized, see note in Section IV.B, Ensuring Safety of Principal).

C. BROKER/DEALER CERTIFICATION
PREFACE

It is the policy of the Capital Metropolitan Transportation Authority (Capital Metro) that all available funds shall be invested in conformance with these legal and administrative guidelines.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued to take advantage of investment interest as viable and material revenue to all operating and capital funds. Capital Metro's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and federal law.

Investments shall be made with the primary objectives of:

• Preservation of capital and protection of principal
• Maintenance of sufficient liquidity to meet operating needs
• Security of Capital Metro funds and investments
• Diversification of investments to avoid unreasonable or unavoidable risks
• Maximization of return on the portfolio
SECTION I
PURPOSE
I. Purpose

A. Authorization

This Policy is to be authorized by the Capital Metropolitan Transportation Authority's Board of Directors in accordance with Section 5 of the Public Funds Investment Act (Chapter 2256, Texas Government Code) which requires the adoption of a formal written Investment Policy.

B. Scope

This Policy shall govern the investment of all funds of Capital Metro as entrusted to the Board of Directors and other authorized representatives in accordance with Section 451.101 of the Texas Transportation Code. In addition to this Policy, bond funds, including debt service and reserve funds, shall be managed by their governing resolution and federal law, including the Tax Reform Act of 1986 and subsequent legislation.

C. Review and Amendment

This Policy shall be reviewed annually. Amendments must be authorized by the Capital Metropolitan Transportation Authority's Board of Directors.
SECTION II

INVESTMENT OBJECTIVES
II. INVESTMENT OBJECTIVES

A. Safety of Principal

Capital Metro has as its foremost objective to ensure the safety of principal, considering the portfolio as a whole. The manner in which Capital Metro ensures safety of principal is presented in Section N.B., "Ensuring Safety of Principal".

B. Maintenance of Adequate Liquidity

Capital Metro's investment portfolio must be structured in a manner which will provide the liquidity necessary to pay obligations as they become due. Maintenance of adequate liquidity is described in Section N.C., "Ensuring Liquidity".

C. Return on Investments

Consistent with State law, Capital Metro shall seek to optimize return on investments within the constraints of safety and liquidity. Investments (excluding assets managed under separate investment programs, such as in arbitrage restrictive programs) shall be made in permitted obligations at yields equal to or greater than the bond equivalent yield on United States Treasury obligations of comparable maturity. Other appropriate performance measures will be established by the Investment Committee. Specific policies regarding investment rate of return are presented in Section N.D., "Achieving Investment Return Objectives". For bond issues to which Federal yield or arbitrage restrictions apply, the primary objectives shall be to obtain satisfactory market yields and to minimize the costs associated with investment of such funds.

D. Prudence and Ethical Standards

The standard of prudence used by Capital Metro shall be the "prudent person rule" and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The prudent person rule is restated below:
"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."
In determining whether the Investment Officer(s) or Investment Advisor under contract has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the Officer/Advisor had responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision was consistent with the written Investment Policy of Capital Metro.

Specific policies describing Capital Metro's prudence and ethical standards are found in Section IV.E., "Responsibility and Controls".
SECTION III
INVESTMENT STRATEGY STATEMENT
III. INVESTMENT STRATEGY STATEMENT

Capital Metro maintains portfolios of operating and operating reserve funds. Investment strategies for operating and operating reserve funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing quality, short- to medium-term securities that will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 548 days or less will be calculated using the stated final maturity dates of each security. Securities may not be purchased that have a final stated maturity date which exceeds five years.
SECTION IV

INVESTMENT POLICIES
IV. INVESTMENT POLICIES

A. Eligible Investments

Investments described below are those authorized by the Public Funds Investment Act (Chapter 2256, Texas Government Code), as amended, which is included and made a part of this Policy as Appendix A. The following list may not contain all of those securities that are authorized by state statutes, but only those that the Board of Directors wish to include in the Capital Metro's portfolios. The purchase of specific issues may at times be further restricted or prohibited because of current market conditions. Capital Metro funds governed by this Policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities.

2. Direct Obligations of the State of Texas.

3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities.

4. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.

5. Bankers' Acceptances with a stated maturity of 270 days or less from the date of its issuance that will be, in accordance with its terms, liquidated in full at maturity; is eligible for collateral for borrowing from a Federal Reserve Bank; and is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

6. Commercial paper with a stated maturity of 365 days or less from the date of its issuance that either:

   a. Is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or,
b. Is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof.

7. Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas, and secured by obligations described by 1 above (the principal and interest on which are guaranteed by the United States or any of its agencies), pledged with a third party selected or approved by Capital Metro and having a market value (including accrued interest) of no less than the principal amount of the funds disbursed.

8. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.

9. SEC-regulated, no load money market mutual funds with a dollar-weighted average stated portfolio maturity of 60 days or less and whose investment objectives include seeking to maintain a stable net asset value of $1 per share. No more than 50% of Capital Metro’s average fund balance may be invested in money market mutual funds, and may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund. Money market mutual funds are to be rated AAAm or equivalent by on Nationally Recognized Statistical Rating Organization (“NRSRO).

10. Local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are allowed as a direct investment for funds subject to the Public Funds Investment Act (Chapter 2256, Texas Government Code). A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service.
Compensating balances may be held at Capital Metro’s depository institution provided that market conditions or other factors, such as the depository institution’s earnings credit rate or cost of services, provides an economic benefit to Capital Metro that helps to optimize return while maintaining adequate liquidity.

Investments in collateralized mortgage obligations are strictly prohibited. These securities are also disallowed for collateral positions. Capital Metro will not be required to liquidate investments that were authorized investments at the time of purchase.

Settlement of all investment transactions, except those transactions involving investments in mutual funds or local government investment pools, must be made on a delivery versus payment basis.

B. Ensuring Safety of Principal

Ensuring safety is accomplished through protection of principal and safekeeping.

1. Protection of Principal

Capital Metro shall seek to control the risk of loss due to the failure of a security issuer or guarantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Policy, by qualifying the broker/dealer and financial institution with whom Capital Metro will transact, by collateralization as required by law, by portfolio diversification and by limiting maturity.

Capital Metro will seek to control the risk of loss due to failure of issuers of commercial paper by monitoring the ratings of portfolio positions to ensure compliance with the rating requirements imposed by the Public Funds Investment Act. Should an issuer experience a single step downgrade of its credit rating by a nationally recognized credit rating agency within 90 days of the position’s maturity, the Investment Officer(s) may approve holding the paper to maturity. If the subject paper matures beyond the 90-day period or if the credit rating downgrade exceeds a single step, it will be Capital Metro's policy to convene an emergency meeting of the Investment Committee to determine whether liquidation of the position is warranted. This meeting should take place within 24 hours of notification or discovery of the credit downgrade.
The purchase of individual securities shall be executed "delivery versus payment" (DVP) through the Federal Reserve System. By so doing, Capital Metro funds are not released until Capital Metro has received, through the Federal Reserve wire, the securities purchased.

a. Approved Broker/Dealers/Financial Institutions

Investments shall only be made with those firms and institutions who have acknowledged receipt and understanding of Capital Metro's Investment Policy. The "qualified representative" of the business as defined in Chapter 2256 of the Texas Government Code shall execute a written certification to acknowledge receipt of Capital Metro's Investment Policy and to acknowledge that the organization has implemented reasonable procedures and controls to preclude imprudent investment activities arising out of the investment transactions conducted between the entity and Capital Metro. Should Capital Metro contract with an external investment advisor to execute the Authority's investment strategy, including the negotiation and execution of investment transactions, a managing officer of the investment advisory firm may sign the written certification in lieu of the broker/dealer firms. This certification must be included as part of the investment advisory contract.

Securities, certificates of deposit and share certificates shall only be purchased from those institutions included on Capital Metro's list of broker/dealers, banks, savings banks and credit unions as approved by the Investment Committee. This list of approved investment providers must be reviewed at least annually by Capital Metro's Investment Committee.

b. Master Repurchase Agreement

It is the policy of Capital Metro to require each issuer of repurchase agreements to sign a copy of the Capital Metro Master Repurchase Agreement. An executed copy of this agreement must be on file before Capital Metro will enter into any repurchase agreement with an issuer. (See Appendix B "Master Repurchase Agreement.")

Note: Capital Metro does not currently enter into repurchase agreements. The Master Repurchase Agreement previously attached to the Investment Policy expired in 2009. If Capital Metro’s investment officers and advisor recommend the use of repurchase agreements in...
the future, a new Master Purchase Agreement will be drafted and brought to the Board of Directors for consideration.

c. Collateralization

Consistent with the requirements of State law, Capital Metro requires all banks, savings banks and credit union deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as Capital Metro Depositories will be required to sign an Agreement with Capital Metro and its safekeeping agent for the collateral, perfecting Capital Metro's rights to the collateral in case of default, bankruptcy or closure. Capital Metro shall not accept, as depository collateral, any security that is not specifically allowed to be held as a direct investment by the Capital Metro portfolio (see W.A.). Repurchase agreements must also be collateralized in accordance with State law. Each issuer of repurchase agreements is required to sign a copy of Capital Metro's Master Repurchase Agreement. An executed copy of this agreement must be on file before Capital Metro will enter into any repurchase agreements with an issuer. (See Appendix B, "Master Repurchase Agreement").

(1) Allowable Collateral

(a) Certificates of Deposit/Share Certificates

Eligible securities for collateralization of deposits are defined by the "Public Funds Collateral Act" (Chapter 2257, Texas Government Code) which is included and made a part of the Policy as Appendix A. The eligibility of specific issues may at times be restricted or prohibited because of current market conditions.

(b) Repurchase Agreements

Collateral underlying repurchase agreements is limited to U.S. government and agency obligations, which are eligible for wire transfer (i.e. book entry) to Capital Metro's designated safekeeping agent through the Federal Reserve System.

(2) Collateral Levels
Collateral is valued at current market plus interest accrued through the date of valuation.

(a) Certificates of Deposit/Share Certificates

The market value of collateral pledged for certificates of deposit/share certificates must at all times be equal to or greater than the par value of the certificate of deposit plus accrued interest, less the amount insured by the FDIC, FSLIC or the National Credit Union Share Insurance Fund or their successors.

(b) Repurchase Agreements

The market value of collateral required to be pledged for repurchase agreements shall be a percentage of the par value of the agreement plus accrued interest and shall be maintained at the following levels:

<table>
<thead>
<tr>
<th>Collateral Maturity</th>
<th>U.S. Treasury Securities</th>
<th>U.S. Government Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year or less</td>
<td>101%</td>
<td>101%</td>
</tr>
<tr>
<td>1 year to 5 years</td>
<td>102%</td>
<td>102%</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>103%</td>
<td>104%</td>
</tr>
</tbody>
</table>

(3) Monitoring Collateral Adequacy

(a) Certificates of Deposit/Share Certificates

Capital Metro requires monthly reports with market values of pledged securities from all financial institutions with which Capital Metro has certificates of deposit/share certificates. Capital Metro's Investment Advisor will at least weekly monitor the adequacy of collateral.

(b) Repurchase Agreements

Weekly monitoring by Capital Metro's Investment Advisor of all collateral underlying repurchase agreements is required. More frequent monitoring may be necessary during periods of market volatility.
(4) Margin Calls

(a) Certificates of Deposit/Share Certificates

If the collateral pledged for a certificate of deposit or share certificate falls below the par value of the deposit, plus accrued interest less FDIC, FSLIC or National Credit Union Share Insurance, the institution will be notified by Capital Metro or its Investment Advisor and will be required to pledge additional securities no later than the end of the next succeeding business day.
(b) Repurchase Agreements

If the value of the collateral underlying a repurchase agreement falls below the margin maintenance levels specified above, Capital Metro or its Investment Advisor will make a margin call unless the repurchase agreement is scheduled to mature within five business days and the amount is deemed to be immaterial.

(5) Collateral Substitution

Collateral investments, certificates of deposit and share certificates often require substitution of collateral. Any broker or financial institution requesting substitution must contact the Investment Officer(s) or the external Investment Advisor under contract for approval and settlement. The substituted collateral’s value will be calculated and substitution approved if its value is equal to or greater than the required value (See IV.Bl.c(2)(b)). The Investment Officer(s) or Investment Advisor must give immediate notification of the decision to the bank or the safekeeping agent holding the collateral. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officer(s) or Investment Advisor may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

(6) Collateral Reductions

Should the collateral's market value exceed the required amount, any broker or financial institution may request approval from the Investment Officer(s) or the external Investment Advisor under contract to reduce collateral. Collateral reductions may be permitted only if Capital Metro's records indicate that the collateral's market value exceeds the required amount.
d. Portfolio Diversification

Risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations. As discussed below, these limitations do not apply to bond proceeds.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>% of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repurchase Agreements</td>
<td>50%</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>20%</td>
</tr>
<tr>
<td>Share Certificates</td>
<td>5%</td>
</tr>
<tr>
<td>U.S. Treasury Notes/Bond/Bills</td>
<td>100%</td>
</tr>
<tr>
<td>U.S. Agencies</td>
<td>60%</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>50%</td>
</tr>
<tr>
<td>Local Government Investment Pools</td>
<td>100%</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>30%</td>
</tr>
<tr>
<td>Banker’s Acceptance</td>
<td>15%</td>
</tr>
</tbody>
</table>

It is the policy of Capital Metro to diversify its investment portfolio so that reliance on any one issuer or broker will not place an undue financial burden on Capital Metro. Generally, Capital Metro should limit its repurchase agreement exposure with a single firm to no more than 15% of the value of Capital Metro's overall portfolio and its commercial paper and bankers' acceptance exposure with a single issuer to no more than 5% of the value of Capital Metro's overall portfolio. To allow efficient and effective placement of proceeds from any bond sales, these limits may be exceeded for a maximum of five business days following the receipt of bond proceeds.

(1) Bond Proceeds

Proceeds of a single bond issue may be invested in a single security or investment if the Investment Committee determines that such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage record keeping and calculation.
e. Limiting Maturity

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines by funds are as follows:

(1) General Funds

The dollar weighted average days to final stated maturity shall be 548 days or less. The Investment Advisor will monitor the maturity level and make changes as appropriate.

(2) Bond Proceeds, Bond Reserves, Debt Service Funds

The investment maturity of bond proceeds (including reserves and debt service funds) shall be determined considering:

(a) the anticipated cash flow requirements of the funds, and;

(b) the "temporary period" as defined by Federal tax law during which time bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds.

2. Safekeeping

a. Safekeeping Agreement

Capital Metro shall contract with a bank or banks for the safekeeping of securities either owned by Capital Metro as a part of its investment portfolio or held as collateral to secure certificates of deposits, share certificates or repurchase agreements.

b. Safekeeping of Certificate of Deposit/Share Certificate Collateral

All collateral securing bank, savings banks and credit union deposits must be held by a third party banking institution approved by Capital Metro, or collateral may be held at the Federal Reserve Bank.
c. Safekeeping of Repurchase Agreement Collateral

The securities which serve as collateral for repurchase agreements with dealers must be delivered to a third-party custodian with which Capital Metro has established a third-party safekeeping agreement.

C. Ensuring Liquidity

Liquidity shall be achieved by investing in securities with active secondary markets and by investing in eligible money market mutual funds (MNIMF’s) and local government investment pools (LGIP’s).

A security may be liquidated to meet unanticipated cash requirements, to re-deploy cash into other investments expected to outperform current holdings, or to otherwise adjust the portfolio.

D. Achieving Investment Return Objectives

Investment selection for all funds shall be based on legality, appropriateness, liquidity, and risk/return considerations. The portfolios shall be actively managed to enhance overall interest income. Active management will take place within the context of the 'Prudent Person Rule." (See Section MD.).
1. Securities Swaps

Capital Metro will take advantage of security swap opportunities to improve portfolio yield. A swap which improves portfolio yield may be selected even if the transaction results in an accounting loss.

2. Competitive Bidding

It is the policy of Capital Metro to require competitive bidding for all individual security purchases except for those transactions with money market mutual funds (MMMF’s) and local government investment pools (LGIP’s) which are deemed to be made at prevailing market rates, and for government securities purchased at issue through a primary dealer at auction price. Rather than relying solely on yield, investment in MMMF’s and LGIP’s shall be based on criteria determined by the Investment Committee, including adherence to Securities and Exchange Commission (SEC) guidelines for MMMF’s when appropriate. At least three bidders must be contacted in all transactions involving individual securities. Competitive bidding for security swaps is also required. Bids may be solicited in any manner provided by law. For those situations where it may be impractical or unreasonable to receive three bids for a transaction due to a rapidly changing market environment or to secondary market availability, documentation of a competitive market survey of comparable securities or an explanation of the specific circumstance must be included with the daily bid sheet. All bids received must be documented and filed for auditing purposes.

3. Methods of Monitoring Market Price

The methods/sources to be used to monitor the price of investments that have been acquired with public funds shall be from sources deemed reliable by the Investment Advisor, including primary or regional broker/dealers, market information vendors such as Bloomberg or Telerate and market pricing services.

E. Responsibility and Controls

1. Authority to Invest

The authority to invest Capital Metro funds and the execution of any documentation necessary to evidence the investment of Capital Metro funds is
granted to the Investment Advisory firm under current contract and those Capital Metro personnel authorized as Investment Officers. The Capital Metropolitan Transportation Authority's Board of Directors will designate in writing those Capital Metro personnel ("Investment Officers") authorized to invest on behalf of Capital Metro.

2. Establishment of Internal Controls

The Chief Financial Officer will establish a system of internal controls over the investment activities of Capital Metro and document such control in the Investment Procedures Manual.

3. Prudent Investment Management

The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy and procedures set forth in the Investment Procedures Manual. Investment Officers acting in good faith and in accordance with these Policies and Procedures shall be relieved of personal liability.

4. Standard of Ethics

The designated Investment Officers shall adhere to Capital Metro's ethics policies.

5. Training and Education

In accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code), the designated Investment Officers, or those personnel authorized to execute investment transactions, shall attend at least one investment training session annually. State law requires that training relating to investment responsibilities must be provided by an independent source as approved by the Investment Committee. Personnel authorized to execute or approve investment transactions must receive at least 10 hours of investment training within each two-year period.

6. Investment Committee

An Investment Committee shall be established to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment officers and a
representative of the external investment advisory firm. The Committee may also include one additional member, as designated by the Capital Metropolitan Transportation Authority's Board of Directors. The Committee shall meet quarterly to review performance, strategy and procedures.

F. Reporting

Investment performance is continually monitored and evaluated by the Investment Advisor. The Investment Advisor will provide detailed reports, as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code), Section 2256.023, for the General Manager, the Chief Financial Officer, the Board of Directors and the Investment Committee on a quarterly basis.

The report will outline conformance to the restrictions of the Policy in the area of diversification and term of maturity. The report will also compare the performance of Capital Metro's portfolio to appropriate benchmarks as determined by the Investment Committee. The report will include an economic summary discussing interest rate trends, investment strategy and any other information deemed appropriate by the Chief Financial Officer or the Investment Committee.

G. Compliance Audit

In conjunction with its annual financial audit, Capital Metro shall perform a compliance audit of management controls on investments and adherence to Capital Metro's established Investment Policies. The results of the audit shall be reported to the Investment Committee and the Capital Metropolitan Transportation Authority's Board of Directors.

H. Certification

A copy of this Investment Policy will be provided to the senior management of any bank, dealer, broker or investment advisor wishing to transact investment business directly with Capital Metro in order that it is apprised of the investment goals of Capital Metro. Before business is transacted with the firm, a certification (Appendix C) must be signed by a senior member of a firm. Should Capital Metro contract with an external investment advisor to execute the Authority's investment strategy, including the negotiation and execution of investment transactions, a managing officer of the investment advisory firm may sign the written certification in lieu of the broker/dealer firms. This certification must be included as part of the investment advisory contract.
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   B. Scope
   C. Review and Amendment

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   B. Maintenance of Adequate Liquidity
   C. Return of Investments
   D. Prudent and Ethical Standards

III. INVESTMENT STRATEGY AND STATEMENT

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   B. Ensuring Safety of Principal
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B. MASTER REPURCHASE AGREEMENT (repurchase agreements not currently utilized, see note in Section IV.B, Ensuring Safety of Principal).

C. BROKER/DEALER CERTIFICATION
PREFACE

It is the policy of the Capital Metropolitan Transportation Authority (Capital Metro) that all available funds shall be invested in conformance with these legal and administrative guidelines.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued to take advantage of investment interest as viable and material revenue to all operating and capital funds. Capital Metro's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and federal law.

Investments shall be made with the primary objectives of:

- Preservation of capital and protection of principal
- Maintenance of sufficient liquidity to meet operating needs
- Security of Capital Metro funds and investments
- Diversification of investments to avoid unreasonable or unavoidable risks
- Maximization of return on the portfolio
SECTION I

PURPOSE
I. Purpose

A. Authorization

This Policy is to be authorized by the Capital Metropolitan Transportation Authority's Board of Directors in accordance with Section 5 of the Public Funds Investment Act (Chapter 2256, Texas Government Code) which requires the adoption of a formal written Investment Policy.

B. Scope

This Policy shall govern the investment of all funds of Capital Metro as entrusted to the Board of Directors and other authorized representatives in accordance with Section 451.101 of the Texas Transportation Code. In addition to this Policy, bond funds, including debt service and reserve funds, shall be managed by their governing resolution and federal law, including the Tax Reform Act of 1986 and subsequent legislation.

C. Review and Amendment

This Policy shall be reviewed annually. Amendments must be authorized by the Capital Metropolitan Transportation Authority's Board of Directors.
SECTION II

INVESTMENT OBJECTIVES
II. INVESTMENT OBJECTIVES

A. Safety of Principal

Capital Metro has as its foremost objective to ensure the safety of principal, considering the portfolio as a whole. The manner in which Capital Metro ensures safety of principal is presented in Section N.B., "Ensuring Safety of Principal".

B. Maintenance of Adequate Liquidity

Capital Metro's investment portfolio must be structured in a manner which will provide the liquidity necessary to pay obligations as they become due. Maintenance of adequate liquidity is described in Section N.C., "Ensuring Liquidity".

C. Return on Investments

Consistent with State law, Capital Metro shall seek to optimize return on investments within the constraints of safety and liquidity. Investments (excluding assets managed under separate investment programs, such as in arbitrage restrictive programs) shall be made in permitted obligations at yields equal to or greater than the bond equivalent yield on United States Treasury obligations of comparable maturity. Other appropriate performance measures will be established by the Investment Committee. Specific policies regarding investment rate of return are presented in Section N.D., "Achieving Investment Return Objectives". For bond issues to which Federal yield or arbitrage restrictions apply, the primary objectives shall be to obtain satisfactory market yields and to minimize the costs associated with investment of such funds.

D. Prudence and Ethical Standards

The standard of prudence used by Capital Metro shall be the "prudent person rule" and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The prudent person rule is restated below:
"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."
In determining whether the Investment Officer(s) or Investment Advisor under contract has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the Officer/Advisor had responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision was consistent with the written Investment Policy of Capital Metro.

Specific policies describing Capital Metro's prudence and ethical standards are found in Section IV.E., "Responsibility and Controls".
SECTION III
INVESTMENT STRATEGY STATEMENT
III. INVESTMENT STRATEGY STATEMENT

Capital Metro maintains portfolios of operating and operating reserve funds. Investment strategies for operating and operating reserve funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing quality, short- to medium-term securities that will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 548 days or less will be calculated using the stated final maturity dates of each security. Securities may not be purchased that have a final stated maturity date which exceeds five years.
SECTION IV

INVESTMENT POLICIES
IV. INVESTMENT POLICIES

A. Eligible Investments

Investments described below are those authorized by the Public Funds Investment Act (Chapter 2256, Texas Government Code), as amended, which is included and made a part of this Policy as Appendix A. The following list may not contain all of those securities that are authorized by state statutes, but only those that the Board of Directors wish to include in the Capital Metro's portfolios. The purchase of specific issues may at times be further restricted or prohibited because of current market conditions. Capital Metro funds governed by this Policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities.

2. Direct Obligations of the State of Texas.

3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities.

4. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.

5. Bankers' Acceptances with a stated maturity of 270 days or less from the date of its issuance that will be, in accordance with its terms, liquidated in full at maturity; is eligible for collateral for borrowing from a Federal Reserve Bank; and is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

6. Commercial paper with a stated maturity of 365 days or less from the date of its issuance that either:

   a. Is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or,
b. Is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof.

7. Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas, and secured by obligations described by 1 above (the principal and interest on which are guaranteed by the United States or any of its agencies), pledged with a third party selected or approved by Capital Metro and having a market value (including accrued interest) of no less than the principal amount of the funds disbursed.

8. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.

9. SEC-regulated, no load money market mutual funds with a dollar-weighted average stated portfolio maturity of 60 days or less and whose investment objectives include seeking to maintain a stable net asset value of $1 per share. No more than 50% of Capital Metro’s average fund balance may be invested in money market mutual funds, and may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund. Money market mutual funds are to be rated AAAm or equivalent by on Nationally Recognized Statistical Rating Organization (“NRSRO).

10. Local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are allowed as a direct investment for funds subject to the Public Funds Investment Act (Chapter 2256, Texas Government Code). A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service.
Compensating balances may be held at Capital Metro’s depository institution provided that market conditions or other factors, such as the depository institution’s earnings credit rate or cost of services, provides an economic benefit to Capital Metro that helps to optimize return while maintaining adequate liquidity.

Investments in collateralized mortgage obligations are strictly prohibited. These securities are also disallowed for collateral positions. Capital Metro will not be required to liquidate investments that were authorized investments at the time of purchase.

Settlement of all investment transactions, except those transactions involving investments in mutual funds or local government investment pools, must be made on a delivery versus payment basis.

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Ensuring safety is accomplished through protection of principal and safekeeping.

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   Capital Metro shall seek to control the risk of loss due to the failure of a security issuer or guarantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Policy, by qualifying the broker/dealer and financial institution with whom Capital Metro will transact, by collateralization as required by law, by portfolio diversification and by limiting maturity.

   Capital Metro will seek to control the risk of loss due to failure of issuers of commercial paper by monitoring the ratings of portfolio positions to ensure compliance with the rating requirements imposed by the Public Funds Investment Act. Should an issuer experience a single step downgrade of its credit rating by a nationally recognized credit rating agency within 90 days of the position's maturity, the Investment Officer(s) may approve holding the paper to maturity. If the subject paper matures beyond the 90-day period or if the credit rating downgrade exceeds a single step, it will be Capital Metro's policy to convene an emergency meeting of the Investment Committee to determine whether liquidation of the position is warranted. This meeting should take place within 24 hours of notification or discovery of the credit downgrade.
The purchase of individual securities shall be executed "delivery versus payment" (DVP) through the Federal Reserve System. By so doing, Capital Metro funds are not released until Capital Metro has received, through the Federal Reserve wire, the securities purchased.

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Investments shall only be made with those firms and institutions who have acknowledged receipt and understanding of Capital Metro's Investment Policy. The "qualified representative" of the business as defined in Chapter 2256 of the Texas Government Code shall execute a written certification to acknowledge receipt of Capital Metro's Investment Policy and to acknowledge that the organization has implemented reasonable procedures and controls to preclude imprudent investment activities arising out of the investment transactions conducted between the entity and Capital Metro. Should Capital Metro contract with an external investment advisor to execute the Authority's investment strategy, including the negotiation and execution of investment transactions, a managing officer of the investment advisory firm may sign the written certification in lieu of the broker/dealer firms. This certification must be included as part of the investment advisory contract.

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Note: Capital Metro does not currently enter into repurchase agreements. The Master Repurchase Agreement previously attached to the Investment Policy expired in 2009. If Capital Metro’s investment officers and advisor recommend the use of repurchase agreements in
the future, a new Master Purchase Agreement will be drafted and brought to the Board of Directors for consideration.

c. Collateralization

Consistent with the requirements of State law, Capital Metro requires all banks, savings banks and credit union deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as Capital Metro Depositories will be required to sign an Agreement with Capital Metro and its safekeeping agent for the collateral, perfecting Capital Metro's rights to the collateral in case of default, bankruptcy or closure. CapitalMetro shall not accept, as depository collateral, any security that is not specifically allowed to be held as a direct investment by the Capital Metro portfolio (see W.A.). Repurchase agreements must also be collateralized in accordance with State law. Each issuer of repurchase agreements is required to sign a copy of Capital Metro's Master Repurchase Agreement. An executed copy of this agreement must be on file before Capital Metro will enter into any repurchase agreements with an issuer. (See Appendix B, "Master Repurchase Agreement").

(1) Allowable Collateral

(a) Certificates of Deposit/Share Certificates

Eligible securities for collateralization of deposits are defined by the "Public Funds Collateral Act" (Chapter 2257, Texas Government Code) which is included and made a part of the Policy as Appendix A. The eligibility of specific issues may at times be restricted or prohibited because of current market conditions.

(b) Repurchase Agreements

Collateral underlying repurchase agreements is limited to U.S. government and agency obligations, which are eligible for wire transfer (i.e. book entry) to Capital Metro's designated safekeeping agent through the Federal Reserve System.

(2) Collateral Levels
Collateral is valued at current market plus interest accrued through the date of valuation.

(a) Certificates of Deposit/Share Certificates

The market value of collateral pledged for certificates of deposit/share certificates must at all times be equal to or greater than the par value of the certificate of deposit plus accrued interest, less the amount insured by the FDIC, FSLIC or the National Credit Union Share Insurance Fund or their successors.

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The market value of collateral required to be pledged for repurchase agreements shall be a percentage of the par value of the agreement plus accrued interest and shall be maintained at the following levels:

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</tr>
<tr>
<td>Over 5 years</td>
<td>103%</td>
<td>104%</td>
</tr>
</tbody>
</table>

(3) Monitoring Collateral Adequacy

(a) Certificates of Deposit/Share Certificates

Capital Metro requires monthly reports with market values of pledged securities from all financial institutions with which Capital Metro has certificates of deposit/share certificates. Capital Metro's Investment Advisor will at least weekly monitor the adequacy of collateral.

(b) Repurchase Agreements

Weekly monitoring by Capital Metro's Investment Advisor of all collateral underlying repurchase agreements is required. More frequent monitoring may be necessary during periods of market volatility.
(4) Margin Calls

(a) Certificates of Deposit/Share Certificates

If the collateral pledged for a certificate of deposit or share certificate falls below the par value of the deposit, plus accrued interest less FDIC, FSLIC or National Credit Union Share Insurance, the institution will be notified by Capital Metro or its Investment Advisor and will be required to pledge additional securities no later than the end of the next succeeding business day.
(b) Repurchase Agreements

If the value of the collateral underlying a repurchase agreement falls below the margin maintenance levels specified above, Capital Metro or its Investment Advisor will make a margin call unless the repurchase agreement is scheduled to mature within five business days and the amount is deemed to be immaterial.

(5) Collateral Substitution

Collateral investments, certificates of deposit and share certificates often require substitution of collateral. Any broker or financial institution requesting substitution must contact the Investment Officer(s) or the external Investment Advisor under contract for approval and settlement. The substituted collateral’s value will be calculated and substitution approved if its value is equal to or greater than the required value (See IV.Bl.c(2)(b)). The Investment Officer(s) or Investment Advisor must give immediate notification of the decision to the bank or the safekeeping agent holding the collateral. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officer(s) or Investment Advisor may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

(6) Collateral Reductions

Should the collateral's market value exceed the required amount, any broker or financial institution may request approval from the Investment Officer(s) or the external Investment Advisor under contract to reduce collateral. Collateral reductions may be permitted only if Capital Metro's records indicate that the collateral's market value exceeds the required amount.
d. Portfolio Diversification

Risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations. As discussed below, these limitations do not apply to bond proceeds.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>% of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repurchase Agreements</td>
<td>50%</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>20%</td>
</tr>
<tr>
<td>Share Certificates</td>
<td>5%</td>
</tr>
<tr>
<td>U.S. Treasury Notes/Bond/Bills</td>
<td>100%</td>
</tr>
<tr>
<td>U.S. Agencies</td>
<td>60%</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>50%</td>
</tr>
<tr>
<td>Local Government Investment Pools</td>
<td>100%</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>30%</td>
</tr>
<tr>
<td>Banker’s Acceptance</td>
<td>15%</td>
</tr>
</tbody>
</table>

It is the policy of Capital Metro to diversify its investment portfolio so that reliance on any one issuer or broker will not place an undue financial burden on Capital Metro. Generally, Capital Metro should limit its repurchase agreement exposure with a single firm to no more than 15% of the value of Capital Metro's overall portfolio and its commercial paper and bankers' acceptance exposure with a single issuer to no more than 5% of the value of Capital Metro's overall portfolio. To allow efficient and effective placement of proceeds from any bond sales, these limits may be exceeded for a maximum of five business days following the receipt of bond proceeds.

(1) Bond Proceeds

Proceeds of a single bond issue may be invested in a single security or investment if the Investment Committee determines that such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage record keeping and calculation.
e. Limiting Maturity

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines by funds are as follows:

(1) General Funds

The dollar weighted average days to final stated maturity shall be 548 days or less. The Investment Advisor will monitor the maturity level and make changes as appropriate.

(2) Bond Proceeds, Bond Reserves, Debt Service Funds

The investment maturity of bond proceeds (including reserves and debt service funds) shall be determined considering:

(a) the anticipated cash flow requirements of the funds, and;

(b) the "temporary period" as defined by Federal tax law during which time bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds.

2. Safekeeping

a. Safekeeping Agreement

Capital Metro shall contract with a bank or banks for the safekeeping of securities either owned by Capital Metro as a part of its investment portfolio or held as collateral to secure certificates of deposits, share certificates or repurchase agreements.

b. Safekeeping of Certificate of Deposit/Share Certificate Collateral

All collateral securing bank, savings banks and credit union deposits must be held by a third party banking institution approved by Capital Metro, or collateral may be held at the Federal Reserve Bank.
c. Safekeeping of Repurchase Agreement Collateral

The securities which serve as collateral for repurchase agreements with dealers must be delivered to a third-party custodian with which Capital Metro has established a third-party safekeeping agreement.

C. Ensuring Liquidity

Liquidity shall be achieved by investing in securities with active secondary markets and by investing in eligible money market mutual funds (MNIMF's) and local government investment pools (LGIP's).

A security may be liquidated to meet unanticipated cash requirements, to redeploy cash into other investments expected to outperform current holdings, or to otherwise adjust the portfolio.

D. Achieving Investment Return Objectives

Investment selection for all funds shall be based on legality, appropriateness, liquidity, and risk/return considerations. The portfolios shall be actively managed to enhance overall interest income. Active management will take place within the context of the 'Prudent Person Rule.' (See Section MD.).
1. Securities Swaps

Capital Metro will take advantage of security swap opportunities to improve portfolio yield. A swap which improves portfolio yield may be selected even if the transaction results in an accounting loss.

2. Competitive Bidding

It is the policy of Capital Metro to require competitive bidding for all individual security purchases except for those transactions with money market mutual funds (MMMF’s) and local government investment pools (LGIP’s) which are deemed to be made at prevailing market rates, and for government securities purchased at issue through a primary dealer at auction price. Rather than relying solely on yield, investment in MMMF’s and LGIP's shall be based on criteria determined by the Investment Committee, including adherence to Securities and Exchange Commission (SEC) guidelines for MMMF’s when appropriate. At least three bidders must be contacted in all transactions involving individual securities. Competitive bidding for security swaps is also required. Bids may be solicited in any manner provided by law. For those situations where it may be impractical or unreasonable to receive three bids for a transaction due to a rapidly changing market environment or to secondary market availability, documentation of a competitive market survey of comparable securities or an explanation of the specific circumstance must be included with the daily bid sheet. All bids received must be documented and filed for auditing purposes.

3. Methods of Monitoring Market Price

The methods/sources to be used to monitor the price of investments that have been acquired with public funds shall be from sources deemed reliable by the Investment Advisor, including primary or regional broker/dealers, market information vendors such as Bloomberg or Telerate and market pricing services.

E. Responsibility and Controls

1. Authority to Invest

The authority to invest Capital Metro funds and the execution of any documentation necessary to evidence the investment of Capital Metro funds is
granted to the Investment Advisory firm under current contract and those Capital Metro personnel authorized as Investment Officers. The Capital Metropolitan Transportation Authority's Board of Directors will designate in writing those Capital Metro personnel ("Investment Officers") authorized to invest on behalf of Capital Metro.

2. Establishment of Internal Controls

The Chief Financial Officer will establish a system of internal controls over the investment activities of Capital Metro and document such control in the Investment Procedures Manual.

3. Prudent Investment Management

The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy and procedures set forth in the Investment Procedures Manual. Investment Officers acting in good faith and in accordance with these Policies and Procedures shall be relieved of personal liability.

4. Standard of Ethics

The designated Investment Officers shall adhere to Capital Metro's ethics policies.

5. Training and Education

In accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code), the designated Investment Officers, or those personnel authorized to execute investment transactions, shall attend at least one investment training session annually. State law requires that training relating to investment responsibilities must be provided by an independent source as approved by the Investment Committee. Personnel authorized to execute or approve investment transactions must receive at least 10 hours of investment training within each two-year period.

6. Investment Committee

An Investment Committee shall be established to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment officers and a
representative of the external investment advisory firm. The Committee may also include one additional member, as designated by the Capital Metropolitan Transportation Authority's Board of Directors. The Committee shall meet quarterly to review performance, strategy and procedures.

F. Reporting

Investment performance is continually monitored and evaluated by the Investment Advisor. The Investment Advisor will provide detailed reports, as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code), Section 2256.023, for the General Manager, the Chief Financial Officer, the Board of Directors and the Investment Committee on a quarterly basis.

The report will outline conformance to the restrictions of the Policy in the area of diversification and term of maturity. The report will also compare the performance of Capital Metro's portfolio to appropriate benchmarks as determined by the Investment Committee. The report will include an economic summary discussing interest rate trends, investment strategy and any other information deemed appropriate by the Chief Financial Officer or the Investment Committee.

G. Compliance Audit

In conjunction with its annual financial audit, Capital Metro shall perform a compliance audit of management controls on investments and adherence to Capital Metro's established Investment Policies. The results of the audit shall be reported to the Investment Committee and the Capital Metropolitan Transportation Authority's Board of Directors.

H. Certification

A copy of this Investment Policy will be provided to the senior management of any bank, dealer, broker or investment advisor wishing to transact investment business directly with Capital Metro in order that it is apprised of the investment goals of Capital Metro. Before business is transacted with the firm, a certification (Appendix C) must be signed by a senior member of a firm. Should Capital Metro contract with an external investment advisor to execute the Authority's investment strategy, including the negotiation and execution of investment transactions, a managing officer of the investment advisory firm may sign the written certification in lieu of the broker/dealer firms. This certification must be included as part of the investment advisory contract.
Approval of a resolution approving the FY2020 Internal Audit Plan.
SUBJECT:
Approval of a resolution approving the FY2020 Internal Audit Plan.

FISCAL IMPACT:
This action has no fiscal impact.

STRATEGIC PLAN:
Strategic Goal Alignment:
1. High Quality Customer Experience
2. Engaged Workforce
3. Sustainability
4. Valued Community Partner

Strategic Objectives:
1.1 On-Time Performance, 1.2 Ridership, 1.5 Capital Projects Performance, 2.3 Adherence to Professional Development Plan, 3.1 Operating Cost/Revenue Hour, 3.2 Customers/Revenue Hour, 3.4 Financial Diversity, 3.6 Adherence to State of Good Repair Program, 3.7 Adherence to Safety Management Systems, 4.1 Brand Reputation, 4.3 Project Connect Program Progress, 4.4 Organizational Partner Satisfaction

EXPLANATION OF STRATEGIC ALIGNMENT:
This plan will ensure good stewardship and internal controls for the agency, and supports the Capital Metro Strategic Plan.

BUSINESS CASE:
Does not apply.

COMMITTEE RECOMMENDATION:
This agenda item was presented and is recommended for approval by the Finance, Audit and Administration Committee on October 9, 2019.

EXECUTIVE SUMMARY:
The Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing require risk-based audit plans be developed to determine the priorities of an internal audit activity, consistent with the organization’s goals.

The proposed FY2020 Internal Audit Plan (the Plan) summarizes the proposed audits and projects that were identified during a comprehensive risk assessment performed by Capital Metro Internal Audit. The Plan presents audit activities in two categories: Assurance Services, and Advisory & Consulting Services.
The Capital Metro Internal Audit Charter requires that the Chief Audit Executive “present for approval to the Finance & Audit Committee a risk-based Audit Plan which documents the priorities of the internal audit function and is consistent with the Authority’s strategic goals and objectives.” After FAA consideration, the plan is taken to the full Board for its review and approval.

DBE/SBE PARTICIPATION: Does not apply.

PROCUREMENT: Does not apply.

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

STATE OF TEXAS
COUNTY OF TRAVIS

RESOLUTION (ID # AI-2019-1107)
Approval of the FY2020 Internal Audit Plan

WHEREAS, the FY2020 Internal Audit Plan considers the potential risks and opportunities of the Authority; and the FY2020 Internal Audit Plan was prepared in accordance with professional internal auditing standards; and

WHEREAS, the FY2020 Internal Audit Plan provides a mix of audit projects to mitigate risks, develop recommendations for improvement and/or cost savings, and monitor the progress toward implementing past recommendations.

NOW, THEREFORE, BE IT RESOLVED by the Capital Metropolitan Transportation Authority Board of Directors that the FY2020 Internal Audit Plan is adopted and sets a program to provide relevant and useful information to the Board of Directors.

________________________
Date: ____________________
Secretary of the Board
Eric Stratton
MEMORANDUM

To: Terry Mitchell, Chair, Finance, Audit & Administrative (FAA) Committee
    Wade Cooper, Member, FAA Committee
    Eric Stratton, Member, FAA Committee
    Sabino Renteria, Member, FAA Committee

CC: Randy Clarke, President/CEO

From: Terry Follmer, CPA, MBA, CIA, CISA, CISSP
      VP, Internal Audit

Date: October 9, 2020

Subject: Proposed FY2020 Internal Audit Plan

Purpose

This proposed Capital Metro Internal Audit Plan (Audit Plan) summarizes the planning methodology and the audit projects that Internal Audit recommends performing during FY2020.

FY2020 Audit Plan & Updates

The Institute of Internal Auditor’s (IIA) International Standards for the Professional Practice of Internal Auditing require that risk-based plans be developed to determine the priorities of the internal audit activity, consistent with the organization’s goals.

The proposed FY20 Internal Audit Plan (Table 1) was developed by performing a comprehensive risk assessment. This included a risk assessment survey sent to management and Board members, management interviews, and discussions with Board members. Additionally, we collaborated and reviewed the audit plans of VIA in San Antonio, METRO in Houston, and DART in Dallas. The Internal Audit Department also reviewed prior external consulting and audit reports (e.g. FTA Triennial, Quadrennial), operating and capital budgets, organization charts, and the Strategic Plan to help ensure other potential risk and opportunity areas were identified and proposed projects are aligned to address the strategic risks of the Authority.

Based upon the results of the risk assessment, the FY20 Plan has a stronger focus on IT security, Project Connect, Positive Train Control expenditures, financial controls and the service providers. The proposed plan includes four IT projects which includes a formal assurance review of endpoint management (e.g. patching, configuration management, etc.) of computers/servers, the Annual Cybersecurity Review (i.e. IT Penetration and Vulnerability Assessment), NIST Cybersecurity Framework facilitated self-assessment, and an IT review of
Rail Systems Security. On the financial side there is a project testing the SOX like controls over the payroll cycle. Other projects to highlight from the FY20 Plan include the Quadrennial Review which is a state-mandated performance audit, the Quality Assessment Review of the Internal Audit Department that is required every three years, and the audit of the DBE Program. Internal Audit believes these focus areas together with the other projects in the proposed Audit Plan will appropriately address the risks identified.

The FY20 audit plan also includes a list of contingent projects (Table 2) that will serve as backup projects that will be performed if the original plan is running ahead of schedule or if some of the projects must be delayed or cancelled. Furthermore, the Audit Plan is meant to be a risk based flexible audit plan so as emerging risks arise or priorities change, the Internal Audit Department will bring these future project changes to management and the FAA Committee for approval.

Internal Audit Project Staffing

Staffing for the FY20 Audit Plan will use a combination of internal and external resources to perform the projects. Historically the Internal Audit Department has issued approximately seven audit assurance projects per year. The FY20 plan includes eleven assurance projects and six advisory projects, and Internal Audit believes these additional projects can be completed through better planning, scoping and coordination with management. The department is currently fully staffed with three full time auditors, and we continue to mature the UT Audit Intern program started last year. This Fall semester we will have twelve graduate Accounting students from UT’s #1 ranked Masters of Professional Accounting program who will be assisting on three projects as part of their required Audit class. This is our third semester participating in this highly successful program, and we plan on continuing the Audit Intern program with a fresh class in the Spring. Each student in the intern program is providing up to 60 hours of project time for the semester as part of their Audit class at UT. Additionally, the Annual Cybersecurity Review (i.e. IT Penetration and Vulnerability Assessment), and an IT review of Rail Systems Security will be joint projects funded by the IT Department. We believe this mix of internal and external resources is sufficient to perform the projects listed in the FY2020 Audit Plan (see Table 1).

Professional Requirements & Auditor Independence

The Internal Audit Department conducts our audits in conformance with Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States and the IIA’s International Standards for the Professional Practice of Internal Auditing and Code of Ethics. These standards require that we be independent from any entity or person that we audit or may audit and be objective when conducting such audits. Furthermore, IIA Standard 1110 requires that the CAE confirm to the board, at least annually, the organizational independence of the internal audit activity. Capital Metro Internal Audit is organizationally independent of management and, as such, remains objective when conducting audits, and our staff have no conflicts of interest with the proposed FY20 Audit Plan.
**TABLE 1 – FY2020 Audit Assurance & Advisory Projects**

<table>
<thead>
<tr>
<th>Audit Project</th>
<th>Risk Area</th>
<th>Audit Type</th>
<th>Audit Objective &amp; Scope</th>
<th>Estimated Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Semiannual Implementation Status Updates - November 2019</td>
<td>Compliance</td>
<td>Assurance</td>
<td>Monitor and report on implementation status of previously agreed-upon corrective action plans (CAPs). Status updates are performed twice each year (Spring and Fall.)</td>
<td>160</td>
</tr>
<tr>
<td>2 Semiannual Implementation Status Updates - May 2020</td>
<td>Compliance</td>
<td>Assurance</td>
<td>Monitor and report on implementation status of previously agreed-upon corrective action plans (CAPs). Status updates are performed twice each year (Spring and Fall.)</td>
<td>160</td>
</tr>
<tr>
<td>3 FY2020 Risk Assessment &amp; FY2021 Audit Plan Development</td>
<td>Governance</td>
<td>Continuous Improvement &amp; QC</td>
<td>Develop the annual risk based internal audit services plan to identify audit and non-audit projects and effectively allocate resources. Update and align the plan with changing organizational risks/opportunities.</td>
<td>300</td>
</tr>
<tr>
<td>4 Quadrennial Review</td>
<td>Strategic &amp; Regulatory</td>
<td>Continuous Improvement &amp; QC</td>
<td>State-Mandated Performance Audit</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>QAR (Quality Assurance Review) of Internal Audit practices</td>
<td>Quality Control &amp; Assurance</td>
<td>Continuous Improvement &amp; QC</td>
<td>Complete FY2021 external Quality Assurance Review: GAGAS requires an external peer review at least once every 3 years. The external review is due by October 31, 2020.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>6</td>
<td>SOX Like Key Financial Control Testing</td>
<td>Financial Assurance</td>
<td>Payroll process - review design and operating effectiveness of controls</td>
<td>200</td>
</tr>
<tr>
<td>7</td>
<td>Project Connect - System Controls &amp; Processes (e-Builder)</td>
<td>Strategic &amp; Technology Assurance</td>
<td>Configuration and mgmt of e-Builder system. A cloud based end-to-end Project Management Information Solution (PMIS) delivering outcomes from capital planning and design through commissioning.</td>
<td>320</td>
</tr>
<tr>
<td>8</td>
<td>Project Connect - Marketing &amp; Planning Expenditures</td>
<td>Strategic &amp; Regulatory Assurance</td>
<td>After firm is selected and Media Plan is developed, audit invoices to ensure contract and regulatory compliance.</td>
<td>240</td>
</tr>
<tr>
<td>9</td>
<td>Fixed Route Bus Contract Change Over - Inspections &amp; Final Settlements</td>
<td>Operations Assurance</td>
<td>Review process and controls related to the Bus contract change over including work performed and final settlement payments.</td>
<td>300</td>
</tr>
<tr>
<td>10</td>
<td>PTC (Positive Train Control) - Expenditures &amp; Drawings</td>
<td>Strategic &amp; Regulatory Assurance</td>
<td>Review billings and support for compliance with contract terms and conditions.</td>
<td>350</td>
</tr>
<tr>
<td></td>
<td>Task Description</td>
<td>Responsible Party</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------------------------------------------------------</td>
<td>-------------------</td>
<td>----------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Review controls after DBE program updates are implemented.</td>
<td>Strategic &amp; Regulatory Assurance</td>
<td>Review controls after DBE program updates are implemented.</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Build model to recalculate Freight Revenue and compare to Watco monthly reporting file.</td>
<td>Advisory UT Audit Interns</td>
<td>Build model to recalculate Freight Revenue and compare to Watco monthly reporting file.</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>UT Audit Interns to review SCCM patching reports, perform physical inventories, etc.</td>
<td>IT Assurance UT Audit Interns</td>
<td>UT Audit Interns to review SCCM patching reports, perform physical inventories, etc.</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>UT Audit Interns to perform analysis of OrbCAD incident reports and possible correlation with other systems (e.g. CCR, Smart Drive, etc.)</td>
<td>Advisory UT Audit Interns</td>
<td>UT Audit Interns to perform analysis of OrbCAD incident reports and possible correlation with other systems (e.g. CCR, Smart Drive, etc.)</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Annual Cybersecurity Assessment with outsourced IT Penetration &amp; Vulnerability Assessment</td>
<td>IT Assurance Assurance</td>
<td>Annual Cybersecurity Assessment with outsourced IT Penetration &amp; Vulnerability Assessment</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>A holistic review system resiliency with a focus on key rail applications and the interdependency.</td>
<td>IT Assurance Assurance</td>
<td>A holistic review system resiliency with a focus on key rail applications and the interdependency.</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Internal Audit will help facilitate a self-assessment of maturity level against Cybersecurity Framework. Key controls will be documented and action plans will be developed for deficiencies.</td>
<td>IT Advisory Continuous Improvement &amp; QC</td>
<td>Internal Audit will help facilitate a self-assessment of maturity level against Cybersecurity Framework. Key controls will be documented and action plans will be developed for deficiencies.</td>
<td></td>
</tr>
</tbody>
</table>
18 Community Engagement & Professional Organization Support  
Strategic Continuous Improvement & QC  
Internal special projects including support of local and industry professional associations (ISACA, IIA, APTA, ALGA, Toastmaster, etc.), responding to professional exposure drafts, internal training and other internal quality improvement opportunities as needed. UT Audit Intern Program (Fall & Spring).  
240

19 Management Requests, Consulting & Special Projects  
1) Advisor on various Committees; 2) Investigations; 3) Emerging Risks & Special Projects as requested, etc.  
Multiple Advisory / Consulting  
Internal auditing best practices include allocating an undesignated contingency for management requests and other unanticipated special projects.  
600

**TABLE 2 – FY20 Contingency Audit Projects (To Be Used as Backups)**

<table>
<thead>
<tr>
<th>Audit Project</th>
<th>Risk Area</th>
<th>Audit Type</th>
<th>Audit Objective &amp; Scope</th>
<th>Estimated Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Fuel Controls &amp; Hedging</td>
<td>Financial</td>
<td>Assurance</td>
<td>Review controls over the purchasing and hedging of fuels.</td>
<td>240</td>
</tr>
<tr>
<td></td>
<td>Activity Description</td>
<td>Area</td>
<td>Capability</td>
<td>Description</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------------------</td>
<td>---------------------------------</td>
<td>--------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>3</td>
<td>Cyber Ransomware Threats - Table Top Exercise</td>
<td>Technology</td>
<td>IT Advisory</td>
<td>Ransomware mock exercise facilitated by DHS/FBI.</td>
</tr>
<tr>
<td>4</td>
<td>Healthcare &amp; Other Insurance Benefits - TPA Payments</td>
<td>Financial &amp; Human Capital</td>
<td>Assurance</td>
<td>Assessing the Effectiveness and Efficiency of Management Processes to Prevent and Detect insurance overpayments/fraud. TPA (Third Party Administrator)</td>
</tr>
<tr>
<td>5</td>
<td>Facilities Maintenance &amp; Change Over</td>
<td>Quality Control &amp; Assurance</td>
<td>Assurance</td>
<td>Quality control and contract compliance with Facility Maintenance service providers.</td>
</tr>
<tr>
<td>6</td>
<td>Bridge Inspection Reports</td>
<td>Quality Control &amp; Assurance</td>
<td>Assurance</td>
<td>Review year over year Bridge Inspection Reports from external engineers and ensure actions are taken.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TITLE:  Internal Audit FY2019 Audit Plan Status
TITLE: Internal Audit Rail Audit Report
COMMUTER RAIL OPERATIONS – CONTRACT MANAGEMENT & OVERSIGHT OF HERZOG (19-08)

Terry Follmer, VP of Internal Audit

Distribution List:
Capital Metro Board of Directors
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Kerri Butcher, EVP, Chief Counsel & Chief of Staff
Donna Simmons, EVP, Administration & EEO Officer
Reinet Marneweck, EVP, Chief Financial Officer
Dottie Watkins, Chief Customer Officer/Chief Operating Officer
David Dech, VP, Rail Operations
Ken Cartwright, VP, Capital Projects
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Shanea Davis, VP, Real Estate, Property & Asset Management
Chad Ballentine, VP, Demand Response and Innovative Mobility
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Muhammad Abdullah, Senior Director/Chief of Procurement & Compliance Officer
Lea Sandoz, Controller
Anita Deibert, Procurement Manager
Rafael Villarreal Jr., Director of Contract Oversight – Bus and Paratransit Services
Muriel Friday, Director of Rail Operations
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  2. Improve Monitoring and Oversight of CDRL Documents............................................................5

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  C. COTR Letter to Herzog.......................................................................................................................12
  D. 6 CDRL Reports Not Submitted by Herzog as Required by Contract Terms........................14
  E. CDRL Reports With Required Submission Within Set Days of NTP.........................................15

Attachment: 19-08 Contract Mgmt Oversight of Herzog 9-30-2019 (4486 : Internal Audit Rail Audit Report)
EXECUTIVE SUMMARY

As part of our Fiscal Year 2019 Internal Audit Plan approved by the Capital Metro Board, we performed an audit to determine whether CMTA has sufficient controls in place to effectively monitor Herzog’s contract compliance. The audit results including the objective, scope, and conclusion are as follows.

Background

In March 2010, Capital Metro began commuter rail service on the Red Line between Downtown Austin and the City of Leander, TX. Capital Metro has contracted out the responsibility for operating the commuter rail service, as well as the preventive maintenance activities, to Herzog Transportation Services, Inc. The current Commuter Rail Operations Contract No. 137666 commenced on October 1, 2015, has a term of seven years, and was awarded in the amount of $117,580,749. Under this fixed price contract, Herzog is responsible for providing maintenance and overhaul services for the company’s Diesel Multiple Unit (DMU) Fleet and locomotives, dispatching, operations, and signals.

Capital Metro has put in place a very specific and detailed contract covering Herzog’s required activities and compliance with the contract is critical to the success of the rail program. The contract includes Exhibit I, Contract Data Requirements List (CDRL), which requires Herzog to submit 59 reports on a daily, weekly, monthly, quarterly, and annual basis (see Appendix A for CDRL listing). The purpose of the reports is to provide Rail Department staff with data to help monitor and oversee Herzog’s contract performance as well as ensure that required regulatory reports are being created. Some of the reports are federally required and relate to safety. Herzog staff submit the required CDRL reports by uploading them to the extranet and Rail staff upload them to SharePoint for monitoring. Some of this information is also available to Rail staff through the Spear asset management system. The department may assess a Performance Deficiency Credit (PDC) or penalty of $1,000 per day for each failure to submit reports on time which may be deducted from Herzog’s monthly fixed price invoice (see Appendix B for Payment Adjustments).

Capital Metro has put in place various roles to help ensure the oversight, check and balances related to the monitoring of Herzog’s work. The critical role within the CMP is the Project Managers (PM) who are responsible for contract deliverables by Herzog. To ensure the CDRL reports are correctly submitted, management expanded the current Contract Monitoring Plan (CMP) in March 2019 to include each report name, exhibit number, submission frequency, staff member responsible for verification, and date submitted. Assigned staff are responsible for ensuring CDRL report submissions are timely and accurate, along with completing the following special projects: Positive Train Control (PTC); TIGER V, Plaza Saltillo, and the Downtown Station projects. The Rail Operations Department resources have been stretched working on these and other highly complex projects.

There is a Contracting Officer Technical Representative (COTR) as defined in the June 11, 2018 letter (see Appendix C) sent to Herzog, and this role has been assigned to the Director of Rail Operations. This position also provides oversight of all Capital Metro Rail Operations and Maintenance contracts, with a focus on contract management, schedules, estimates, costs controls, documentation control and quality assurance/quality control. The COTR evaluates contractor performance as directed by the Contracting Officer (CO) and acts as a final review official for issues concerning contractor’s performance. The Contracting Officer listed in the COTR is the Director of Procurement. The Director of Rail Operations (COTR) also has several positions (i.e., Program Managers covering Rail
Transportation, Rail Fleet Services and Maintenance) who help her in the oversight and monitoring of the Herzog contract.

**Audit Objective & Scope**

The primary objective of this audit is to determine whether the Contract Data Requirements List (CDRL) is being fulfilled by Herzog and is being adequately monitored by Rail Operations. Additionally, the oversight and monitoring of contractor performance by Capital Metro was evaluated to ensure that controls are in place and operating effectively to verify that the contractor is fulfilling key responsibilities and complying with contract terms. The audit scope was limited to Fiscal Year 2019 through the month of July 2019 and we performed compliance testing related to CDRL documents and any incentives/disincentives related to the CDRL documents. See Figure 1 below for a summary of the functional relationships among CMTA departments and Herzog related to the Commuter Rail Operations Contract.

**Figure 1. Functional Relationships among CMTA Departments and Herzog**

Source: Internal Audit analysis of CMTA information
Opinion

In our opinion, internal controls are in place to monitor Herzog’s contract compliance. We identified several opportunities to improve the monitoring of contract compliance as follows:

1. Ensure contractually required CDRL’s are properly reviewed and appropriate incentives/disincentives are taken from Herzog’s monthly fixed price invoice.
2. Ensure the content of each CDRL is clearly defined in future contract modifications as well as considering if the report is not necessary, then delete this requirement from the next contract modification.
3. Document the CDRL status in the CMP tracking spreadsheet to evidence that staff opened and reviewed CDRL reports. Staff should document red flags, incorrect reports, late submissions, and deadlines they give Herzog to submit late reports in this column so that management can monitor this contract requirement.
4. Review all CDRL’s that are listed as NTP (Notice to Proceed – see Appendix E) submitted once at the beginning of the contract and require periodic review and updates as required.

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

- Sarah Daigle, Internal Auditor II (Project Lead)
- Terry Follmer, VP of Internal Audit

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

We appreciate the cooperation and assistance provided to us throughout this audit.
1. HERZOG DID NOT SUBMIT ALL CDRL’S AND PDC’S
WERE NOT ENFORCED
Contract terms require Herzog to submit various CDRL reports at specified frequencies, otherwise, they may be assessed a $1,000 PDC or penalty per day for noncompliance. Additionally, the COTR certifies that department staff monitor and check for the CDRL reports and documents this certification on a Word document that is uploaded into AX Accounting System. We reviewed a sample of submissions for all 59 of the CDRL reports submitted in Fiscal Year 2019 and found 10% (6 out of 59) were not submitted and the department did not assess any monetary PDC penalties for them as required by the contract. We noted the contract was vague as to purpose and required content in each CDRL. The 6 missing CDRL reports were as follows (see Appendix D for additional details on these reports):

1. Audit Summary Report – Quarterly
2. Contingency Plan – Annually*
3. Fuel Usage Audit – Annually*
4. Incident Corrective Action Plan – Annually*
5. Inspection Reports on Safety and Integrity – Annually*

*Management informed us that they have been having discussions with Herzog for the last several years regarding updating the contract requirements as to which CDRL’s are required and what the content should be.

The VP of Rail should develop the following internal control enhancements:

a) Ensure contractually required CDRL’s are properly reviewed and appropriate incentives/disincentives are taken from Herzog’s monthly fixed price invoice.

b) Ensure the content of each CDRL is clearly defined in future contract modifications and as part of the contract update evaluate the list of CDRL’s to determine the need and required frequency.

Management agrees with the recommendations.

Target Completion Date:
4/30/2020
## Issues & Risk

### 2. IMPROVE MONITORING AND OVERSIGHT OF CDRL DOCUMENTS

The Rail Department has put controls in place to help monitor Herzog’s contract compliance with CDRL report requirements (e.g. CMP spreadsheet with responsible staff and date completed), however, we found that staff do not always follow them and adequately check the CDRL reports. For example, while the federally required Highway-Rail Grade Crossing Warning System Failure Report was submitted and is available through SPEAR, we found the report had another month’s cover page and several important fields within the report were unreadable which shows that it was not opened or reviewed by the responsible Rail Department staff. Additionally, we found the following areas of weaknesses:

- Staff do not document in the CMP the status of report submissions or red flags identified in the report and instead just document the date checked. Additional details would help management assess PDC penalties and monitor Herzog’s performance.
- Some of the CDRL reports listed in the contract were only required to be submitted once when the contract was first initiated in 2015 after a set number of days after the Notice to Proceed (NTP – see Appendix E). However, some of these documents are related to safety and may need to be submitted as needed or periodically to help management oversee rail operations. According to the Rail Department, they already request and review many of these reports periodically, it’s just not written into the contract.

### Recommendation

The VP of Rail should develop the following internal control enhancements:

- **a)** Document the CDRL status in the CMP tracking spreadsheet to evidence that staff opened and reviewed CDRL reports. Staff should document red flags (e.g. incorrect reports, late submissions, and deadline extensions they give Herzog to submit late reports, etc.) in this column so that management can monitor performance over time.
- **b)** Review all CDRL’s that are listed as NTP submitted once at the beginning of the contract and require updates for any changes and periodic review and updates as required by regulations.

### Management Action Plan

Management agrees with the recommendations.

**Target Completion Date:** 4/30/2020
## Appendix A

### Exhibit I - Contract Data Requirements List (CDRL)

<table>
<thead>
<tr>
<th>Number</th>
<th>Section #</th>
<th>Report Name</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>22.3</td>
<td>Dispatcher Turnover</td>
<td>3 Times Daily</td>
</tr>
<tr>
<td>2</td>
<td>22.1</td>
<td>Transportation Staffing Report</td>
<td>Daily</td>
</tr>
<tr>
<td>3</td>
<td>12.25.4</td>
<td>Maintenance Report</td>
<td>Weekly</td>
</tr>
<tr>
<td>4</td>
<td>22.2</td>
<td>Track Outage Report</td>
<td>Weekly</td>
</tr>
<tr>
<td>5</td>
<td>23.2</td>
<td>Maintenance Production Report</td>
<td>Weekly</td>
</tr>
<tr>
<td>6</td>
<td>23.2</td>
<td>System-Wide Service Property Inspection Report</td>
<td>Weekly</td>
</tr>
<tr>
<td>7</td>
<td>4.8</td>
<td>Job Site Safety Inspections</td>
<td>Monthly</td>
</tr>
<tr>
<td>8</td>
<td>6.15.6</td>
<td>Monthly Staffing Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>9</td>
<td>10.22.1.1</td>
<td>Supervisory Track and Right of Way Inspection Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>10</td>
<td>10.22.2</td>
<td>Summary Track Inspection Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>11</td>
<td>11.19.4</td>
<td>Field Communications System Inspection Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>12</td>
<td>11.29.1</td>
<td>Signal and Train Control Tests and Inspection Reports</td>
<td>Monthly</td>
</tr>
<tr>
<td>13</td>
<td>13.1</td>
<td>FRA Operations Testing Plan Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>14</td>
<td>13.1.3.14.7</td>
<td>Training Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>15</td>
<td>15.5.8</td>
<td>Customer Comment and Complaint Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>16</td>
<td>16.7a</td>
<td>Long-Term Out-of-Service Status Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>17</td>
<td>16.9.5.4</td>
<td>DMU Service Vehicle MDBF Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>18</td>
<td>22.4.3</td>
<td>Accident/Incident Report Summary</td>
<td>Monthly</td>
</tr>
<tr>
<td>19</td>
<td>22.4.4</td>
<td>Maintenance Report of Vehicle, Track, Bridges, Signals, and Communications</td>
<td>Monthly</td>
</tr>
<tr>
<td>20</td>
<td>22.4.8</td>
<td>Training Schedule</td>
<td>Monthly</td>
</tr>
<tr>
<td>21</td>
<td>22.4.9</td>
<td>NTD Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>22</td>
<td>22.10</td>
<td>Signal Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>23</td>
<td>22.12</td>
<td>FRA Highway-Rail Grade Crossing Warning System Failure Report</td>
<td>Monthly</td>
</tr>
<tr>
<td>24</td>
<td>4.16.2.10</td>
<td>Safety Performance Report</td>
<td>Quarterly</td>
</tr>
<tr>
<td>25</td>
<td>5.9.3</td>
<td>Security Issue and Incident Report</td>
<td>Quarterly</td>
</tr>
<tr>
<td>26</td>
<td>6.4.1</td>
<td>Organization Chart</td>
<td>Quarterly</td>
</tr>
<tr>
<td>27</td>
<td>17.13.4</td>
<td>Audit Summary Report</td>
<td>Quarterly</td>
</tr>
<tr>
<td>28</td>
<td>22.5.2</td>
<td>Special Bridge Inspections</td>
<td>Quarterly</td>
</tr>
<tr>
<td>29</td>
<td>22.5.3</td>
<td>MOW Service Plan</td>
<td>Quarterly</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>30</td>
<td>10.23.1</td>
<td>Ultrasonic Test Report</td>
<td>2 Times Annually</td>
</tr>
<tr>
<td>31</td>
<td>4.16.1.12</td>
<td>Contractor Safety Compliance Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>32</td>
<td>4.18.1</td>
<td>Emergency Preparedness</td>
<td>Annually</td>
</tr>
<tr>
<td>33</td>
<td>5.6.1</td>
<td>Contractor System Security Compliance Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>34</td>
<td>7.4</td>
<td>Transportation Service Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>35</td>
<td>10.17.1</td>
<td>Maintenance of Way Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>36</td>
<td>10.27.1</td>
<td>Structure Inspection Report</td>
<td>Annually</td>
</tr>
<tr>
<td>37</td>
<td>10.28.1</td>
<td>Bridge Maintenance and Repair Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>38</td>
<td>11.11.6</td>
<td>Signal System Failure Reduction Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>39</td>
<td>11.28</td>
<td>Signal System Failure Reduction Program</td>
<td>Annually</td>
</tr>
<tr>
<td>40</td>
<td>12.26.1</td>
<td>Rail Vehicle Maintenance Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>41</td>
<td>13.1.1</td>
<td>Training Program Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>42</td>
<td>13.2.1</td>
<td>Employee Training Program Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>43</td>
<td>22.6.2</td>
<td>On-Time Performance Analysis Report</td>
<td>Annually</td>
</tr>
<tr>
<td>44</td>
<td>22.6.3</td>
<td>Railroad Improvement Recommendation List</td>
<td>Annually</td>
</tr>
<tr>
<td>45</td>
<td>22.6.4</td>
<td>Grade Crossing Improvement Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>46</td>
<td>22.6.5</td>
<td>Flood Prone Locations and Mitigation Measures</td>
<td>Annually</td>
</tr>
<tr>
<td>47</td>
<td>22.6.6</td>
<td>NTP Annual Report</td>
<td>Annually</td>
</tr>
<tr>
<td>48</td>
<td>22.7.7</td>
<td>Fuel Usage Audit</td>
<td>Annually</td>
</tr>
<tr>
<td>49</td>
<td>22.8.1</td>
<td>Contractor Licenses Review</td>
<td>Annually</td>
</tr>
<tr>
<td>50</td>
<td>22.8.6</td>
<td>Contingency Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>51</td>
<td>22.8.7</td>
<td>Drug and Alcohol Policy</td>
<td>Annually</td>
</tr>
<tr>
<td>52</td>
<td>22.8.8</td>
<td>Drug and Alcohol Test Guidelines</td>
<td>Annually</td>
</tr>
<tr>
<td>53</td>
<td>22.9.1</td>
<td>Independent Audit Financial Statement</td>
<td>Annually</td>
</tr>
<tr>
<td>54</td>
<td>22.9.2</td>
<td>Incident Corrective Action Plan</td>
<td>Annually</td>
</tr>
<tr>
<td>55</td>
<td>22.9.6</td>
<td>Inspection Reports on Safety and Integrity</td>
<td>Annually</td>
</tr>
<tr>
<td>56</td>
<td>9.15.2</td>
<td>Delay Report</td>
<td>As Needed</td>
</tr>
<tr>
<td>57</td>
<td>16.7</td>
<td>Long-Term Out-of-Service Release Plan</td>
<td>As Needed</td>
</tr>
<tr>
<td>58</td>
<td>22.9.3</td>
<td>Final Incident/Accident Analysis Report</td>
<td>As Needed</td>
</tr>
<tr>
<td>59</td>
<td>22.11</td>
<td>Operating Rules Violation Report</td>
<td>As Needed</td>
</tr>
</tbody>
</table>

**Source:** Prepared by Internal Audit Staff using information from the Herzog contract.
Appendix B
Exhibit H of Herzog Contract – Payment Adjustments

CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY

EXHIBIT H Revised - 1
PAYMENT ADJUSTMENTS

Summary of Performance Goals, Performance Incentives and Disincentives

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

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

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

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

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

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

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

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

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

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

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

### On Time Performance

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

<table>
<thead>
<tr>
<th>On-Time Performance Level</th>
<th>Disincentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>96.00% and above</td>
<td>0.0%</td>
</tr>
<tr>
<td>90.00% - 95.99%</td>
<td>- 0.25%</td>
</tr>
<tr>
<td>89.99% and Below</td>
<td>- 0.50%</td>
</tr>
</tbody>
</table>

### Requirement | Incident | Disincentive/PDC |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Maintenance (all)</td>
<td>Failure to complete major repair work within the 30 calendar working days</td>
<td>A PDC of $1000 per day until all repairs are completed and verified by Capital Metro</td>
</tr>
<tr>
<td>Contractor shall maintain vehicles so that no repair requires the vehicle to be out of service more than 7 days during a fifteen (15) continuous, calendar day period</td>
<td>A PDC of $1000 for each day on which Contractor fails to return a vehicle to service after exceeding 7 days out of service.</td>
<td></td>
</tr>
<tr>
<td>On Time Performance</td>
<td>Delay of freight or excursion rail operation.</td>
<td>A PDC of $1,000 per incident the freight or excursion operation is delayed.</td>
</tr>
<tr>
<td>Preventive Maintenance</td>
<td>Failed to perform Preventive maintenance (PM) inspections as required for all revenue vehicles.</td>
<td>A PDC of $1,000 per day per inspection performed later than scheduled.</td>
</tr>
<tr>
<td>Customer Complaints</td>
<td>Failure to respond to complaints within four (4) working days of receipt</td>
<td>A PDC of $300 per day for each occurrence of a complaint response that fails to meet the response timeline.</td>
</tr>
<tr>
<td>Vehicle Condition</td>
<td>Failure to remove a vehicle from service with out of service criteria.</td>
<td>A PDC of $1000 per incident for each day a vehicle is operated with out of service criteria.</td>
</tr>
</tbody>
</table>
## Capital Metropolitan Transportation Authority

<table>
<thead>
<tr>
<th>Bridge Maintenance</th>
<th>Failure to maintain bridges at a load capacity of 286,000 pounds or better in accordance with the Bridge Management Safety Program</th>
<th>A PDC will be assessed in the amount of $5000 for each bridge that is not maintained load capacity of 286,000 pounds or better.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bridge Maintenance</td>
<td>Failure to maintain bridges at CMTA level 3 or better in accordance with the Bridge Management Safety Program</td>
<td>A PDC will be assessed in the amount of $5000 for each bridge that is not maintained at CMTA level 3 or better.</td>
</tr>
<tr>
<td>Cleanness</td>
<td>Failure to maintain clean maintenance work areas (maintenance shop and Service Island)</td>
<td>A PDC of $300 for each incident Contractor fails to clean facilities as required.</td>
</tr>
<tr>
<td>Cleanness</td>
<td>Failure to clean revenue vehicles according to standards at least 2 hours prior to peak departure times</td>
<td>A PDC of $300 will be assessed for each incident in which Contractor fails to clean vehicles as required. (applies to both AM and PM peak)</td>
</tr>
<tr>
<td>Track Maintenance</td>
<td>Failure to maintain track at CMTA Class IV or better</td>
<td>A PDC $20,000 will be for each track segment per week until the track is restored to CMTA Class IV or better.</td>
</tr>
<tr>
<td>Track Maintenance</td>
<td>Failure to corrected temporary speed restrictions within 30 days from the date imposed</td>
<td>A PDC of $1000 per day for every location where a slow order remains over 30 days.</td>
</tr>
<tr>
<td>Right of Way (ROW) Maintenance</td>
<td>Failure to remove trash, debris and graffiti, from the right of way</td>
<td>A $500 PDC will be assessed per day for each location ROW defect remains after 24 hours.</td>
</tr>
<tr>
<td>Right of Way (ROW) Maintenance</td>
<td>Failure to remove vegetation and obstructions from the ROW within 5 days.</td>
<td>A $1000 PDC will be assessed per day for each location ROW defect remains after 5 days of notification.</td>
</tr>
<tr>
<td>Right of Way (ROW) Maintenance</td>
<td>Failure to remove scrap rail from ROW within 30 days.</td>
<td>A $1000 PDC will be assessed per day for each location ROW rail after 30 days.</td>
</tr>
<tr>
<td>Signal Maintenance</td>
<td>Failure to maintain less than 5 signal defects within 7 consecutive days.</td>
<td>A PDC of $1000 will be assessed per defect greater than 5 within 7 days.</td>
</tr>
<tr>
<td>Signal Maintenance</td>
<td>More than 3 repeat defects within 30 consecutive days.</td>
<td>A PDC of $2500 will be assessed per repeat defect greater than 3 within 30 consecutive days.</td>
</tr>
<tr>
<td>Signal Maintenance</td>
<td>Failure to correct defects within 30 days from FRA, TXDoT or CMTA.</td>
<td>Contract will pay any associated fines plus PDC of $1000 per day until defect is corrected past 30 days.</td>
</tr>
<tr>
<td>Staffing</td>
<td>Failure to fill vacant positions with Capital Metro approved persons within forty-five thirty (45 30) of its becoming vacant</td>
<td><strong>Capital Metro shall be issued a rebate for each day over 45 days, equal to the salary and benefit cost of the staff member which position is not filled, plus PDC of $1,000 per day for the general manager and $500 per day for all other key staff.</strong></td>
</tr>
</tbody>
</table>

---

**RFP 131489**  
**Page 3 of 4**  
**Amendment #4**  
**EXHIBIT H Revised – 1**
<table>
<thead>
<tr>
<th>Dress Code</th>
<th>Capital Metro shall assess a $25,000 PDC, for each GM or direct reports that remains vacant over 30 days, per incident of vacancy.</th>
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<tr>
<td>Reporting</td>
<td>A PDC of $300 for each incident in which a public-facing employee fails to wear the approved uniform while performing duties under this contract</td>
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<td>Reporting</td>
<td>Contractor shall submit all reports required in this agreement on time</td>
</tr>
<tr>
<td>Reporting</td>
<td>A PDC of $1,000 per day for each incident of failure to submit reports on time</td>
</tr>
<tr>
<td>Training</td>
<td>Failure to provide accurate reporting of all data</td>
</tr>
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<td>Training</td>
<td>A PDC of $1,500 per day for each incident involving an employee that is assigned to work and has not completed the required training, as verified by a review of the employee's training file.</td>
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<tr>
<td>Proper PPE</td>
<td>Failure to wear or provide proper PPE.</td>
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<tr>
<td>Proper PPE</td>
<td>A PDC of $500 per incident and per day for failure to provide and wear proper PPE.</td>
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</table>
Appendix C
COTR Letter to Herzog

June 11, 2016

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

via email: ldavis@htsi.com

RE: Contracting Officer’s Technical Representative (COTR) on Contract 137665

Dear Mr. Davis:

The letter shall serve as notice that Ms. Muriel Frady will replace Mr. Danny Bailey as the Contracting Officer’s Technical Representative (COTR) for Contract 137665 effective today. Ms. Frady’s duties and responsibilities are as follows:

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

Ms. Friday is prohibited from taking the following actions:

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

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

Respectfully,

Muhammad Azizullah
Procurement Director
Contracting Officer

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

## 6 CDRL Reports Not Submitted by Herzog as Required by Contract Terms

<table>
<thead>
<tr>
<th>Number</th>
<th>Section #</th>
<th>Report Name</th>
<th>Frequency</th>
<th>Contract Description</th>
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<tbody>
<tr>
<td>1</td>
<td>17.13.4</td>
<td>Audit Summary Report</td>
<td>Quarterly</td>
<td>An Audit Summary Report shall be prepared and submitted to CMTA on a quarterly basis. The specific schedule for submission of these reports shall be included in the Audit Plan.</td>
</tr>
<tr>
<td>2</td>
<td>22.7.7</td>
<td>Fuel Usage Audit</td>
<td>Annually</td>
<td>By the 20th of August, the Contractor shall submit a complete annual report to include the following: Annual Fuel Usage Audit.</td>
</tr>
<tr>
<td>3</td>
<td>22.8.6</td>
<td>Contingency Plan</td>
<td>Annually</td>
<td>By the 20th of March, the Contractor shall submit a complete annual report to include the following: Contingency Plan.</td>
</tr>
<tr>
<td>4</td>
<td>22.9.2</td>
<td>Incident Corrective Action Plan</td>
<td>Annually</td>
<td>By the 15 of November, the Contractor shall deliver the following: Incident Corrective Action Plan summarizing engineering responses taken and their effectiveness shall be included. In the event that any corrective actions are left open a time line for completion is expected to be included.</td>
</tr>
<tr>
<td>5</td>
<td>22.9.6</td>
<td>Inspection Reports on Safety and Integrity</td>
<td>Annually</td>
<td>By the 15 of November, the Contractor shall deliver the following: The contractor shall provide annual inspection reports on safety and integrity, including recommendations for any necessary repairs (minor and major) as well as a summary of all maintenance activities that have been performed during the previous year.</td>
</tr>
<tr>
<td>6</td>
<td>16.7</td>
<td>Long-Term Out-of-Service Release Plan</td>
<td>As Needed</td>
<td>The Contractor shall submit a Long-Term Out-of-Service Release Plan to CMTA for review and approval within five (5) days of the Long-Term Out-of-Service designation. This plan shall provide details on the procedures and schedule for restoration of all Contractor’s Long Term Out-of-Service Status Report (CDRL 16.7) to CMTA every month.</td>
</tr>
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</table>
## Appendix E

CDRL Reports With Required Submission Within Set Days of NTP

### Exhibit 1 Revised - 2

**CONTRACT DATA REQUIREMENTS LIST**

<table>
<thead>
<tr>
<th>Section</th>
<th>Contract Data Requirements List</th>
<th>Days from NTP</th>
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<tbody>
<tr>
<td>4.3</td>
<td>PPE List</td>
<td>80 NTP</td>
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<tr>
<td>4.13</td>
<td>Internal Control Plan for Accident and Incident Reporting</td>
<td>120 NTP</td>
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<tr>
<td>4.14</td>
<td>Safety Committee Policy and Procedures Manual</td>
<td>120 NTP</td>
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<tr>
<td>4.16</td>
<td>Contractor Safety Compliance Plan</td>
<td>90 NTP</td>
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<tr>
<td>4.16.1.1</td>
<td>49 CFR 217 PLAN (Railroad Operating Rules)</td>
<td>90 NTP</td>
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<td>4.16.1.2</td>
<td>49 CFR 219 PLAN (Control of Alcohol and Drug Use)</td>
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<td>4.16.1.3</td>
<td>49 CFR 225 PLAN (Railroad Acc/Inc Reporting)</td>
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<td>49 CFR 239 PLAN (Emergency Preparedness)</td>
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<td>49 CFR 240 PLAN (Qualification/Certification)</td>
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<td>4.16.1.6</td>
<td>Close Call Reporting Evaluation Procedure</td>
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<td>Environmental Hazard Procedures/Policy</td>
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<td>Roadway Worker Safety Program</td>
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<td>System Safety Program Plan</td>
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<td>Hazard Risk Reduction Plan</td>
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<td>4.16.1.11</td>
<td>Public Safety Plan</td>
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<td>Emergency Response Plan</td>
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<td>5.6.1</td>
<td>Contractor System Security Compliance Plan</td>
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<td>5.9.3</td>
<td>Security issue and Incident Report</td>
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<td>6.3.10</td>
<td>List of Designees</td>
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<td>Organization Chart (functional)</td>
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<td>Staffing Plan</td>
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<td>Recommended List of Rehires</td>
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<td>Hiring Process</td>
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<td>6.21.9</td>
<td>Audit Plan &amp; Report Protocol</td>
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<td>Safety Sensitive Positions (include subcontractor)</td>
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<td>Transportation Service Plan</td>
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<td>Incident Management and External Notification Procedures</td>
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<td>MOW Plan</td>
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<td>Tie and OTM Replacement Plan</td>
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<td>Grade Crossing Surface Improvement Plan</td>
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<td>Tamping and Surfacing Program</td>
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<td>Rail Polishing Program</td>
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<td>Drainage Maintenance Plan</td>
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<td>Culvert Maintenance and Replacement Plan</td>
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<td>Vegetation Removal Control Plan</td>
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<td>49 CFR 203 GWR Plan</td>
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<td>Rail Grinding Plan</td>
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<td>Trash Removal Plan</td>
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<td>Schedule to Resolve Temporary Speed Restrictions</td>
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<td>Bridge Maintenance and Repair Plan</td>
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<td>List of Calibration tools and Equipment</td>
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<td>Wayside/Signal and Communication/System Maintenance Plan</td>
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<td>Employee Training Program Plan</td>
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<td>Draft Employee Timetable, System Special Instructions, Timetable General Orders, ABTH and Train Dispatcher's Manual</td>
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