OMNITRANS

ADMINISTRATIVE & FINANCE COMMITTEE MEETING

Monday, January 9, 2012 – 1:30 p.m.
Omnitrans Metro Facility
1700 West 5th Street
San Bernardino, CA 92411

The Administrative & Finance Committee meeting facility is accessible to persons with disabilities. If assistive listening devices or other auxiliary aids or services are needed in order to participate in the public meeting, requests should be made through the Recording Secretary at least three (3) business days prior to the Committee Meeting. The Recording Secretary's telephone number is 909-379-7110 (voice) or 909-384-9351 (TTY), located at 1700 West Fifth Street, San Bernardino, California.

A. CALL TO ORDER

B. ANNOUNCEMENTS/PRESENTATIONS

1. Next Committee Meeting: February 13, 2012 at 1:30 p.m.
   Omnitrans Metro Facility Board Room

C. AGENDA ITEMS

1. Approve Administrative & Finance Committee Minutes – November 14, 2011	2
2. Receive & Forward to the Board Omnitrans' Fiscal Year Ended June 30, 2011 Audit Reports	9
3. Receive and Forward to the Board Summary of Risk Assessment Results and FY 2012 Internal Audit Workplan	11
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D. REMARKS AND ANNOUNCEMENTS

E. ADJOURNMENT

Posted: January 3, 2012

ADMINISTRATIVE & FINANCE COMMITTEE
MINUTES
November 14, 2011

The Administrative & Finance Committee meeting was called to order by Chair Alan Wapner at 1:35 p.m. on November 14, 2011.

Committee Members Attending
Councilmember Alan Wapner, City of Ontario, Committee Chair
Mayor Paul Eaton, City of Montclair
Councilmember Frank Gonzales, City of Colton
Mayor Ed Graham, City of Chino Hills
Mayor Pro Tem John Roberts, City of Fontana

Committee Members Absent
Mayor Pro Tem Paul Foster, City of Redlands
Mayor Pro Tem Lee Ann Garcia, City of Grand Terrace
Supervisor Gary Ovitt, County of San Bernardino

Omnitrans Staff & Others Attending
Robert Miller, Chief Financial Officer
Marjorie Ewing, Director of Human Resources
Samuel Gibbs, Director of Internal Audit Services
Wendy Williams, Director of Marketing
Don Walker, Director of Finance
Ernesto DeGuzman, Director of Procurement
Maurice Mansion, Treasury Manager
Milind Joshi, sbX Program Manager
Bart Hayashi, sbX Planning Manager
Jeremiah Bryant, Service Planning & Scheduling Manager
Danny Woods, Senior Buyer
Beth Kranda, SANBAG
Stuart Geltman, AECOM
Scott Baker, AECOM
Eric Rouse, Sharon Greene & Associates
Carol Angier, Administrative Secretary

C. Possible Conflict of Interest Issues

None.

D. Agenda Items

1. Approve Administrative & Finance Committee Minutes of October 11, 2011

   M/S (Gonzales/Wapner) to approve the minutes of the October 11, 2011 Committee meeting. Member Eaton abstained as he was not in attendance last month. Motion was unanimous by rest of the members present.

2. Adopt Committee Meeting Calendar for 2012

M/S (Graham/Gonzales) to adopt the Administrative & Finance Committee Meeting Calendar for 2012. Meetings are scheduled the second Monday of each month (unless otherwise noted) and begin at 1:30 p.m. Motion was unanimous by members present.

3. Review Omnitrans Comprehensive Operational Analysis (COA)

Chair Wapner said the Comprehensive Operational Analysis (COA) was reviewed at the last Plans & Programs Committee Meeting, but he also wanted the COA reviewed at this Committee meeting to provide the information to more Board Members.

Mr. Geltman reviewed what a COA is and what will go into Omnitrans' COA, such as data on existing services, analysis of the existing service, public outreach, recommendations for short term service changes, and long term service enhancements. The transportation funding programs include TDA, LTF, Measure I, and federal programs. These funds will be used to support SANBAG projects such as Consolidated Transportation Services Agency (CTSA), sbX Project, Redlands Rail, Metrolink First Mile, Metro Gold Line Extension, and future BRT corridors. He said AECOM is still in Phase I of the COA, which is an overview and analysis of existing transit service. Phase II starts soon and will develop alternative services. Phase III will provide an action plan and implementation program. He reviewed Technical Memo #1 that provided an overview of Omnitrans' service area and a description of existing transit service.

Mr. Rouse reviewed Technical Memo #2 that evaluated the relationship of project service and capital improvements to anticipated local, regional, State and federal funding. The baseline (exiting service levels and capital programs) was evaluated, along with the Phase II alternative service scenarios. Strategies to address future funding challenges were analyzed to increase revenues and reduce service levels and capital costs. Member Graham asked how many years out the scenarios will go. Mr. Rouse said the first five years will be done first and then up to twenty years. Funding challenges will include Local Transportation Funds (LTF), Measure I (Elderly and Handicap Fund), State Transit Assistance (STA), and federal funds. LTF provides fifty percent of Omnitrans' funding. Bus fares provide 23 percent, FTA 5307 provides 15 percent, Measure I provides ten percent, with paratransit fares and outside advertising providing the rest. Due to the impact of additional non-Omnitrans regional transit projects, there is a projected plus or minus 20 percent reduction in LTF funds from FY 2013 to FY 2015. Omnitrans' LTF will increase two percent per year beginning FY 2016. Chair Wapner asked if this was a policy decision SANBAG has already made. Ms. Kranda said SANBAG is not sure where we are going due to the Redlands Rail Project. Chair Wapner asked if this would be a policy decision made by SANBAG in the future, and Ms. Kranda said that would depend on the progress of the Redlands Rail. Chair Wapner asked if expenses would increase in the next few years. Chief Financial Officer Miller said that because of the need to underwrite the sbX Project, there will be a $5.5 million reduction for Omnitrans; $2 million is being proposed in the COA, plus $3.5 million to underwrite sbX costs, which will have to be absorbed by Omnitrans. Staff has been meeting with SANBAG regarding the difference between these numbers and what the Board approved to fund sbX. Ms. Kranda said different scenarios are being reviewed. SANBAG made a commitment to the sbX Project, including the operating costs. SANBAG, however, is not yet at a point to provide hard numbers. Chair Wapner said the Board committed to fund the sbX Project as well as the existing service program. He asked when the numbers would be available, and Ms. Kranda said in late December.

Mr. Rouse said that historically Omnitrans received 100 percent of the Measure I funds for paratransit operating and maintenance costs. However, the Redlands Rail will receive $15 million for accessibility improvements at stations from FY 2012 to FY 2015. Chair Wapner asked who would operate the Redlands Rail, and Ms. Kranda said it would be a contracted service. Member Eaton asked what the subsidy costs would be for the Redlands Rail, and Ms. Kranda said that is unknown at this time. Chief Financial Officer Miller said it is estimated to cost $8 million per year to operate the Redlands Rail.

Mr. Rouse said that historically SANBAG's allocation for STA funds was 75 percent to Omnitrans and 25 percent to the desert areas. However, SANBAG's projects will require $35 million of the STA funds to support regional rail programs over the next ten years. Therefore, 25 percent of future STA funds will go to Omnitrans, 25 percent to the desert areas, and fifty percent to the rail program. There is uncertainty of future federal funding, and it is unknown if federal funding will stay the same or be reduced. Chair Wapner asked if the LTF funds that go through SANBAG are based on a population formula. Ms. Kranda said no. The rail program comes before the buses. These funds are not allocated per city. Chair Wapner asked how the government calculates funding, and Ms. Kranda said the government uses a population formula to calculate the amount of funds. However, all of these funds go into one pot. Chair Wapner said if all cities are entitled to LTF funds, it is not appropriate for the funds to just go to one city. Ms. Kranda said SANBAG is trying to get as many projects done as possible and to balance priorities.

Mr. Geltman reviewed Technical Memo #3. This memo describes Omnitrans' service policies and standards, evaluates the system and route performance based on existing service standards, and helps to develop recommendations for new or updated service standards. The source of the standards is Omnitrans' 2008-2013 Short Range Transit Plan (SRTP). The fixed route findings were that the East Valley routes were the best performers, while West Valley routes were the worst. Omnitrans exceeds the farebox recovery standards, and all routes met passenger loading standards. The average fare does not meet the standard. The SRTP included a fare increase in 2011, but Omnitrans chose not to implement it. AECOM found Omnitrans' reason for not implementing the fare increase to be acceptable. OmniGo is a new service that is less than one year old and does not have its own set of standards. This service is for less dense areas that have fewer passengers. It is not possible at this time to put an adequate value on this service. OmniLink standards were met related to cost effectiveness. The service span, service quality, and provision did not meet the standard. Access service met or exceeded almost all standards except cost per revenue mile, passenger safety, and cancellations/no-shows. Chief Financial Officer Miller said the standards mentioned here are Omnitrans' standards and not transit industry standards. Mr. Geltman said it is recommended that Omnitrans update standards for various modes that include tiers of services.

Mr. Geltman reviewed Technical Memos #4A and #4B regarding the community outreach done as part of the COA. Mr. Baker reviewed Technical Memo #5 that reviews Omnitrans' staffing, management, organizational structure, wage scales, and benefits. It also updates the 2010 Omnitrans benchmarking study. Omnitrans' expense is below average relative to service delivered, and the demand response expense is particularly low. The vehicle operator wage rate is higher than average, but the administrative expense is lower than average. The total vehicle operations cost is average. Phase I will be completed, and Phase II will start. This will include recommendations for alternative service delivery (outsourcing). Member Roberts asked if any of the other transit agencies compared to Omnitrans were contracted service. Mr. Geltman said they were a mixture of both. Member Roberts asked how they compared to Omnitrans. Mr. Baker said AECOM has not reviewed that data yet. Some transit systems operate in different conditions and criteria. Member Graham asked when the COA would be presented to the full Board of Directors. Ms. Kranda said the final COA will be completed in February/March. It will go to the Plans & Programs Committee here and then to SANBAG's committee. After that, it will go to both Omnitrans and SANBAG Board of Directors.

4. Receive and Forward to the Board of Directors for Receipt and File – FTA Drug & Alcohol Compliance Program Final Audit Report & Recommend Approval of Proposed Changes to Personnel Policy 701, Substance Abuse

   Director of Human Resources Ewing said the FTA conducted an audit of Omnitrans' drug and alcohol testing procedures. The findings are listed in the report, and Omnitrans Personnel Policy 701 was revised to include the FTA-required changes.

   M/S (Graham/Roberts) to receive and forward to the Board of Directors for receipt and file the FTA Drug and Alcohol Compliance Program Final Audit Report dated September 30, 2011 and recommend for approval the proposed changes to Personnel Policy 701, Substance Abuse. Motion was unanimous by members present.

5. Forward Fuel Purchases Program – Receive and File Chief Financial Officer's Report for October 2011 and Recommend Approval to the Board of Directors: Contract Award for PRC11-06 Liquefied Natural Gas and Award of Hedging Relationship, Authorization to Open Margin Account and Approve Three Percent Overage of Current Hedge Position through January 2012

   Chief Financial Officer Miller said the fuel market continues to be favorable for Omnitrans, and we are operating below budget for fuel. Staff spent significant time working with ALT and Clean Energy on administration of the hedge fund. Omnitrans is not hedged beyond January 2012. Legal counsel approved Omnitrans going through NYMEX for fuel hedging. This will lower the administrative costs from eight cents per gallon to one cent per gallon. Morgan Stanley Smith Barney will be the broker. Also due to ALT's poor performance in the past and financial problems (bankruptcy), Clean Energy was chosen to provide LNG fuel for Omnitrans. They have guaranteed delivery and will save Omnitrans over $1 million over the next two years. It is also recommended that Omnitrans move the hedge amount back to 150,000 gallons per month, as we had gone past the Board-approved 160,000 gallons/ per month for the past few months. The reason for this is that the present hedge agreement makes it difficult to pull back the amount of gas per month. This will not occur with the new hedge agreement.

   Chair Wapner asked if AECOM had looked at Omnitrans' hedge fuel process yet, and Mr. Geltman said they had not, but will review it for the COA. Chair Wapner asked if hedging is a non-traditional way of saving on fuel costs. Chief Financial

Officer Miller said hedging is being used more by transit agencies, such as LA METRO.

M/S (Eaton/Gonzales) to receive and file Omnitrans Chief Financial Officer's report on forward fuel purchases for October, 2011. This program was implemented on May 6, 2009 to increase the predictability of Omnitrans costs and reduce operational uncertainty in the event of dramatic fuel price increases in the open market.

M/S (Eaton/Gonzales) to receive and forward to the Board of Directors (Board) for approval:

- The award of the Omnitrans Liquefied Natural Gas (LNG) supply agreement under solicitation RFP-PRC11-06 for the provision of LNG fuel at both West Valley and East Valley to Clean Energy, Seal Beach, California. The authorization is for approval to purchase LNG fuel at monthly natural gas index, plus fixed fees of $.514 for the period February 1, 2012 through June 30, 2014 and at monthly natural gas index, plus fixed fees of $.514, plus CPI (Consumer Price Index) for the period July 1, 2014 through June 30, 2015 at quantities necessary to operate the Omnitrans fleet. Fixed fees shall not exceed the quoted prices for the duration of the contract period.
- The award of our hedging relationship to Morgan Stanley Smith Barney, Washington, DC, as broker for transactions to be executed in Omnitrans name on the NYMEX (New York Mercantile Exchange). The hedge structure will reduce Omnitrans' annual administrative costs associated with the hedging activity. In addition, use of the highly liquid NYMEX will permit the Agency to adjust the scale of the hedging program at any time. Up until now, the Agency would have had much less flexibility in adjusting the hedge position.
- Authorize staff to open a margin account at Morgan Stanley Smith Barney. The account will be used as a clearing account to adjust for daily price movements on the hedged natural gas positions. While the exchange can adjust the margin requirements, staff estimates the initial deposit to establish the hedge position will be less than $175,000.00.
- The extension of the hedge position for a period of three years five months through June 30, 2015. This will also align our fuel purchase commitments with our fiscal year. The hedge will be reduced to cover 150,000 gallons of LNG per month from 180,000 gallons presently. This will bring the hedged position down to approximately 54% of our monthly requirement.
- Due to service adjustments and fuel economy, the current hedge position covers approximately 63% of Omnitrans' monthly LNG requirements. This is 3% above the Board authorized limit. We request that the Committee recommend approval of the 3% overage during December 2011 and January 2012, when we will be able to adjust the hedge amount.

All motions were unanimous by members present.

6. Deobligate and Reobligate FTA, STAF and LTF Funding Related to the E street Corridor sbX BRT Project

Treasury Manager Mansion said the FTA Project Construction Grant Agreement allows receiving $74,999,999 of Small Starts Funding and spending $191,705,999 on the sbX Project. To accomplish this, Omnitrans needs to deobligate funding from the Mid Valley and other projects and reobligate those funds to the sbX Project.

M/S (Graham/Eaton) to receive and forward to the Board of Directors for approval this request authorizing the CEO/General Manager to de-obligate $31,567,762 of Federal Transit Administration (FTA) funding, $5,583,131 of State Transit Assistance Funds (STAF), and $2,766,213 of Local Transit Funds (LTF) originally obligated for various projects that Omnitrans will delay or no longer pursue as shown in the Funding Sources section, and re-obligate these funds to the E Street Corridor sbX BRT Project. Motion was unanimous by members present.

7. Receive & File sbX Project Right of Way Status Update – October 2011

   sbX Planning Manager Hayashi said there was one correction to the Committee memorandum regarding Resolution of Necessity. There are 95 approved resolutions for eminent domain rather than 57. There are 147 parcels that we have taken legal possession, which is 96 percent of the 152 total. The amendment of the Master Cooperative Agreement between SANBAG and Omnitrans has been approved by both Board of Directors to provide a license for possession and use during construction and conveying property rights to the appropriate parties.

   This was a receive and file agenda item.

8. Authorize the Spend Authority for Utility Deposits and the Execution of the "Agreement for Advance Deposit of Utility Relocation Costs" Between Omnitrans and Certain Private Utility Providers for the sbX E street Corridor Bus Rapid Transit Project

   sbX Planning Manager Hayashi said the construction of the E Street Corridor will require relocation of several utility lines. Staff is requesting approval to pay the various utility companies to accomplish this. The City of San Bernardino will exercise their franchise agreement, and Omnitrans will be refunded if the utility companies are required to pay for any of the relocations.

   M/S (Gonzales/Eaton) to review and recommend to the Board of Directors authorization for the CEO/General Manager to approve utility deposit amounts not to exceed the Project's utility projected costs of $1,102,117, plus a five percent contingency of $55,106 for a total of $1,157,223, and to sign the proposed "Utility Agreement ("Agreement") specific to each affected utility company with minor modifications agreed to by parties with Omnitrans legal counsel review. Motion was unanimous by members present.

9. Receive & File College Free Pass Program Status Update

   Director of Marketing Williams said the College Free Pass Program is going better than expected, with 15 percent of the market share of students using the pass. Student ridership is responsible for 11 percent of Omnitrans' total ridership. Only the City of Rialto is left to approve the program. The monthly report on the College Free Pass Program will be a receive and file agenda item for the December Board. However, a presentation of the College Free Pass Program will be done at the January Board of Directors' Meeting.

   This was a receive and file agenda item.

Chair Wapner said the December Committee meeting will be cancelled due to having only a few receive and file agenda items. The Administrative & Finance Committee meeting adjourned at 2:55 p.m. to January 9, 2012 the next scheduled meeting.

Carol Angier, Recording Secretary

OMNITRANS

DATE: January 9, 2012

TO: Committee Chair Alan D. Wapner
and Members of the Administrative and Finance Committee

THROUGH: Milo Victoria, CEO/General Manager

FROM: Robert Miller, Chief Financial Officer RLM
Donald Walker, Director of Finance

SUBJECT: OMNITRANS' FISCAL YEAR ENDED JUNE 30, 2011 AUDIT REPORTS

FORM MOTION

Receive and forward to Omnitrans Board of Directors the following audit reports for fiscal year ended June 30, 2011:

- Annual National Transit Database Reporting (NTD)
- Communication of Audit Results With Those Charged With Governance
- Comprehensive Annual Financial Report (CAFR)
- Management Letter
- Single Audit Report
- Transportation Development Act Compliance Report (TDA)

SUMMARY AND BACKGROUND

As a recipient of federal, state, and local funding, Omnitrans is required to have an annual audit conducted by independent auditors in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The audit also included fifteen tasks contained in San Bernardino Associated Governments (SANBAG) Transportation Development Act 2005 Compliance Guide.

The audit expresses a professional opinion as to whether the financial statement prepared by management with the Board of Directors' oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Since fiscal year 2005, Omnitrans has received an "unqualified opinion" on its financial statements.

The financial statements for fiscal year ended June 30, 2011 are presented in the CAFR along with comparative financial information for the year ended June 30, 2010. The fiscal year 2011 CAFR was submitted to the Government Finance Officers Association (GFOA) for consideration of awarding a Certificate of Achievement for Excellence in Financial Reporting.

The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by an Agency and its management. Omnitrans was awarded a Certificate of Achievement for FY1998, FY1999, FY2000, FY2006, FY2007, FY2008, FY2009, and FY2010.

MV:rm:dw

Attachments: Annual National Transit Database Reporting (NTD)
Communication of Audit Results With Those Charged With Governance
Comprehensive Annual Financial Report (CAFR)
Management Letter
Single Audit Report
Transportation Development Act Compliance Report (TDA)

OMNITRANS

DATE: January 9, 2012

TO: Committee Chair Alan Wapner and
Members of the Administrative and Finance Committee

THROUGH: Milo Victoria, CEO/General Manager

FROM: Samuel Gibbs, Director of Internal Audit Services SJG

SUBJECT: **SUMMARY OF RISK ASSESSMENT RESULTS AND FY 2012 INTERNAL AUDIT WORKPLAN**

FORM MOTION

Receive and forward to the full Board for receipt and file the results from the risk assessment and the FY 2012 Internal Audit workplan, completed November 30, 2011.

SUMMARY AND BACKGROUND

The Department of Internal Audit Services was approved by the Omnitrans Board of Directors on January 9, 2008. Internal Audit Services has been providing services to Omnitrans since April 2008. One of the responsibilities assigned to the Director of Internal Audit Services is to conduct a risk assessment of the Agency annually and develop a workplan which includes audit engagements and activities for mitigation of risk.

ANALYSIS

Internal Audit Services helps Omnitrans accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The workplan outlines the audit activities to mitigate the potential risk identified by the assessment matrix and summary of the interviews. Mitigation will consist of a mixture of audit engagements, strengthening of internal controls, and an evaluation of policies and procedures.

MV:SJG

Attachment- List of planned engagements, and risk matrix and methodology

Omnitrans • 1700 West Fifth Street • San Bernardino, CA 92411
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Serving the communities of Chino, Chino Hills, Colton, County of San Bernardino, Fontana, Grand Terrace, Highland, Loma Linda, Montclair, Ontario, Rancho Cucamonga, Redlands, Rialto, San Bernardino, Upland and Yucaipa.

Omnitrans Department of Internal Audit Services

Risk Assessment and FY 2012 Workplan

Auditor Name: Samuel Gibbs
Audit Date: November 30, 2011

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INTERNAL AUDIT ATTRIBUTES

Purpose

Mission

Omnitrans has established the Department of Internal Audit Services (DIAS) to strengthen internal controls and to promote the economy, efficiency and effectiveness of Omnitrans operations. The mission of the DIAS is to provide independent, objective assurances of Omnitrans. The DIAS will help Omnitrans accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The DIAS shall carry out independent and objective audits and reviews to accomplish its mission.

Goals and Objectives

OIAS is an internal service organization which assists Omnitrans management in ensuring:

- Omnitrans operates in accordance with Omnitrans procedures and applicable laws and regulations.
- Risks are appropriately identified and managed.
- Programs, plans and objectives are achieved.
- Adequate and effective systems of internal controls are in place.
- Important financial, managerial and operating information is accurate, reliable, and timely.
- Omnitrans contract and contract change order audits are conducted in a timely manner.
- Quality and continuous improvement are fostered in Omnitrans' control process.
- Significant legislative or regulatory issues impacting Omnitrans are recognized and addressed appropriately.
- Omnitrans assets and resources are adequately safeguarded, and Omnitrans operations are managed economically, efficiently and effectively.

DIAS participates and cooperates with management to ensure that Omnitrans successfully achieves its mission.

Organizational, Independence, Structure, and Resources

DIAS is given complete independence by Omnitrans executive management in using its resources, in selecting the area to be audited and the methodology to be used, and in determining the conclusions and recommendations resulting from its work. The Director of DIAS reports directly to the Chief Executive Officer/General Manager.

DIAS shall submit written audit reports to the Board of Director's Administrative and Finance Committee and the CEO/General Manager, informing them of individual department's compliance with policies and procedures.

All Omnitrans departments, programs, functions, systems, contracts and activities are subject to audits by DIAS. DIAS shall initiate audits activities based on assessed risk, legislative mandates and regulations, and on response to requests from Omnitrans Board of Directors, CEO/General Manager, CFO, and department heads. DIAS auditors and staff shall have complete and unrestrictive access to all books, records, documents, reports, plans, contracts, and other relevant materials, as well as to all Omnitrans personnel and its third party contractors. Omnitrans management and staff shall cooperate fully with DIAS auditors during discharge of their duties, to include prompt reply to DIAS audit reports findings and recommendations, in accordance with Omnitrans procedures for audit resolution and follow-up.

RISK ASSESSMENT

Standards of Audit Practices

DIAS auditors in conducting this risk assessment adhered to the professional standards set forth in the Government Audit Standards promulgated by the Comptroller of the United States, and the Institute of Internal auditors (e.g. *Standards for Professional Practice*).

What is Risk?

Risk can be defined as the combination of the probability of an event and its consequences. In simple terms risk can be seen as a combination of the chance that something may happen and the degree of damage or loss that may result if it does occur.

What is Risk Management?

Risk management is the process of recognizing risk and developing methods to both minimize and manage the risk. This requires the development of a method to identify, prioritize, treat (deal with), control and monitor risk exposures. In risk management, a process is followed where the risks are assessed against the likelihood (chance) of them occurring and the severity or amount of loss or damage (impact) which may result if they do happen.

The annual internal audit risk assessment is intended to demonstrate:

- the breadth and depth of audit activities addressing financial, operational, strategic, hazards, and compliance of the Agency in relationship to the associated risk;
- accountability for our resources; and
- The progress in our efforts to continually improve the Agency's Internal Audit program.

It is my intent to convey a current sense of the Agency's internal control environment and the extent to which controls are being assessed by regular audit activities, addressed proactively through advisory services, or investigated as a result of issues raised.

Frequency Performed

Risk assessments shall be performed annually, or as directed by the Administrative and Finance Committee of the Board of Directors, or the CEO/General Manager. Audit engagements will be conducted in accordance to the potential for weakened internal control or increased risk.

Process and Methodology

The process will involve consideration of all potential risks facing Omnitrans in pursuing its strategies with risks broken down into appropriate headings (e.g. strategic, operational, financial, and hazard etc.) and identified with the operating departments.

All risks should be clearly defined together with the controls that currently exist to manage them. Considering the adequacy of the present control system will avoid duplication of resources as several of the identified risks may already prove to be effectively controlled.

Risk will be determined by performing the following evaluations:

- Interview of the director and all key personnel in each operating department.
- A recap of all previous internal and external audits over the last 24 months.
- The use of a risk evaluation matrix recommended by the Institute of Internal Audits.
- The use of a self assessment risk review list of questions provided by the FTA specifically designed to address risk in transit.

It is important that the internal systems and procedures in place are adequate to manage the identified risk. Where control weaknesses are identified, these should be noted so that the proposed action is taken to remedy such weaknesses.

Internal Audit Services will undertake the identification of risks. Input will be obtained from the individual operating departments to ensure that all risks have been taken into account and that important risk and control issues have not been overlooked.

Risks will be categorized as strategic, financial, hazard, or operational.

As not all risks represent equal significance to the Agency, each area shall be ranked high, medium or low in terms both of likely frequency and impact. The risk weighting is provided below by category.

Risk Matrix:

The risk matrix is designed to assess risk for the entire organization. The categories are; key risk that are identified as either operational, strategic, financial, or hazard; the impact of the risk which is weighted from 1-3 (1 being the lowest and 3 the highest); the probability of occurrence for the risk which is also weighted 1-3; the status of the activities for mitigating the risk, classified as open, in process, completed, or signed off; the residual risk rating which is rated 1-9, 1 being the lowest and 9 the highest risk; and trends which are defined as static, trending up or trending down. A category shaded in red is not an indication that this area is bad or unaddressed; it implies that attention will have to be applied in that area.

Determination of Audit Universe

Once risks have been identified and quantified, the next step is to control and manage the risks. This will involve the consideration of cost-effective actions, which will be judged against the risk ranking, and the likelihood of occurrence. The proposed action to be taken will then be mapped against the specified risk together with an implementation date reflected by the perceived urgency and the named person designated as responsible for managing the risk. Additional consideration will be given for recommendations from the Administrative and Finance Committee of the Board of Directors, and the CEO/General Manager. The evaluation was made for any Agency operating in our risk environment, and a red, yellow, and green matrix was created that shows the potential and probability for risk activities assuming all things are equal. Red is high risk, yellow is moderate risk, and green is low risk. Please note that a red risk indicator does not necessarily mean bad or negative, but could instead indicate the need for mitigation.

RISK DOMAINS

The risks facing the Agency today can be classified into domains that Enterprise Risk Management (ERM) recognizes:

Operational:

The Operational domain (the term operation in this case is not referring to vehicle operations) is derived from the organization's core business, including its systems, practices, policies, and procedures. Examples include procurement and planning policies. The senior leadership team is focused on developing a dashboard that includes key performance indicators (KPI). The KPI was be used to report the effectiveness of the annual management plan to the Board of Directors.

Financial:

The Financial domain deals with risk related to the organization's ability to acquire, raise, or access capital as well as the costs associated with the transfer of risk. Examples might include federal, state, and local funding. Refinement to the grant process will be under review in FY 2012. Additionally, the agency has to determine the risk appetite versus the potential savings for all forms of insurance. Finance has to determine and maintain the right risk management strategy for a public agency while optimizing the potential savings. Additional potential financial risk could be associated with the changes to the cash allocation from SANBAG based on the results of the Comprehensive Operational Analysis (COA).

Human Resources:

The Human Resources domain relates to the risk related to recruiting, retaining and managing the workforce. Examples include workers' compensation, FMLA, employee turnover, absenteeism, and discrimination. New challenges associated with the sbX capital project will dictate that the Agency learn how to work with another class of employees (consultants, engineers, and contractors). The agency needs to place an emphasis on succession planning, a skill inventory, training, and development to improve the internal applicant base. During this growth and transition period the Agency will have to re-establish the relationships with the labor unions and identify how to best form equitable partnerships. Management confidential employees' salaries have been frozen since July of 2008. This could present human capital risk going forward. Improvement in the economy may cause key employees to evaluate other employment options.

Strategic:

The Strategic domain is risk related to the ability of the organization to grow and expand. Examples include customer relations, plan growth, new projects, and any change in governance structure as a result of planned growth. This includes an evaluation of the alignment of the Agency's strategies to the actual activities of the Agency; additionally, how will the strategies and activities be measured? The strategic plan for the Agency has been re-evaluated and key performance indicators applied to key measurements.

Legal/Regulatory:

The Legal/Regulatory domain is risk related to transit statutory and regulatory compliance. Examples include the changes in internal policies as a result of the changes in the new circular 4220.1F. The Agency presently receives direction from the county's legal staff and Best Best and Krieger. Additionally, close attention will be paid to changes in federal, state, and local regulations. As the construction phase of the sbX project progresses, the engagement and management of the contracts in accordance to regulations becomes a major priority.

Technological:

The Technology domain is risk associated with equipment, devices, and reporting systems. Examples include new fare box recovery equipment, and the implementation of a new Enterprise Resource Planning (ERP) system. The Department of Internal Audit Services will need to address additional vulnerability associated with a complex information technology department. The audit department will also assess the institutionalization of the new ERP system. The assessment will include an evaluation of the efficiency realizations relative to the implementation objectives. Additionally, there is an opportunity to share the platform developed for Omnitrans with other transit agencies for a fraction of the cost. This will require monitoring of the agreements and grants that are established.

Other Areas of Interest

<u>Fuel prices</u>

Fuel prices continue to fluctuate and the price of fuel presently showing a downward trend. Also of concern is the availability and dependability of Liquid Natural Gas. Omnitrans presently is under contract with the only two available sources to Southern California. The CFO has successfully implemented a two year hedge that has provided budget certainty during FY 2010 by stabilizing the Agency's budgeted fuel position. The hedge program and the pursuit of alternative fuel strategies were monitored during FY 2011. The hedge contract is due to expire at the end of January 2012. The price of CNG has gone down and appears to be on a continuing downward trend.

<u>sbX (IPMO) Project</u>

The project has passed through the environmental clearance, preliminary engineering, and final design stages, and is entering into the construction phase. This is the first major capital project for Omnitrans and the project will require both quality assurance and process audits by the external control team and internally. Audits of the invoices submitted for payment and the delivery matrixes, has to be conducted to meet the FTA definition of progress payments in Circular 4220.1F. As the project heads into the construction phase, it will be necessary to conduct QA audits, financial audits, Work Breakdown Structure (WBS) audits, and random audits of the deliverables associated to the invoices. A QA Manager was hired, whose primary job is to audit job sites, materials, and the quality of the work conducted. The QA Manager will report directly to the Director of Internal Audit. The anticipation is the QA Manager will spend 80% of his time in the field and report back to the Director of Internal Audit monthly.

Contract Management

As the Agency gears up to enter into the construction stage of sbX, contract management becomes a very important component of delivering a successful project. It is critical to manage all of the contracts according to the original document and in accordance to federal regulations. A change order protocol has been established that gives the final authority to the CEO/GM and project manager. The execution of the change order process will be audited randomly and routinely.

Grant Process

The grant process was an area for concern in FY2010 and through management re-alignment has been greatly improved. This was the subject of random audit engagements in FY 2011, which will continue in FY 2012. Internal Audit will also continue to review the weekly cash management report and provide guidance to the Finance team.

Economic Conditions/Budgeting

Challenging economical conditions are always a genesis for fraudulent or unethical practices. In support of the required SAS 114 examination during our external audit, the DIAS will continue with the fraud detection element to every internal audit engagement.

Comprehensive Operational Analysis (COA)

SANBAG contracted the consultant firm AECOM to conduct a COA of Omnitrans starting in early 2011 and is scheduled to wrap up in March of 2012. There is a possibility that the COA might cause SANBAG to change the amount of funds distributed to Omnitrans in the out years. Internal audits may be engaged in evaluating the implementation of any recommendations adopted by the Board of Directors from the COA.

Succession Planning and Management Development

Succession planning is a strategy to recognize and promote internal growth and development at every level of the organization. The succession planning process requires the documenting of skill levels, identification of developmental needs, and tailored individual development programs. The first of many such programs is the Leadership Action Program. Additionally, the performance manager element will equip directors and senior leaders with the information about each of their direct reports to make sound developmental and staffing decisions.

Capability Maturity Model Integration (CMMI)

The Agency can gain efficiency by having a standard approach to how we manage and monitor projects across the Agency. This will include a standard form for project proposals, key performance indicators, and reporting mechanisms.

Communication

The communication channels deal with the strategies for disseminating information internally and externally. Under consideration is how the Agency communicates policy and procedures consistently across all departments, as well as how important information affecting all employees is communicated. Finally, protocol for how information should be vetted before it is sent out-of-house needs to be monitored.

The Quality Management process

During the bid and construction phases of the sbX project, a comprehensive QA program has been developed to measure and monitor quality. A member of the quality assurance (QA) team was involved with the development of the bid packages. The QA representative will also be engaged on the construction sites evaluating the adherence to the contract, to the design specifications, and conducting material testing.

Employee Compensation

The Agency has been on a salary freeze for the past three years. Senior leadership will need to discuss strategies for employee retention. As the economy starts to recover, key employees are starting to evaluate options. Another year of salary freezes could cause employees to start looking for other employment opportunities.

Recommended Areas for Audit Engagements

Risk can be mitigated by conducting audit engagements in the following areas:

- Construction quality audits and reporting
- Succession Planning, including performance management and employee development
- Information technology (possibly source out)
- Grant Process
- sbX construction timelines, milestones, and invoicing
- Construction change order process
- Future audits of workers' compensation
- Review of salaries and compensation

FY 2012 Audit Workplan

Monthly

Safety and Security Audits- An ongoing monthly review of the safety and security compliance at both West Valley, East Valley facilities, new construction projects, and occasional evaluation of both First Transit facilities. These audits will use the audit forms generated by the Safety and Security Section.

QA Site Visits- A comprehensive quality program was written to administer quality control to the construction phase of the sbX project. The QA Manager will conduct onsite quality audits and report the results monthly. DIAS will monitor the QA activities which will include periodic site visits.

Random Review of Invoices- Both DIAS and the QA Manager will conduct random audits of the invoices submitted for payment to ensure that all regulations are followed and the deliverables match the reported percent of completion.

Contract Administration- DIAS will conduct regular random audits of the administration of active contracts, including sbX. Additionally, there will be reviews of the change order process and the resolutions to submitted change orders.

Bus Ride- Take a monthly bus ride and monitor rider perception, customer service, driver behavior, and Agency image. Whenever feasible, comparison audits will be conducted on the reliability of the Trapeze and TransitMaster data.

Cycle Count/Inventory Control- a weekly assessment and recap of the previous week's cycle count will be performed. The normal full review will be conducted on a quarterly basis.

Quarterly

Site Visit I St. and Feron St. - Internal Audit will conduct follow up reviews and visits to assess proper monitoring of the safety and security and drug and alcohol compliance audits for the contract provider First Transit.

Review Succession Planning- The Agency is tasked with developing a comprehensive succession plan that includes elements of performance management, employee development, and mentoring. The success of these initiatives is reliant on the full participation of each department director and their management staff.

Grant Review and Update- routine review of the grant process is needed to ensure that the Agency is maximizing the funding options available. In addition, the grant process will be evaluated to ensure that all funds are drawn down as soon as the funds are available to the Agency. For example, the Treasury Manager is requesting federal reimbursement as soon as the Agency pays the invoice and there is not more than 72 hours between when invoices are paid and reimbursements are drawn down from ECHO.

Procurement Review- the Agency's procurement process was audited by the FTA in the fall of 2007 and because of deficiencies the FTA performed a follow-up review in the fall of 2008. A partnership between the procurement staff and internal audit resulted in a clean review of procurement during the Triennial Review in May 2010. The Department of Internal Audit Services will continue to randomly evaluate the effectiveness of the procurement processes and provide support to ensure that the controls remain strong.

IT Evaluation- The help desk and other portions of the IT department have been outsourced starting July 7, 2010. The proposed engagements with IT will include the monitoring of IT security such as passwords, security levels, and delegations of duties (no one IT employee should have exclusive access to all levels of the IT infrastructure). Additionally, in FY 2012 emphasis will be placed on implementing a management dashboard, CMMI process improvement, and a project proposal and management system. Some of the responsibilities for IT monitoring might be delegated to consultants or contract help.

Biannual

Petty Cash- Conduct biannual reviews of all petty cash funds. A review of internal control and reimbursement made within compliance of the Agency's policy (approved 4-10-2006 and revised 12-15-2006)

P-Cards- Conduct biannual reviews of P-Card use within compliance of applicable laws, regulations, and Agency policy 3000.

Inventory Control- A full review will be conducted biannually to ensure that all processes for inventory management are being completed at both East Valley and West Valley. These processes include cycle counts Mon-Thurs., timely reconciliation, and proper reporting.

Fuel Audit- Conduct a review of fuel use and management of the Forward Fuel Purchase Policy. Additionally, all transactions for the Forward Fuel Purchase Policy will be subject to random and routine audits as deemed necessary by the CEO/General Manager or the Administrative and Finance Committee of the Board of Directors.

Work Schedules and Flex- Conduct biannual follow up reviews of individual work schedules by department. Reviews will address the following questions, are all employees working within core hours, is the management confidential and represented employees working within the policies for each designation? This process will consist of a full audit annually and quarterly follow ups.

On Going Engagements

Procurement System Review (PSR) Details- Continue to perform random audits using the guidelines provided by the FTA for a PSR. Procurement System Review (PSR) audit will include, follow-up on procurement contracts. Look for spot checks, checklists, proper price and price/cost analysis.

Workers' Compensation- A follow-up audit will be performed to review compliance with law and regulations for workman's compensation and surveys will be conducted to find methods to reduce workman compensation claims.

Information Technology (IT) - Audit to review license and security levels on the network. An additional review will be performed addressing the safeguard of confidential information. An audit will be performed to measure the effectiveness of SAP implementations. Internal Audit will look into contracting and IT auditor and billing it to the SAP contract.

Employee Recreation Club (ERC) - Conduct ongoing random and routine audits on the ERC activities and financial management process.

Additional Engagements

Carry-forward audits

This category will be dependent upon current audits that are incomplete at the end of the fiscal year end.

Other audit engagements to be complete this fiscal year

Conflicts of Interest- A review will be conducted of current laws, regulations and policies and their application at the Agency.

Discipline and Termination- A review will be conducted of the discipline and termination process and compliance with applicable laws, regulations and policies.

Hiring Processes- A random review of the hiring process, and compliance with applicable laws, regulations and policies will be conducted.

Special Projects- Any activity deemed necessary by the CEO/GM, CFO, or the Administrative and Finance Committee.

Risk Assessment- An updated risk assessment will be conducted in late May 2011 no later than early July 2011.

Follow-Up- Conduct reviews of completed audits to assess the progress and implementation of previously issued audit recommendations and management responses as required by the Professional Standards. Follow up on any material issues or deficiencies identified by the Financial Review currently in progress.

Omnitrans

Dept/Function :	Omnitrans
Director/Dept Head/Manager :	Omnitrans
Date :	Monday, December 19, 2011

ID	Key Risk	Description of RISK Concern (the issue is x, caused because of y, results in z)	Description of potential IMPACT (with estimated costs if possible)	Description of PROBABILTY factors	Impact	Probability	Level of RISK	Owner of Risk	Risk Mitigation	Risk Trend	Residual Risk Rating	Status
1	Operational	IPMO- The start of construction will present risk for delivering the project on time and under budget. Other challenges includes document control, vendor relations, and employee retention.	This could impact vendor relations, cost, change orders, and the project timetables.	The probabilities are moderate.	3	2	2	Milo Victoria, CEO and Milind Joshi, PM	**Provide leadership, guidance, and communication to ensure all staff is operating from the same playbook.**	Downwards	4	in progress
2	Strategic	The Agency has to determine strategies for future funding and growth. The out years after FY 2012 will have some uncertainties.	The proper funding strategy will drive future growth. The Agency will have to entertain the possibility of public private partnerships.	Probabilities are moderate	2	2	4	Milo Victoria, CEO	**The CEO and senior staff will continue to evaluate and engage the Board of Directors in dialogue about potential governance structures.**	Downwards	3	in progress
3	Operational	Service optimization; the issue is the optimization of service levels during a downward or static economy. In addition to a down economy the Agency is seeing increase in ridership and customer demand.	The impact could be lost of riders if the needs of the riders are not being addressed.	The probabilities are moderate to moderately high.	3	3	9	All Senior Leaders	**Continue to survey the riding public and formulate strategies to address the needs.**	Upwards	3	completed
4	Strategic	The issue is the Agency approach to workforce management has to incorporate a succession planning element to provide internal staff with a tool for development that promotes loyalty and longevity.	This will lessen turnover and the cost associated with turnover. Succession planning will improve employee development and provide the Agency with a better trained workforce.	The probabilities are high that the leadership program and other employee based development programs will yield positive results.	1	1	1	Marjorie Ewing, HR Director	**The agency needs to continue to provide the time and resources to develop and track employee's competencies.**	Upwards	1	signed off
5	Operational	The Agency has implemented the QA plan for the sbX project and the DIAS will be required to monitor the results regularly.	Inferior materials, construction activities not to specifications, and delays.	Without ongoing assessment the probabilities are high.	3	3	9	Samuel Gibbs, Director of Internal Audit	**A QA Manager will be hired who will be responsible for daily assessments and assurance. The report will be provided to the Director of DIAS.**	Upwards	6	in progress
6	Financial	The issue is the proper management of the Agency's financials risk relative to insurance. This includes the ability to evaluate trends and assign the proper amount of coverage based on the probability of occurrences.	The threat of being under-covered or the cost associated with too much coverage for the percent of probability. Setting the proper risk appetite for the Agency.	The probability of occurrences is a moving target that is dictated by external conditions.	3	2	6	Donald Walker Director of Finance; Robert Miller, CFO; Samuel Gibbs, Director of Internal Audit	**Form a risk management team who will regularly evaluate the Agency's position and make recommendations to the senior leadership team. The goal is to establish a risk management department.**	Static	3	in progress
7	Financial	This risk is both financial and operational. The Agency will need to address the freeze on salaries for the past three years for non-represented employees. As the economy starts to recover, employees will be evaluating their options.	The impact could be the loss of key employees.	Moderate to high	3	2	6	Robert Miller, CFO, Donald Walker, Finance Director, Human Resources Director	**The senior leadership will need to discuss strategyies to retain employees.**	Upwards	4	in progress
8	Strategic	The Agency has to identify the optimal relationship with SANBAG. Building the optimal relationship requires that Omnitrans effectively communicate the vision for the Agency and determine the proper strategy, governance, and best method to partner with SANBAG.	The impact is very high. This will determine future funding, future service elements, and future growth.	The probabilities are high that there will be changes in the relationship with SANBAG. The mitigation strategy will define how well Omnitrans positions itself.	3	3	9	CEO, and all members of the Senior Leadership Team	**Board education, increase authority levels, COA results, successful execution of sbX, and Internal alignment and a united voice.**	Upwards	6	in progress
9	Operational	As part of the risk management process the agency has to include the age and location of all facilities. An example is the administrative building sits on a water table 20 feet down, this created a larger earthquake risk.	The impact is medium but this will influence how we consider insurance coverage for each facility, and will dictate when we should be remodeling or doing upgrades to each facility	The probability that attention will have to be directed to addressing the condition of the physical facilities is high.	2	3	6	Donald Walker Director of Finance; and Jack Dooley, Director of Maintenance	**Continuing assessment of the facilities and determination of work that is needed.**	Upwards	4	completed

DATE: January 9, 2012

TO: Committee Chair Alan Wapner and
Members of the Administrative and Finance Committee

THROUGH: Milo Victoria, CEO/General Manager

FROM: Bart Hayashi, sbX Planning Manager

SUBJECT: **sbX PROJECT RIGHT OF WAY STATUS UPDATE – DECEMBER 2011**

FORM MOTION

Receive and file status update of the Right of Way acquisitions for the sbX Project through December 2011.

SUMMARY

The acquisition of right of way for the sbX Project is in its final stages. Legal counsel maintains control over the majority of these cases and settlement agreements are being negotiated through the courts. Staff will report to the committee those cases that cannot be settled, requiring jury verdicts, to monitor their outcome and costs. A majority of the right-of-way has been acquired or settled to date. Therefore moving forward, staff will report the Project right-of-way status to the committee on a quarterly basis.

BACKGROUND

On August 19, 2009, the Omnitrans Board of Directors approved the overall Project funding strategy for the sbX Project. On June 2, 2010, the Board approved the MOU with SANBAG which granted SANBAG the authority to acquire the properties for the sbX Project on behalf of Omnitrans. On July 7, 2010, the Board approved the expenditure of $10,147,607.20 for property acquisition costs, which includes acquisition services through SANBAG and property costs. SANBAG retained the services of HDR, Inc. to perform property negotiation, acquisition and relocation services for the sbX Project. SANBAG retained the firm of Nossaman, LLP as legal counsel. On October 5, 2011, the Board approved Amendment No. 1 to the MOU with SANBAG that provides Omnitrans a license agreement for possession and use of the SANBAG acquired right-of-way, addresses the disposition or conveyance of the acquired right-of-way, addresses Omnitrans insurance obligations, and provides an additional spend authority of a $1,956,400 right-of-way contingency.

STATUS DETAILS

Eminent Domain: The SANBAG Board of Directors adopted Resolutions of Necessity for all required parcels for the project. Those parcels not requiring Resolutions accepted settlement agreements with the agency. Staff and legal counsel are in the final stages of negotiating settlement agreements with 100% of parcels under legal possession.

Relocation:

Parcel B10 owned by the Jacobson's is not settled to date. Electricity on the site was restored for security reasons. Staff is awaiting owner's attorney's permission to have two movers visit storage site to prepare move estimate. Staff has also received clarification of relocation items from owner's relocation expert and responded to their attorney's September 2011 request for reimbursement of $140,000. This request does not meet *Actual, Reasonable, and Necessary* standards. A majority of the $140,000 claim items have not been performed and must be processed under the reestablishment expense. Description items were for a specific building, which has not been occupied, nor costs expended. Staff is waiting for owner's attorney to respond.

The acquisition for the full take of Parcel C80 owned by the Hsu's has not been settled. The tenants have relocated from the site; however, their relocation claim has not been settled. An appeal letter and additional referrals was mailed out to the tenants who are currently out of town.

EXPENDITURES

{NOTE: NO INVOICES WERE PROCESSED SINCE THE OCTOBER 2011 REPORT}

Description	Budget	Expenditures *	Variance
Property Acquisition, including State Funds Deposit and Closing Costs	$ 6,032,000	$ 4,570,765.61	$ 1,461,234.39
SANBAG	$ 150,000	$ 87,404.40	$ 62,595.60
Acquisition Services	$ 1,100,000	$ 965,759.17	$ 134,240.83
Legal Services	$ 2,500,000	$ 1,245,994.40	$ 1,254,005.60
Contingency	$ 1,956,400	$ 0.00	$ 1,956,400.00
Total	**$ 11,738,400**	**$ 6,869,923.58**	**$ 4,868,476.42**

*Expenditures represent payment made and/or approved invoices.

Expenditures for Right-of-Way in Settlement Negotiations**

Description	Amount	Comments
Property Acquisition Budget	$ 6,032,000	
Negotiated Settlements	($ 2,894,317)	Negotiated settlements of 120 parcels
Pending Settlements	($ 3,175,695)	Estimated costs for remaining 32 parcels (estimates based on 1.5 to 2 times the appraisal or pending negotiations)
Estimated Variance	($ 38,012)	Any variance will be covered by contingency

**The reflected budget includes estimated costs of individual parcels, relocation allowance, appraisal cost allowance, an escalation factor and budget contingency. As some properties have not closed escrow, the tentative settlement cost only reflects the negotiated settlement. Closing escrow costs therefore are not included.

In accordance with real-estate procurement and negotiations guidelines, staff has not provided parcel specific information. If there are parcel specific questions, please direct them to the CEO/General Manager's office to prepare a response in consultation with legal counsel.

MV:BH

OMNITRANS

DATE: January 9, 2012

TO: Committee Chair Alan D. Wapner and
Members of the Administrative and Finance Committee

THROUGH: Milo Victoria, CEO/General Manager

FROM: Milind Joshi, sbX Program Manager

SUBJECT: **QUARTERLY STATUS UPDATE - sbX E STREET CORRIDOR PROJECT**

FORM MOTION

Receive and file the attached Quarterly Project Status Report on the sbX E Street Corridor project for the period of October through December 2011.

SUMMARY AND BACKGROUND

During the May 9, 2011 meeting a quarterly Status Report on the sbX E Street Corridor Project update was presented to the Committee and the report format was approved by the Committee.

CONCLUSION

Receive and file the attached Quarterly Project Status Report on the sbX E Street Corridor Project for the period of October through December 2011.

MV:MJ

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Executive Summary:

sbX Construction:

Upon receiving PCGA approval, the Construction Contract with Griffith/Comet JV was signed on September 15, 2011 followed by a ceremonial Groundbreaking ceremony on September 29, 2011. Speakers included Congressman Joe Baca, FTA Regional Administrator Leslie Rogers, Omnitrans Board Chairman Mayor Dick Riddell, Mayor Pat Morris, Mayor Pro Tem Penny Lilburn, Council Member Ron Dailey. .

Concurrently, the paperwork including insurance, bonding, etc. is being reviewed to ensure compliance prior to starting the construction.

The construction Kick-Off Meeting took place on November 21, 2011. Over 70 stakeholders including the City representatives, Utility company representatives, and other key stakeholders attended the meeting.

The contractor has set up the field offices during construction in the vacant Montgomery Ward Automotive Center located near 4th Street and G Street. sbX Construction Management Consultant Jacobs, along with some of the sbX staff, have been operating from the construction trailer located next to Griffith/Comet JV' field office.

Based on the 90-day Look Ahead schedule, the construction activities will start at the north end of the project. However, construction is expected to be non-linear, i.e., could take place on any portion of the E Street corridor. The contractor is now developing the overall and detail construction schedule, which is expected to be ready by January 2012.

Vehicle Maintenance Facility (VMF) design has been completed and is currently being reviewed by a variety of Regulatory Agencies. The construction bids are scheduled to be released in first quarter of 2012 with a projected construction start date during the third quarter. The estimated period is approximately 12 months.

60-Foot Articulated Buses: The FTA required testing of the 60-foot, 5-door, CNG-operated articulated prototype bus has started at the Altoona Testing Facility. The bus deliveries will begin in August/September 2012, with the last bus expected to be delivered around March 2013.

Public Outreach Activities are on-going. sbX Outreach Team has already scheduled outreach meetings with the appropriate City Officials and Community members including residents, businesses, and other impacted stakeholders so that they are aware of the construction schedule and the activities in their respective jurisdiction.

Right-of-Way (ROW): The status of ROW is presented separately.

FINANCE:

Estimated Cost:	$191.70 Million (sbX Project)
Current Cost:	~$28 Million (As of December 15, 2011)

OMNITRANS

DATE: January 9, 2012

TO: Committee Chair Alan D. Wapner and
Members of the Administrative & Finance Committee

THROUGH: Milo Victoria, CEO/General Manager

FROM: Wendy Williams, Director of Marketing

SUBJECT: **COLLEGE FREE PASS PROGRAM STATUS UPDATE**

FORM MOTION

Receive and file an update on the "Go Smart" college free ride pilot program for 2011-12.

BACKGROUND AND SUMMARY

With funding support from Omnitrans JPA members and participating local colleges, Omnitrans implemented a one-year pilot program offering "fare free" trips to enrolled students at California State University San Bernardino, Chaffey College (three campuses), Crafton Hills College, and San Bernardino Valley College for the 2011-12 academic year. The program began at community colleges on August 15 and at CSUSB on September 22 to coincide with the start of their fall terms. College students swipe their identification cards in Omnitrans fare boxes to validate their eligibility and to track student usage. Through the first eighteen weeks of the program, which represents the first semester or quarter for participating colleges, over 600,000 trips were tallied and attributed to over 9,100 unique ID cards. This represents approximately 17 percent of enrolled students. Refer to chart below for weekly activity.

Currently Omnitrans is working with the colleges and their student governments to establish student fees to support the program beyond the one-year pilot. Student fees must be approved by a vote of the student body at each institution. Omnitrans is preparing reports to contributing jurisdictions so that they can submit emission reduction data as required by the South Coast Air Quality Management District, the source of AB2766 funds used.

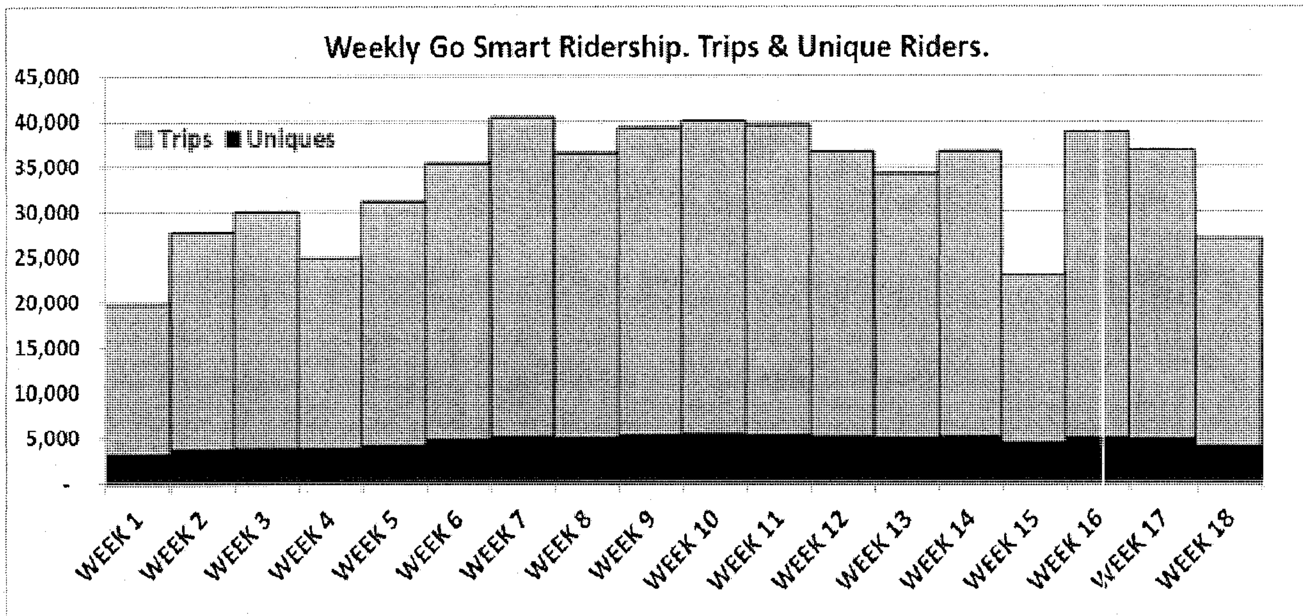
Timeline

January – February:

- Provide progress reports to colleges and JPA partners
- Work with college administration and student groups on referendum

Spring 2012:

- Student vote to approve fees to continue in 2012-13 and beyond



Status of Commitment from JPA members (as of December 22, 2011)

JPA Member	Amount	Status
County of San Bernardino	$8,000	Paid
Chino	$18,375	Paid
Chino Hills	$8,175	Paid
Colton	$14,895	Invoiced
Fontana	$93,165	Paid
Grand Terrace	$5,775	Paid
Highland	$12,000	Paid
Loma Linda	$12,180	Paid
Montclair	$7,305	Paid
Ontario	$40,830	Paid
Rancho Cucamonga	$91,545	Paid
Redlands	$15,000	Paid
Rialto	*$51,375*	*Recommended by staff, tabled by Council on 7/12/11*
San Bernardino	$141,765	Paid first quarter installment
Upland	$23,445	Paid
Yucaipa	$34,725	Paid
TOTAL	$578,555	

MV: WW

OMNITRANS

DATE: January 9, 2012

TO: Committee Chair Alan D. Wapner and Members of the Administrative and Finance Committee

THROUGH: Milo Victoria, CEO/General Manager

FROM: Robert Miller, Chief Financial Officer RLM

SUBJECT: **OMNITRANS CHIEF FINANCIAL OFFICER'S REPORT ON FORWARD FUEL PURCHASES FOR DECEMBER 2011**

FORM MOTION

Receive and file Omnitrans Chief Financial Officer's report on forward fuel purchases for December, 2011. This program was implemented on May 6, 2009 to increase the predictability of Omnitrans costs and reduce operational uncertainty in the event of dramatic fuel price increases in the open market.

SUMMARY AND BACKGROUND

This report is submitted in order to comply with the requirements of the Omnitrans Forward Fuel Purchase Policy and Procedure.

The Forward Fuel Purchase Policy as amended authorizes the Agency to forward purchase up to 60% of the Agency's natural gas requirements. Omnitrans entered into an agreement with Clean Energy to purchase 180,000 gallons of liquefied natural gas (LNG) each month from the supplier at a fixed price. At the time of this commitment, the 180,000 gallons represented approximately 42% of Omnitrans' monthly purchases. Due to service adjustments and fuel economy, the current hedge position covers approximately 63% of Omnitrans' monthly LNG requirements.

On May 6, 2009, the Omnitrans Board approved the recommendation of staff to amend its LNG supply agreement with Clean Energy Corporation in order to fix the price for the purchase of 180,000 gallons per month of LNG that Omnitrans will consume each month between July 1, 2009 and January 31, 2012. The balance of the monthly fuel requirement will be purchased using monthly index pricing plus the fixed costs (margin, liquefaction, delivery) determined by Omnitrans' current physical delivery contracts. This component of our fuel costs will continue to vary on a monthly basis as spot market prices fluctuate. ***CURRENT HEDGED CONTRACT PRICE THROUGH JANUARY 2012 IS $.62 PER GALLON VS. $.58 PER GALLON PAID DURING FISCAL YEAR 2011.***

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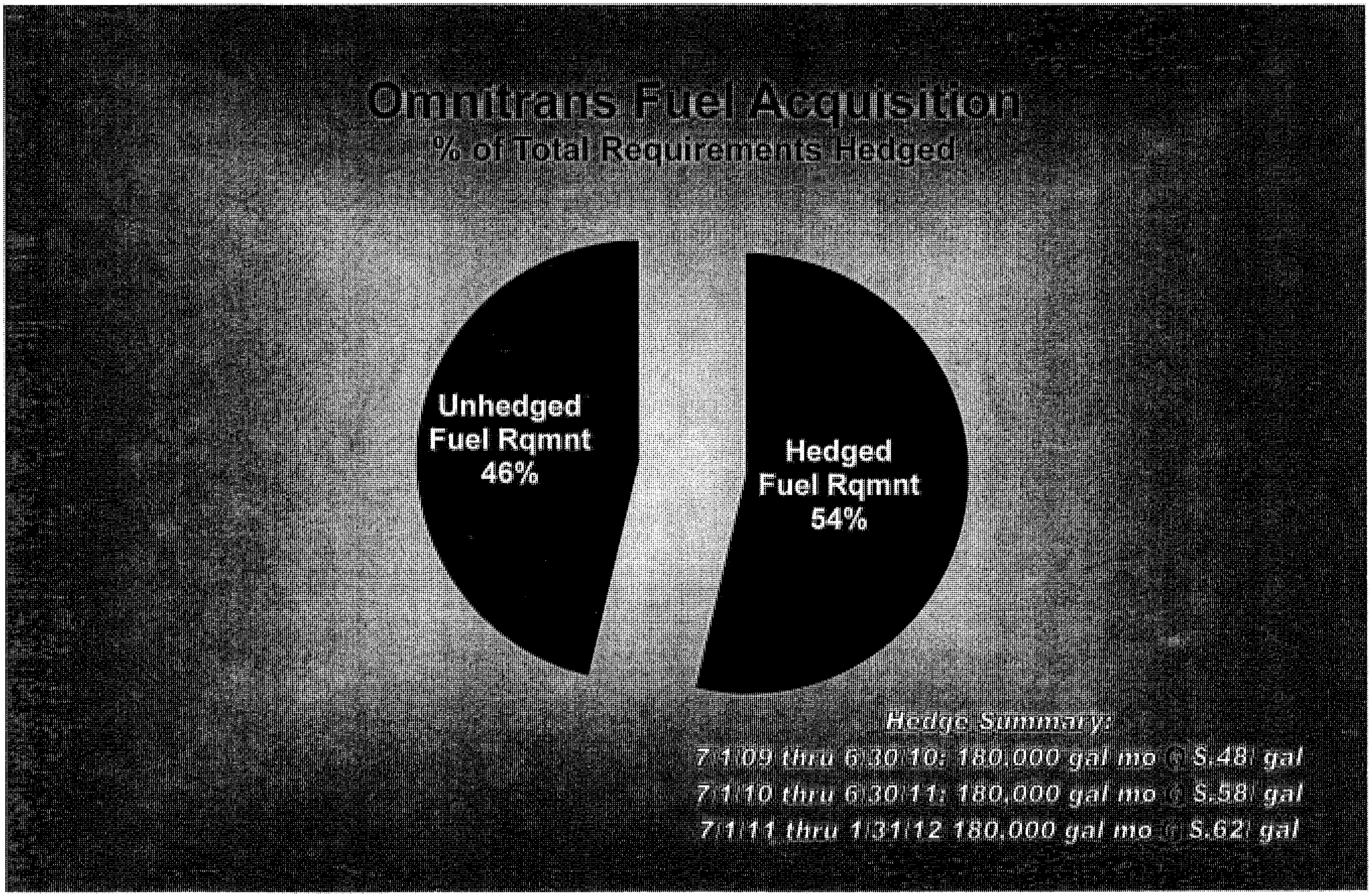
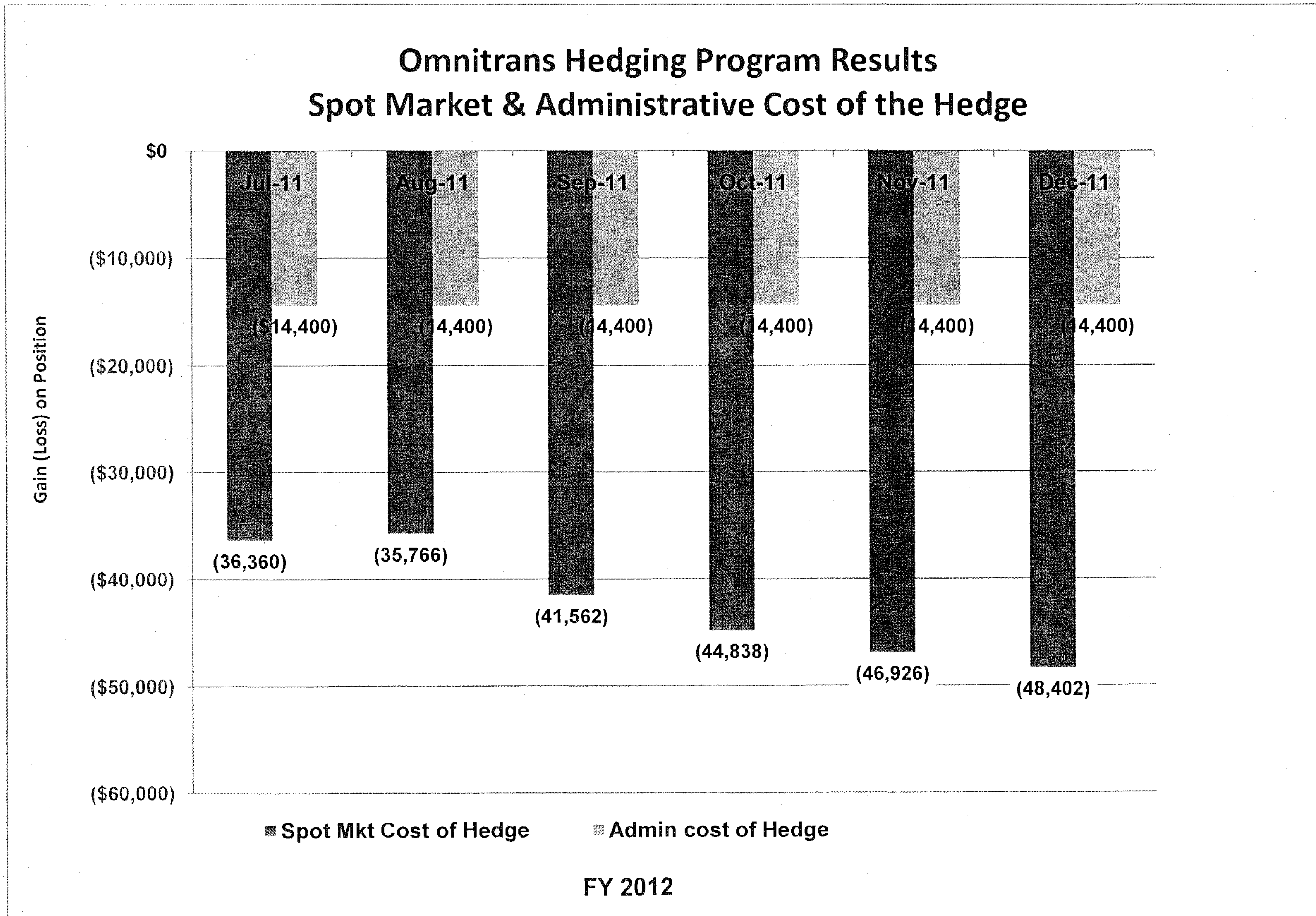
Omnitrans elected to hedge fuel prices in order to be better able to forecast fuel costs going forward. The 'cost' of a hedge can be calculated on a monthly basis and is comprised of two components. First is the administrative charges imposed by the vendor each month to cover the costs associated with hedging the requirement. Administrative charges include margin requirements, monitoring, oversight and administration and amount to $.08 per LNG gallon or $14,400 per month. The second element of the hedge cost is the differential between the hedge price and the spot market price that is otherwise available to Omnitrans during the month. For fiscal year 2012, the Omnitrans hedged price is $.62 per gallon while the San Juan spot market price for December was $.2711 per gallon. The spot to hedge differential was -$.3489 per gallon or -$48,402. The total cost of the hedge during December was approximately $62,802. However, the favorable spot market pricing resulted in a price variance to budget in December for Omnitrans in the amount of approximately $34,800.

Please find below three charts/graphs that will be used monthly to report our historical performance with the forward fuel purchase program. Please advise if you would like to see additional information or might prefer an alternative format for the presentation.

MV:rm:dw


Omnitrans Fuel Acquisition
% of Total Requirements Hedged
Unhedged Fuel Rqmnt 46%
Hedged Fuel Rqmnt 54%
Hedge Summary:
7/1/09 thru 6/30/10: 180,000 gal mo @ $.48/ gal
7/1/10 thru 6/30/11: 180,000 gal mo @ $.58/ gal
7/1/11 thru 1/31/12 180,000 gal mo @ $.62/ gal


Omnitrans Hedging Program Results
Spot Market & Administrative Cost of the Hedge
Gain (Loss) on Position
$0
($10,000)
($20,000)
($30,000)
($40,000)
($50,000)
($60,000)
Jul-11
Aug-11
Sep-11
Oct-11
Nov-11
Dec-11
($14,400)
(14,400)
(14,400)
(14,400)
(14,400)
(14,400)
(36,360)
(35,766)
(41,562)
(44,838)
(46,926)
(48,402)
Spot Mkt Cost of Hedge
Admin cost of Hedge
FY 2012

Omnitrans Fuel Costs- Performance to Budget