

City of Tucson Independent Audit and Performance Commission

January 9, 2013

Subject: Report to Mayor and Council - Independent Audit and Performance Commission Review of the Sun Tran/Sun Van Transit System

Honorable Mayor and Council:

In the draft Five Year Strategic Transit Plan document (dated October 5, 2012), the Transit Task Force (TTF) recommends to Mayor and Council that the Independent Audit and Performance Commission (IAPC) “perform an independent review of the system during fiscal year 2013 to ensure sound fiscal management, and then as often as deemed necessary. This review would include an examination of financial and system performance data in addition to external audit reports, findings, and corrective actions.” The TTF recommendation also lists IAPC with the lead responsibility for the review of fixed route, express, paratransit and streetcar modes.

The IAPC identified three potential areas of interest relative to an independent review of the transit system which could add value to its operation, financial management and planning, and ensure compliance with guidelines and regulations. Therefore, on November 27, 2012 an IAPC subcommittee met to discuss what audit/review processes are currently in place (by whom and how), the formulation of the transit system’s annual budgets, and information included in the Five Year Financial Forecast (“working document”) as included in the draft *Five Year Strategic Transit Plan* dated October 5, 2012. The following subcommittees’ findings and observations were reported to the full IAPC on December 5, 2012.

1. Audits and Reviews

The City’s mass transit system is already subject to a large and extensive number of regularly recurring audits/reviews conducted by external auditors for the Federal Transit Administration (FTA) and internal audits/reviews conducted by Sun Tran/Van Tran staff and City Internal Audit staff.

The IAPC Subcommittee conducted a cursory review of the following significant audits/reviews conducted in fiscal year 2011 by FTA contracted auditors: Financial Management Oversight Review, Procurement System Review, and a Triennial Review. The Subcommittee also reviewed the City’s responses for corrective action. The Transportation Department monitors the implementation of the City’s corrective action and provides progress reports to the FTA. Accordingly, the IAPC does not believe that it could add value to what has already been performed by those professional auditors.

2. Annual Budgets (Operating and Capital)

The budget development process is a collaborative effort between Sun Tran/Sun Van, the Department of Transportation (TDOT), and City staff. Sun Tran/Sun Van staff develop the budget following the City of Tucson’s budget process. Staff develops and recommends a budget based on anticipated service levels, ridership, and operating and capital costs and revenues. This information is presented and discussed in detail with TDOT management before it is included as a component of the overall TDOT budget for consideration by the City Manager, Budget Office, and Mayor and Council prior to budget adoption.

It appears that the Sun Tran/Sun Van budget is subject to appropriate scrutiny before submission for final approval and the IAPC has no recommendations at this time for strengthening the process.

3. Five Year Financial Forecast

The IAPC Subcommittee reviewed the *Five Year Strategic Transit Plan* document which contained the Five Year Financial Forecast (Appendix IV). After discussions with City and Veolia staff, the Subcommittee identified several important aspects of the Forecast:

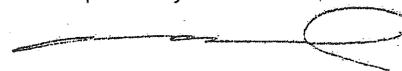
- The Five Year Financial Forecast “working document” included in the *Five Year Strategic Transit Plan* basically reflects status quo transit operations, with the exception of the addition of projected financials for the Sun Link Streetcar. Operational services are maintained at current levels over the years of the Forecast with varying yearly assumptions generating changes to revenues and expenses. While the *Five Year Strategic Transit Plan* identifies *Goals and Objectives*, such as expansion of the service area, details as to how they will be met and the resulting additional costs (or savings) have yet to be determined and therefore are not reflected in the Five Year Financial Forecast.
- City staff considers the Five Year Financial Forecast to be a draft and an on-going working document. Staff anticipates continuing to revise the projections as updated information becomes available over the next 4-6 months. Information related to the streetcar operation, both revenues and expenses, is expected to become more solid in the coming months.
- Discussion and agreement between Veolia and City staff regarding the recommended budget of potential annual General Fund investment in transit operations (which is projected in the Five Year Financial Forecast as increasing from \$40.5 million in FY 2013 to \$61.6 million in FY 2018) had not yet occurred prior to issuing the Five Year Financial Forecast (dated October 5, 2012).
- To date, it is our understanding that a *detailed* review of the Five Year Financial Forecast by the Transit Task Force has not taken place.

The IAPC recommends that it will undertake a detailed review of the Five Year Financial Forecast, and its underlying assumptions and projections, once the City and Veolia have generated a more solid forecast that clearly indicates its relationship to short-term goals and objectives established in the *Five Year Strategic Transit Plan*. The IAPC believes that to begin a review at this time, while that forecast is still under development, would be more disruptive than beneficial.

Conclusion

The IAPC would like to inform the Mayor and Council that, after due consideration, the IAPC believes that the TTF recommendation exceeds the IAPC’s capabilities. IAPC members are all volunteers with limited time available for projects of this magnitude, and while their diverse backgrounds include various types of financial expertise they do not include professional audit experience. The IAPC will, however, undertake a detailed review of the Five Year Financial Forecast (i.e., projected revenues and expenditures) at a later date and provide a report to Mayor and Council of its findings and recommendations.

Respectfully Submitted,



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