**Scope of Services for the VRE Management Audit**

**Introduction**

The Virginia Railway Express (VRE) is a service jointly owned by two transportation commissions: the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). Launched in 1992, the service has evolved from a startup project to the tenth largest commuter rail system in the country, currently transporting some 20,000 riders per day. To oversee the service, the commissions created an Operations Board (“the VRE Operations Board”) at the outset, consisting of appointees of the commissions’ member jurisdictions who are also members of one or the other parent commission. The commissions also delegated specified decision-making authority to the VRE Operations Board and, in the intervening twenty years, the VRE Operations Board has been delegated greater decision-making authority on an incremental basis.

VRE is an outsourced service – all train operations and maintenance is contracted out (presently to Keolis), and VRE trains operate on freight-owned trackage maintained by the freight railroads, dispatched by one of the two freight railroads (the CSXT Corporation). Contract management, customer service, service planning, engineering management, procurement, and specified other functions are performed by in-house staff, some of whom are dedicated to VRE service singularly while others are shared staff resources performing functions on behalf of VRE and other, commission-sponsored services / initiatives. In-house staffing levels have increased modestly over time, and some shifts have been made to increase staffing dedicated to VRE singularly as the scale of the operation has grown. The VRE service has also had a chief executive who reports to the VRE Operations Board since its inception, an at-will and contract employee.

Because VRE is a service jointly owned by the two commissions, not a legal entity, the commissions are the signatories to VRE-related contracts, and the commissions serve as grant applicants for VRE-related operating and capital grants – NVTC for state-sponsored grants and PRTC for federally-sponsored grants. As a recipient of both federal and state grants, the commissions and its VRE service has been the subject of customary grant compliance (and triennial) audits, and financial audits are done annually. To date, however, there has not been a management audit, so the present undertaking is a first-time venture. The firm retained to conduct this management audit will be expected to review the most recent round of customary, completed audits, and a recently completed audit conducted by the Commonwealth of Virginia’s Auditor of Public Accounts (which focused on VRE’s governance structure), “mining” these audits for insights about the VRE operation and practices.

The management audit will be overseen by a newly established VRE Joint Audit Committee (“the Committee”), a creation of the two commissions that is answerable to the two commissions. The Committee was established with the explicit intent of presiding over all the VRE-related audits, and recommending actions that audit results might indicate are warranted. In establishing the Committee, the commissions also explicitly directed that the Committee oversee this first-time, management audit. Accordingly, the Committee has been directly involved in fashioning the scope of services, which
envisions interviews with members of the Committee as another important source of insight about the VRE operation and practices.

A management audit is desired by the commissions because audits of this sort are a healthy practice for organizations to take stock of their current practices and the practices of other, comparable organizations to assess whether changes for the betterment of the organization are warranted and, if so, what form those changes might take. It is not motivated by a belief that anything is “broken”. And the commissions believe a management audit is timely now because the VRE operation has, in the course of its first twenty years, evolved from a startup project to the tenth largest commuter rail system in the country, during which time changes in practices have been made incrementally without a systematic examination of the operation in its entirety.

Because the management audit is not being instigated by anything perceived to be “broken”, the scope of services does not explicitly target subjects for management audit attention. Instead, the scope of services delineates a set of initial tasks that can be characterized as information gathering efforts necessary to fashion a set of initial findings, which will set the stage for determinations about specific subject areas warranting more in-depth work. Informed by the management consultant’s findings, the Committee will make recommendations to the commissions, and the commissions themselves will determine what more work is to be done. Because the scope of services is defined as described, proposers are being asked to formulate how the tasks that are specified will be performed, furnishing estimates of person hours by skill type and budgets for same, supplemented by hourly rates for follow-on work that the commissions decide they want to undertake, where the hourly rates for the follow-on work are differentiated by skill type, level of management experience, etc.. All such follow-on work will be performed on a task order basis, with each task order negotiated by the parties.

To more fully inform would-be proposers of what they would be examining during the course of the initial tasks, a listing of the recently completed audits can be found in attachment one. That listing constitutes a part of the initial fact-finding. In addition to those audits, proposers should anticipate the need to review “governance” documents related to the VRE service, because the “governance” documents are a source of further insight about current practices and why they are as they are. That said, proposers should understand that the management audit is not intended to be an assessment of governance. “Governance” documents that are to be examined are appended (attachment two), namely:

- The VRE Master Agreement
- The VRE Bylaws
- A document describing the delegation of authority from the commissions to the VRE Operations Board;
- An organization chart; and
- The current year VRE budget.
Detailed Work Plan for the Management Audit

Task 1

Interview Committee members to gain a good understanding of the various issues, perspectives, objectives.

Task 2

Review organizational structure of VRE including the duties performed by employees in the VRE structure and duties performed by others. Review the Master Agreement sections related to the VRE functions and processes. This task is not an assessment of governance, but could include a review of governance structure to better assess the organizational structure and duties performed within the VRE organizational structure.

Task 3

Review the audits that are done on a routine basis to judge what other areas might be useful to evaluate. Since audit and reporting activities consume a significant amount of staff resources, any additional audits should be considered carefully defined to target areas not already well covered.

Task 4

Review the APA report and provide the Committee with an assessment of the Key Points presented in the report and recommend actions relative to each.

Task 5

Internal controls are achieved by establishing a framework of processes that help ensure achievement of operational objectives as well as proper reporting and compliance. The recently completed APA report included suggestions related to internal control frameworks, specifically referencing the work done by the Committee of Sponsoring Organizations (COSO) in this regard. Following the review of VRE’s internal structure and relationship of the Operations Board and Commissions, the consultant should assess and recommend enhancements to internal control processes.

Follow-on Tasks

There will likely be other issues the commissions will want to explore in more detail. The consultant will be available to undertake a reasonable number of these additional topics.
Procurement Approach

This is a competitive procurement and individuals or firms with the following characteristics are encouraged to propose:

1. Expertise and experience with public management audits and more particularly experience with public transportation or rail and multi-jurisdictionally-sponsored services.

2. Excellent listening skills and demonstrated adaptability to allow the “flow” of the work once it begins to shape the conduct of the ensuing work. This is not a “cookie cutter” engagement and we don’t want a formulaic approach.

3. Well acquainted with the industry and industry experts, who can advise on possible peer review candidates if the management audit findings indicate that peer reviews would add value, and help us arrange for their engagement.

4. Possess intimacy with public transportation governance practices (especially with rail and multi-jurisdictionally-sponsored services), and an appreciation for knowledge and know-how required to function effectively in a board capacity.

Proposers are to submit proposals by no later than noon on ___(date)___, conforming in terms of required content with the proposal specifications appended here as attachment three. Proposals will be evaluated by a senior management team employing the following initial evaluation criteria, leading to a short listing of proposers that are in the competitive range based on the initial evaluation:

1. Project manager’s experience 20%
2. Proposal team’s experience 20%
3. Proposal team’s approach 20%
4. Cost for specified tasks 20%
5. Hourly rates for follow-on work 10%

Note that the criteria for the initial evaluation totals 90%; the remaining 10% is reserved for the final evaluation, which will be done after interviews of the short-listed firms conducted by the same senior management team in conjunction with the Committee. A “selection” recommendation will be made to the VRE Operations Board, which will be asked to concur in the recommendation and advance it to the commissions for authorization to award. The procurement schedule as now envisioned is appended here as attachment four.
Attachment One

Recent Audits

Scheduled

- Audit of financial statements - includes consideration of internal control over financial reporting, and A-133 single audit of compliance with federal requirements (portion conducted at VRE). Done annually.

- VDRPT audit – compliance with broad range of state requirements, including following grant instructions and requirements, record-keeping, documentation, and policies and procedures. Every three years.

- FTA triennial review - compliance with broad range of federal requirements, including financial and administrative capacity; maintenance of assets and asset records; procurement methods, policies and recordkeeping; adhering to ADA, EEO and Title VI rules; safety and security plans and programs. Every three years.

- FRA review of yards – maintenance and storage of equipment, operating rules and procedures, etc. Every three years.

- APTA Security (on behalf of the FRA) – threat and vulnerability assessment. Every three years.

Unscheduled

- FTA – Financial Management Oversight review – conducted to review railcar purchases and other aspects of PRTC/VRE financial management. FY 2010

- FTA – ARRA review – specific focus on the use of Recovery Act funds (several years ago)

- DHS desk audits – specific focus on the use of FEMA/Homeland Security grants.

- APA governance review.

- DRPT special review – early 2012

- Compensation study – FY 2013
# Audit Matrix

<table>
<thead>
<tr>
<th>Areas Covered:</th>
<th>Annual</th>
<th>Triennail</th>
<th>Unscheduled</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A-133 Single Audit Report</td>
<td>DRPT Triennial</td>
<td></td>
</tr>
<tr>
<td>Financial Statements</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Controls</td>
<td>x</td>
<td>x</td>
<td>x x</td>
</tr>
<tr>
<td>Compliance w/Federal Requirements</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Compliance w/State Master Agreement</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance w/FRA Procedures</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Governance</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Employee/Org Improvement</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management of Resources</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: 'x' indicates that the area is covered in the respective time frame.*
Attachment two

Governance Documents

- The VRE Master Agreement
- The VRE Bylaws
- Delegation of Authority: Board Item 8B-11-2007
- The VRE Organizational Chart
- FY 2014 VRE Budget