
















**ISSUE BRIEF:**  
**Monitoring Report for Policy 2.5 Financial Condition & Activities**

**Finance Committee Review Date: February 9, 2021**

**Board Meeting Review Date: February 18, 2021**

<b>INFORMATION TYPE:</b>
Decision
<b>RECOMMENDED ACTION(S):</b>
<p>That the Board consider accepting this monitoring report as either level:</p> <ul style="list-style-type: none"> <li>• B – In compliance, except for item(s) noted.</li> <li>• C – Making reasonable progress toward compliance.</li> </ul>
<b>ISSUE SUMMARY:</b>
<p>TheRide’s Board of Directors establish policies that define what methods are unacceptable to use to achieve expected results, called Executive Limitations. This monitoring report provides the CEO’s interpretations of those policies, evidence of achievement, and an assertion on compliance with the Board’s written goals. As with other monitoring reports, the Board decides whether the interpretations are reasonable, and the evidence is convincing.</p>
<b>BACKGROUND:</b>
<p>Monitoring Reports are a key Policy Governance tool to assess organizational/CEO performance in achieving Ends (1.0) within Executive Limitations (2.0). A Policy-Governance-consistent Monitoring Process is:</p> <ol style="list-style-type: none"> <li>1. CEO sends Monitoring Report to all board members</li> <li>2. At Board meeting, board accepts Monitoring Report through majority vote (or if not acceptable, determines next steps)</li> </ol>
<b>IMPACTS OF RECOMMENDED ACTION(S):</b>
<ul style="list-style-type: none"> <li>• Governance: Perform key Policy Governance process</li> </ul>
<b>ATTACHMENTS:</b>
<ol style="list-style-type: none"> <li>1. Monitoring report for Policy 2.5 Financial Condition and Activities</li> </ol>

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<p>the fare adjustment is fiscally responsible and aligned with achievement of the board’s Ends, and (c) providing data that supports an informed decision by the board – including but not limited to clearly articulated information about the following:</p> <ul style="list-style-type: none"> <li>A. A clear listing of all proposed fare categories/types and prices, along with supporting information.</li> <li>B. The fare discounts to be provided for low-income residents and other vulnerable populations and rationale for how residents qualify for fare discounts.</li> <li>C. The impact of the proposed adjustment on equity among different fare categories.</li> <li>D. The implication of the proposed fare adjustment on ridership.</li> <li>E. The implications of the proposed adjustment on the authority’s budget and the financial trade-offs required (e.g. tax rate increase/decrease, increased/decreased services, impact on reserve or deficit, etc.).</li> <li>F. Opportunities that users, residents, Legal Owners, and stakeholders had to provide feedback on the proposed fare adjustment, the nature of their feedback, and how their feedback has been addressed.</li> </ul>		
<p>2.5.11.2 Let the traveling public, residents and businesses be without reasonable advance notice of approved changes to fares.</p>		<p>N/A</p>

 Compliant     
  Partially Compliant     
  Non-Compliant

## Preliminary CEO Interpretations and Evidence

### EXECUTIVE LIMITATIONS POLICY 2.5:

With respect to the actual, ongoing financial condition and activities, the CEO will not cause, allow or fail to address the development of fiscal jeopardy or deviation of actual expenditures from Board priorities established in Ends policies. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

**Degree of Compliance: Partial Compliance**

### EXECUTIVE LIMITATIONS POLICY 2.5: Interpretation

I interpret this policy to mean I am responsible for ensuring the implementation of the Board-approved budget and ensuring sufficient internal control and risk management for financial matters. In addition, I am responsible to address unforeseen events resulting in any significant deviations from budgeted expenditures, or requiring use of reserves to cover shortfalls, as well as those that disrupt service delivery or delay or cancel approved initiatives. I must take all reasonable precautions to prevent and/or mitigate financial risks (fiscal jeopardy) that result from human error, fraud, or external economic conditions that bear upon the Authority. Further, all of TheRide's activities and costs must be demonstrably related to accomplishing the Board's Ends. Compliance with this overall policy will be demonstrated by compliance with the following sub-policies.

### EXECUTIVE LIMITATIONS POLICY 2.5: Evidence

- See monitoring reports for sub-policies.

**EXECUTIVE LIMITATIONS POLICY 2.5.1:**

Operate without policies, processes and procedures that are necessary to meet generally accepted standards for financial management, cash handling, and accounting.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.1: Interpretation**

I interpret this policy to mean TheRide will meet Governmental Accounting Standards Board (GASB) and Internal Control (cash handling, fund handling, and financial management) standards. On an annual basis, an external audit firm will assess TheRide's policies, processes, and procedures for compliance and appropriateness. I will incorporate auditor's suggestions when appropriate.

**EXECUTIVE LIMITATIONS POLICY 2.5.1: Evidence**

Financial management, cash handling, and accounting policies and procedures are described in detail in TheRide's *Internal Control System Manual*, which was updated by Finance staff and adopted by the CEO in 2019. This manual was developed to ensure compliance with Federal standards and these Board policies.

GASB is the source of accounting reporting standards and generally accepted accounting principles used by local governments in the United States. Finance personnel follow the accounting standards established by GASB.

Financial auditors recently completed an audit for the FY2020 financial statements. Auditors test internal controls and accounting standards during the process of their audit. While they "do not express an opinion on the effectiveness of" internal controls (Audit 2020, p. 47), they do report upon any material weaknesses they find in accounting, financial reporting, and internal controls. No such material weaknesses in internal control were found in the 2020 audit.

**EXECUTIVE LIMITATIONS POLICY 2.5.2**

Operate in a manner that would jeopardize federal and state funding, including an up-to-date procurement manual.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.2: Interpretation**

AAATA will operate in compliance with regulations, master agreements, federal circulars, and state manuals associated with funding. AAATA will take care in its administration of grants. Federal compliance will be tested annually by an independent audit firm, and federal compliance every three years by a Federal Transit Administration auditor (this last occurred in 2018; the 2021 review was deferred by FTA due to the pandemic). AAATA will utilize a procurement manual that includes the latest requirements.

**EXECUTIVE LIMITATIONS POLICY 2.5.2: Evidence**

*Federal Compliance:* The auditors stated that AAATA “complied, in all material respects, with the types of compliance requirements ... that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020” (p. 50).

*FTA Triennial Review:* The FY2018 Triennial Review found that AAATA was fully compliant in 15 of 20 areas reviewed. Findings of non-compliance resulted in 5 areas of review, including financial management, grants management, oversight of subrecipients, procurement, and the Disadvantaged Business Enterprise (DBE) program. Findings were for outdated procedures, policies and procedures missing required elements, late or missing reports, and missing clauses in contracts. All findings have been corrected, corrections have been accepted by FTA, and no jeopardy to federal funding has resulted.

*State Compliance:* Grant agreements from the Michigan Department of Transportation are fully awarded and executed for FY2020 and for FY2021, with no findings of non-compliance reported by MDOT.

*Procurement Manual:* TheRide’s Procurement Manual was updated and adopted by the CEO in FY2019. Procurement thresholds established in federal regulations and Board policy were updated along with the DBE policy, in correction of findings from the 2018 FTA Triennial Review, again, with no jeopardy to federal funding.

**EXECUTIVE LIMITATIONS POLICY 2.5.3:**

Receive, process or disburse funds under controls that are insufficient to meet the Board-appointed auditor's standards.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.3: Interpretation**

I understand this policy to mean that staff are prohibited from handling the AAATA's funds while using internal controls that are insufficient to meet the Board's auditor's standards. Internal controls are defined as processes designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. This is the most widely accepted definition and comes from the Committee of Sponsoring Organizations (COSO). It focuses upon the fiduciary responsibilities of the Board of Directors, management, and other personnel, given that AAATA is a local government entity that handles public funds.

**EXECUTIVE LIMITATIONS POLICY 2.5.3: Evidence**

Receipt, processing, and disbursement of funds is controlled by procedures identified in TheRide's *Internal Control System Manual*, which was updated and adopted by the CEO as an administrative policy in FY2019. It includes three types of internal controls:

1. Environmental Controls: the set of policies, standards and procedures that provide the Board's expectations for carrying out the internal control system. Board policies, executive and management leadership, the organization structure, personnel policies and practices, insured risks to cover losses, and monitoring for "red flags" are all examples of environmental controls.
2. Administrative Controls: are managerial policies, standards, and procedures that interpret and put into practice internal controls. Examples are internal control standards that cover the authorization of transactions, separation of duties, access to software and records, procedures to run trial balances and reconcile accounts, physical audits, documentation, record retention, and security of sensitive information.
3. Other Administrative Controls: Several other documents exist which inform internal controls including employee handbooks and the collective bargaining agreement, the Purchasing Manual, IT Policies, the Award Management Procedure (for managing federal and state grants), the Transit Asset Management Plan, and the Public Transportation Agency Safety Plan (PTASP).

Internal controls were reviewed and tested by the auditing firm and no findings resulted.

**EXECUTIVE LIMITATIONS POLICY 2.5.4:**

Compromise the independence the Board's audit or other external monitoring or advice.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.4: Interpretation**

I understand this policy to mean that staff should in no way hinder any Board inspection of financial information. The Board's audit, and other inquiries, should be truly independent opinions free of staff influence. The CEO shall not engage the auditing firm to be advisors or consultants. CEO and staff are resources to the auditor, not supervisors or authors of audit opinions. The Board shall have direct and unfettered access to the auditing firm through the firm's pre-audit communication and a post-audit communication as required by U.S. Generally Accepted Auditing Standards, in addition to an auditor's presentation to the Board at a public meeting.

**EXECUTIVE LIMITATIONS POLICY 2.5.4: Evidence**

Financial auditors recently completed an audit on FY2020 Financial Statements and Federal Programs, following Generally Accepted Auditing Standards, which include stringent independence standards. The Auditors held a Pre-Audit kick-off meeting with the Board's Audit Task Force on December 2, 2020. The Draft Independent Auditor's Report has been provided to the Audit Task Force, and the auditor will present the final audit results to the Board of Directors in February, 2021. The auditing firm, UHY LLC, does no consulting or advising with AAATA.

From the Auditor's Management Letter (pp. 1-2):

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Disagreements with Management***

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.



**EXECUTIVE LIMITATIONS POLICY 2.5.4.1:**

Fail to provide the Board with timely information regarding fraud, suspected fraud or financial mismanagement.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.4.1: Interpretation**

I interpret this policy to mean that I am to inform the Board in a timely manner upon becoming aware of fraud, suspected fraud, or financial mismanagement. Fraud is defined as “wrongful or criminal deception intended to result in financial or personal gain.” Financial mismanagement refers to manners of handling AAATA’s finances that could be characterized as without due regard for future implications, as well as “wrong, bad, careless, inefficient or incompetent,” whether deliberate or not.

**EXECUTIVE LIMITATIONS POLICY 2.5.4.1: Evidence**

An effective internal control system is in place to guard against fraud, recognizing that it is easier to prevent fraud than it can be to detect it. Internal controls identify and mitigate risks of fraud through policies and procedures that act as checks and balances to make it difficult for a person to commit fraud without detection. The internal control system also establishes the responsibility for employees to report fraud when it is suspected or detected, and clarifies the reporting and investigation procedure.

The CEO is required by this policy and also by the Internal Control System to brief the Board about any instances of fraud. Further, fraud is required to be reported to auditors, and to other regulatory bodies such as FTA and the U.S. Department of Transportation’s Office of Inspector General.

The primary means of avoiding financial mismanagement is the fiduciary oversight provided by the Board of Directors and the Finance Committee, who review financial statements quarterly. The CEO, Deputy CEOs, department managers, and others hold accountability for financial performance within the costing centers/business units they manage, with close fiduciary oversight provided by the CEO, CFO, and Manager of Finance.

I attest that neither I, nor the CFO, nor the Manager of Finance are aware of any occurrences of fraud, suspected fraud, or financial mismanagement during the monitoring period, or since I began my work as CEO.

**EXECUTIVE LIMITATIONS POLICY 2.5.4.2:**

Fail to provide the Board with information and access to internal controls that allows Board review of fraud, suspected fraud or financial mismanagement.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.4.2: Interpretation**

I interpret this policy to mean that I must make available any financial information the Board and its auditors request, including internal controls.

**EXECUTIVE LIMITATIONS POLICY 2.5.4.2: Evidence**

The Board's primary mechanism to review for fraud and financial mismanagement is the annual financial audit governed by the Audit Task Force. Per the evidence provided previously, in monitoring for Policy 2.5.4, the CEO and staff cooperated by making available financial information and internal controls requested by the auditor.

There have been no other times when the Board, as a whole, has requested access to this information. There are no motions or resolutions on-record requesting such information.

**EXECUTIVE LIMITATIONS POLICY 2.5.5:**

Allow expenditures that exceed the overall Board-approved budget.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.5: Interpretation**

I interpret the phrase “Board-approved budget” to refer to the operating budget for the fiscal year. I interpret the word “overall” to mean that the Board is most concerned that the bottom line of the budget is not exceeded, and I am allowed some discretion in permitting variances among the contributing categories of expenses that comprise the total budget. For example, I have latitude to allow overruns in some line items, or shift resources between types of expenses within the budget, as long as total expenditures do not exceed the approved amount. Non-compliance would therefore be indicated if total expenses exceed the overall budgeted amount.

**EXECUTIVE LIMITATIONS POLICY 2.5.5: Evidence**

- For FY2020, the board approved operating expenditures of \$48,789,476 (Resolution 02/2020), an amendment to the budget originally adopted (Resolution 06/2019). The amendment was for additional revenues and expenses for D2A2, a new commuter express bus service jointly launched by AAATA and the Regional Transit Authority.
- FY2020 final operating expenses (before depreciation) are shown in the audited financials to be \$41,140,041, which is substantially less than FY2020 budgeted expense after service reductions and employee layoffs were necessary due to financial impacts of the coronavirus pandemic. Please see page 36 of the FY2020 audit. (Total operating expenses were \$47,927,283, including \$6,787,242 in depreciation expense. The adopted operating budget does not include depreciation.)

**EXECUTIVE LIMITATIONS POLICY 2.5.5.1:**

Allow cost overruns on capital projects.

**Degree of Compliance: Partial Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.5.1: Interpretation**

I interpret this policy to mean that I cannot spend more money on improvements to capital assets than the amount approved by the Board in annual budgets or budget amendments. Additional expenditures may be approved by the Board, if they see fit.

A capital asset is a significant piece of property typically having a one-time purchase price or ongoing leasing cost, and is distinct from ongoing operating costs such as labor, fuel, services, office supplies, training, etc. Examples of capital assets include land, buildings and their major mechanical components, vehicles and buses, sidewalks and bus pads, bus ways and changes to streets, bus shelters and street furniture, office furniture, tools, computers and in-field technologies, printers, etc. having a value greater than \$5,000. This does not include financial capital, such as money held in a bank account, which are covered under other policies.

I define an *improvement* to a capital asset as substantial change such as initial acquisition, construction, expansion, renovation, or replacement of facilities, vehicles, or equipment. I believe that the emphasis of this policy is on reducing the financial risk from overruns on large projects, such as bus purchases or facility construction, rather than smaller overages on routine purchases, such as replacing computers.

Capital projects, especially larger ones, often take multiple years to deliver after they are approved. Natural cash flow variances within the course of implementing a project can cause costs to occur earlier or later than originally expected without jeopardizing the final cost of the project. Such low-risk fluctuations are called “timing variances” and must be noted in this report.

I will also note that policy 2.11, adopted in 2020, establishes additional executive limitations that apply to certain capital construction projects, including construction of a new building or facility or a major renovation to an existing facility.

**EXECUTIVE LIMITATIONS POLICY 2.5.5.1: Evidence**

For FY2020, the Board adopted an amended capital budget with a program of projects totaling \$18,787,928 (Resolution 03/2020), adding \$800,000 in expenditures to install driver shields on the bus fleet as a mitigation to the pandemic. This was an addition to the capital budget originally adopted (See *FY2020 Operating and Capital Budget*, p. 24, Resolution 06/2019, and Resolution 07/2019, which established additional executive limitations upon major construction projects).

Following are actual expenditures and variances from the approved capital budget for FY2020:

### FY2020 Capital Budget and Expenditures

Category	Capital Program	Budget	Expenditure	Variance from Budget	Cost Overruns?
State of Good Repair	Large Bus Replacement	4,200,000	3,843,326	(356,674)	No
	Facilities Rehabilitation	2,360,000	1,049,781	(1,310,219)	No
	Small/Medium Bus Replacement	2,140,000	505,674	(1,634,326)	No
	IT Hardware and Software	1,542,777	901,279	(641,498)	No
	Bus Components, Tools, Equipment	820,000	56,423	(763,577)	No
	Architecture and Engineering	580,000	19,657	(560,343)	No
	Non-Revenue Vehicle Replacement	100,000	-	(100,000)	No
	Furniture Replacement	75,000	82,023	7,023	Yes
	Communications Equipment	19,000	54,948	35,948	Yes
Value Added	Rider Amenities/Accessibility	155,000	40,063	(114,937)	No
	IT Hardware and Software	199,550	150,667	(48,883)	No
Expansion	Ypsilanti Transfer Center Replacement	5,299,601	-	(5,299,601)	No
	Mobility Innovations	445,000	-	(445,000)	No
Research and Development	R&D Projects	52,000	-	(52,000)	No
COVID-19 Emergency	Driver Shields	800,000	402,646	(397,354)	No
<b>Total</b>		<b>18,787,928</b>	<b>7,106,487</b>	<b>(11,681,441)</b>	<b>No</b>

Expenditures were far lower than budgeted as many projects were deferred due to the pandemic, and funding was not secured for the Ypsilanti Transit Center.

This report is labeled as partial compliance because minor cost overruns occurred in two areas: furnishings and communications equipment. These overruns were immaterial to the overall capital budget and financial statements.

- **Furnishings:** This overrun is classified as a timing variance. With most administrative staff working remotely, the Facilities Manager was able to make progress on replacing furnishings that had been in use since the 1980s. Adequate grant funding from prior year authorizations was available to cover the expenditures.
- **Communications Equipment:** An Emergency Alert System was installed in the facility to enhance safety of personnel and alert police in the case of a significant threat, such as an active shooter. The overage for this project was due to the capitalization of project management and set-up costs which were anticipated as operating expenditures in the budget. As such, this doesn't represent a true overage on project costs, rather a variance in the accounting method.

**EXECUTIVE LIMITATIONS POLICY 2.5.6:**

Authorize contracts not anticipated in the current budget with a value greater than \$250,000.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.6: Interpretation**

I interpret this policy to mean that I must obtain Board approval for expenditures with a value greater than \$250,000 that are not specifically listed in the budget document. A list of authorized contractual expenditures was included in the FY2020 budget's appendices on page 39. I can authorize unbudgeted contracts valued at \$250,000 or below without additional approval by the Board. I can also accept revenue contracts (incoming funds) at any value without Board approval.

**EXECUTIVE LIMITATIONS POLICY 2.5.6: Evidence**

The following budgeted contracts valued at greater than \$250,000 were awarded in FY2020:

<b>CONTRACT DESCRIPTION</b>	<b>DATE AWARDED</b>	<b>VENDOR</b>	<b>AWARDED AMOUNT</b>	<b>BOARD APPROVAL OBTAINED</b>
Express Bus Service (D2A2)	January 1, 2020	Indian Trails, Inc., dba Michigan Flyer, LLC	\$1,710,000	Yes, adopted with budget
Snow Removal Services	November 8, 2020	Margolis Companies and RNA Facilities	\$545,000*	Yes, adopted with budget
Paratransit Fleet Upgrade	May 25, 2018 (State Contract)	Hoekstra Transportation and Mobility Works	\$1,030,058	Yes, adopted with budget
Communications and Marketing Services	April 1, 2020	Q+M and Gud Marketing	\$540,000*	Yes, adopted with budget
Insurance Brokerage and Consultant Services	March 1, 2020	Marsh USA	\$250,000*	Yes, adopted with budget
Unarmed Security Guard Services	April 1, 2020	Prudential Security, Inc.	\$978,751*	Yes, adopted with budget
Mobile Ticketing	July 2020	Masabi LLC	\$671,500**	Yes, adopted with budget

\*Amounts are based on 5-year contract term.

\*\*Amount is based on a 2-year contract term.

No unbudgeted contracts greater than \$250,000 were awarded in FY2020.

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**EXECUTIVE LIMITATIONS POLICY 2.5.6.1:**

Split purchases or contracts into smaller amounts in order to avoid the above limit.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.6.1: Interpretation**

I interpret this policy to mean that the staff and I cannot attempt to avoid the requirements of Policy 2.5.6 by splitting expenditures into smaller amounts less than \$250,000.

**EXECUTIVE LIMITATIONS POLICY 2.5.6.1: Evidence**

The Purchasing Manager found no purchases or contracts were split to avoid the requirements of this policy in FY2020.

There are instances where staff authorized contracts with multiple vendors, however total expenditures for the fiscal year did not exceed \$250,000. Examples are snow removal services, painting services, and marketing and communications services.

**EXECUTIVE LIMITATIONS POLICY 2.5.7:**

Operate without a reserve policy that covers near-term core operating expenses in case of funding shortages.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.7: Interpretation**

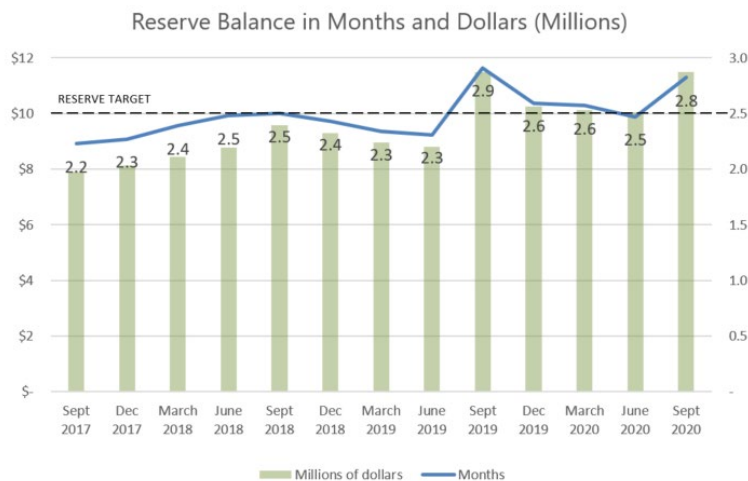
I understand this policy to mean that I must establish an administrative policy that identifies an appropriate level of operational reserve funding that would insulate the AAATA from financial disruptions or emergencies. Furthermore, this reserve fund must be fully funded and ready to be used if needed.

In the recent past, near-term core operating expenses was defined as unrestricted net assets available to support 2.5 months of normal operations. Retained “unrestricted net assets” comprise the “reserve fund.”

Staff and I have since determined that our reserve policy target should remain at 2.5 months of operating expenses available for operations. Research on public sector practices has confirmed that 2.5 months is a reasonable standard. It is my interpretation that we will be in compliance with this policy when AAATA’s quarterly financial statements demonstrate a reserve balance of at least 2.5 months of operating expenses quarterly for a period of one year.

**EXECUTIVE LIMITATIONS POLICY 2.5.7: Evidence**

According to the balance sheet as of September 30, 2020, AAATA ended FY2020 with a reserve balance of \$11.5 million, capital sufficient to support 2.8 months of operations. The reserve balance finished the year above the target of 2.5 months and has consistently been above this target for 12 continuous months for the first time in many years.





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**EXECUTIVE LIMITATIONS POLICY 2.5.8:**

Adjust tax rates assessed by the Authority.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.8: Interpretation**

Tax rates refers to local property taxes levied upon property owners who live in our taxation districts. The CEO must bring any fare or tax adjustments to the Board for approval. In Michigan, taxes may be changed only with signature of the Board Chair and Secretary on Michigan Form L4029. Tax proposals and renewals must be approved by governance bodies and voters.

**EXECUTIVE LIMITATIONS POLICY 2.5.8: Evidence**

Property tax rates were not adjusted in FY2020. The Board of directors last approved a rate change when the restoration rate of 0.7 mills was authorized in April, 2018 (Resolution 8/2018).

**EXECUTIVE LIMITATIONS POLICY 2.5.9:**

Acquire, encumber, or dispose of real estate.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.9: Interpretation**

I understand this policy to mean that staff are prohibited from purchasing or selling land, buildings or any other fixed physical asset without prior Board authorization. Furthermore, prohibited encumbrances include saddling real estate with debt or mortgages, leasing or selling rights to AAATA-owned property, and making encumbrances to real estate which would limit or restrict its use by the AAATA.

Specifically, this Policy applies to three real estate properties owned by the AAATA:

1. Dawn Gabay Operations Center
2. Blake Transit Center
3. Ypsilanti Transit Center

Should the AAATA need to acquire, encumber, or dispose of real estate, I understand this Policy to mean that the Board's approval would be required first. This policy does not apply to renting property, buildings or facilities needed to facilitate AAATA operations or implementation of Board policies.

**EXECUTIVE LIMITATIONS POLICY 2.5.9: Evidence**

The FY2020 Statements of Net Position (Annual Audit, p. 8, also Note 7, p. 20) demonstrate that there has been no change in the valuation of land and improvements (\$2,270,821 for FY2020 compared to FY2019.) This is evidence that no real estate was acquired or disposed of in FY2020.

Mortgages, leases, and land contracts are recorded at the Washtenaw County Clerk's Office. A search of the online register will find no such records to date for the Ann Arbor Area Transportation Authority. No properties were encumbered through leasing, mortgaging, or transfer of rights to other parties. All AAATA-owned real estate is available for the Authority's use.

**EXECUTIVE LIMITATIONS POLICY 2.5.10:**

Encumber the agency with financial debt without previous authorization from the Board.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.5.10: Interpretation**

I understand this policy to mean that I am prohibited from issuing bonds, which is the only legal form of debt financing available to AAATA under Act 55, without Board approval, or acquiring any other means of indebtedness such as bank loans on behalf of the Authority. I understand that this policy does not apply to trade payables or credit card expenses which are necessary transactions resulting from day-to-day operations and do not encumber the AAATA with debt.

**EXECUTIVE LIMITATIONS POLICY 2.5.10: Evidence**

Revenue Bonds: AAATA did not issue any bonds in FY2020. No Board resolutions approving the issuance of bonds occurred in FY2020.

Annual Audit: As a regular task during the financial audit, the auditor requires local banks to confirm the balance of all bank accounts reconciles with AAATA's financial statements. This confirmation also inquires about the existence of bank debt. No debt was reported in the FY2020 audited financials.

**EXECUTIVE LIMITATIONS POLICY 2.5.11:**

Adjust passenger fares.

**EXECUTIVE LIMITATIONS POLICY 2.5.11.1:**

Request authorization to adjust passenger fares without (a) incorporating the request into a budget or budget amendment for board consideration, (b) providing data that demonstrates the fare adjustment is fiscally responsible and aligned with achievement of the board's Ends, and (c) providing data that supports an informed decision by the board – including but not limited to clearly articulated information about the following:

- A. A clear listing of all proposed fare categories/types and prices, along with supporting information.
- B. The fare discounts to be provided for low-income residents and other vulnerable populations and rationale for how residents qualify for fare discounts.
- C. The impact of the proposed adjustment on equity among different fare categories.
- D. The implication of the proposed fare adjustment on ridership.
- E. The implications of the proposed adjustment on the authority's budget and the financial trade-offs required (e.g. tax rate increase/decrease, increased/decreased services, impact on reserve or deficit, etc.).
- F. Opportunities that users, residents, Legal Owners, and stakeholders had to provide feedback on the proposed fare adjustment, the nature of their feedback, and how their feedback has been addressed.

**Degree of Compliance: N/A**

**EXECUTIVE LIMITATIONS POLICY 2.5.11 & 2.5.11.1: Interpretation**

CEO interpretations to fare policy are under development and will be presented at a later time.

**EXECUTIVE LIMITATIONS POLICY 2.5.11 & 2.5.11.1: Evidence**

Monitoring is N/A as the fare policy as this new policy is still being interpreted by the CEO.

Current and proposed fares for the FY2020 budget were included in the adopted budget in Appendix 4, pp. 40-42, and remained unchanged. All current fares are available [at this page on the website](#). They do not deviate from the fares listed in the FY2020 budget.

**EXECUTIVE LIMITATIONS POLICY 2.5.11.2:**

Let the traveling public, residents and businesses be without reasonable advance notice of approved changes to fares.

**Degree of Compliance: N/A**

**EXECUTIVE LIMITATIONS POLICY 2.5.11.2: Interpretation**

CEO interpretations to fare policy are under development and will be presented at a later time.

**EXECUTIVE LIMITATIONS POLICY 2.5.11.2: Evidence**

Monitoring is N/A as the fare policy as this new policy is still being interpreted by the CEO.

## Monitoring Policy 2.5 Financial Condition & Activities

### Guidance on Determining “Reasonableness” of CEO Interpretations

The International Policy Governance Association has developed the following guidance for Board members to use in deciding whether a CEO’s interpretation is “reasonable”:

*An interpretation is deemed to be reasonable when it provides an operational definition which includes defensible measures and standards against which policy achievement can be assessed...*

*Defensible measures and standards are those that:*

- *Are objectively verifiable (e.g., through research, testing, and/or credible confirmation of observable phenomena.)*
- *Are relevant and conceptually aligned with the policy criteria and the board’s policy set.*
- *Represent an appropriate level of fulfillment within the scope of the policy.*

- *“What makes an Interpretation Reasonable and What are the Expectations for the Operational Definition: Policy Governance Consistency Framework Report Number 2”.* International Policy Governance Association. June 11, 2016. Available on the IPGA website.

### Board’s conclusion on monitoring report

The Board has received and reviewed the CEO’s Monitoring Report references above. Following the Board’s review and discussion with the CEO, the Board makes the following conclusions:

**Executive Limitations Report (select one)**

The Board finds that the CEO:

- A. Is in compliance.
- B. **Is in compliance, except for item(s) noted.**
- C. Is making reasonable progress toward compliance.
- D. Is *not* in compliance or is *not* making reasonable progress toward compliance.
- E. Cannot be determined.

### Board notes: (If applicable)

**The Board found the CEO to be (B) in compliance, except for item(s) noted at the February 18, 2021 AAATA Board Meeting.**