



# METRO

## CAPITAL PROJECT EXPENDITURE CONTROLS AUDIT (19-07)

Terry Follmer, VP of Internal Audit

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## EXECUTIVE SUMMARY

As part of our Fiscal Year 2019 Internal Audit Plan approved by the Capital Metro Board, we performed an audit on the Capital Project Department's expenditure control process to determine whether the department has sufficient internal controls to prevent and detect errors and/or irregularities in capital expenditures and ensure compliance with applicable contract terms. The audit results including the objective, scope, and conclusion are as follows.

## Background

The Capital Projects Department has 12 employees (1 vice president, 8 project managers, and 3 project controls staff) who manage capital projects and construction activity with the goal of building, improving, or maintaining CMTA's capital assets. Over the last 4 fiscal years, the department managed 30 capital projects with expenditures totaling \$57 million.

The four largest capital projects were: TIGER V Rail Infrastructure Improvements, Downtown Station Improvement, Westgate Transit Center Park and Ride, and MetroRapid. The department also jointly led the project management aspects of CapRemap. See Appendix A for all capital projects managed by the department in the last four fiscal years.

### **Definition of Project Management**

According to the Project Management Institute (PMI), project management is defined as the application of knowledge, skills, tools and techniques to a broad range of activities in order to meet the requirements of a particular project. The project management process includes 5 phases: initiation, planning, execution, monitoring, and closing.

A Project Manager (PM) from the Capital Projects Department and Contract Administrator(s) (CA) from the Procurement Department are assigned to every project. The PM is responsible for overseeing the project and ensuring work is completed and the CA is responsible for overseeing contract management and ensuring expenditures are in compliance with contract terms. Three of the variables that each PM must manage on projects is cost, schedule, and scope. Increases in scheduled time and scope usually have a negative impact on costs. Most PM's have a Project Management Professional (PMP) certification issued by the Project Management Institute (PMI) and the department has adopted the PMI standards as their best practices.

The Capital Metro Board of Directors (Board) approves all contracts over \$150,000 and the 5-year Capital Improvement Plan (CIP). As an additional control, CMTA established an internal EPPM Steering Committee (Steering Committee) to provide oversight to the 5-year CIP portfolio. The Steering Committee is comprised of members of executive management including the Chief Financial Officer, Chief Operating Officer, and various Vice Presidents, and approves changes to project budget, schedule, and scope that occur before and after it has been approved by the Board. The approvals are documented on the Change Request form and this process provides checks and balances on changes and helps keep the project on track. The committee also provides overall support, process expertise, and guidance to PM's.

In March 2019, PM's started tracking and managing projects using a new, cloud-based, Enterprise Project Portfolio Management (EPPM) tool that integrates different systems such as Microsoft Project Online and Microsoft Dynamics AX Accounting System (AX) and centralizes all CMTA's capital projects

data in one location. This initiative was started in 2014 by the VP of Capital Projects and carried out and implemented by the Information Technology and Office of Strategic Management Departments to help manage and standardize the project management process. Prior to EPPM, projects were managed manually using Budget Tracking Excel spreadsheets and Capital Project Profiles instead of Microsoft Project Online as part of the EPPM tool which made it difficult to capture summary status data of all ongoing capital projects. Staff had to manually reconcile the Budget Tracking Excel spreadsheet back to AX, however, with the new EPPM tool, expenses in AX are automatically integrated into EPPM. EPPM spans across all departments at CMTA that manage capital projects.

PM's review and approve project expenses using an automated workflow process within the accounting system AX. First the Accounting department receives and enters the invoice into the workflow, then the project manager and VP of Capital Projects review and approve, and lastly the CA within the Procurement department reviews and completes the final approval so that payment can be made to the contractor. Each reviewer has a 3-day deadline to approve, otherwise the task is automatically escalated to their supervisor. This helps ensure that invoices are approved for payment within the 30 days allowed by law through the Texas Prompt Payment Act – Texas Government Code 2251.021(b).

## **Audit Objective & Scope**

The primary objective of this audit was to determine whether CMTA has sufficient internal controls to prevent and detect errors and/or irregularities in capital expenditures and ensure compliance with applicable contract terms. The scope included assessing key controls in the project management process and testing a targeted selection of expenditures for the Downtown Station Improvement project for policy and contract compliance.

## **Opinion**

We identified several internal controls that require improvement and made the following recommendations:

- The Capital Projects Department and the Authority as such should adopt the formalized policy on when PM's need to obtain Steering Committee approval that is being developed as part of the EPPM tool. This should include the implementation of a formal steering committee charter.
- PM's should ensure that they obtain all of the required committee approvals and signatures for changes to projects, utilizing the new eSign system.
- PM's should monitor contractor invoices and ensure they are in the contractually required format so they can easily verify rates and work completed.
- The Capital Projects Department should ensure that all projects utilize the new EPPM tool that includes all PMP elements.
- The Capital Projects Department should develop formalized policies and checklists for the department's key controls, add these to the *Capital Metro Capital Projects Group Policies and Procedures* guide, and provide the guide to department staff.

This audit was conducted in accordance with the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditor's International Professional Practices Framework (IPPF). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable

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basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was conducted by the following staff members in the Capital Metro Internal Audit Department:

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

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

We appreciate the cooperation and assistance provided to us throughout this audit.

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>1. <u>LACK OF CRITERIA AND REQUIRED APPROVALS FOR PROJECT CHANGES</u></b></p> <p>The Capital Projects Department and the Authority as a whole utilize an EPPM Steering Committee to govern capital projects and approve changes on board-approved projects. However, we found inconsistencies in how PM’s handled project changes and there was no formalized policy on when PM’s needed committee approval. Additionally, after reviewing all of the changes to the Downtown Station Improvement project, we found that 16.7% (1 out of 6) were missing 2 out of 11 committee member approval signatures and the change affected the project’s schedule, scope, and budget in the amount of \$10,000.</p> <p>According to management, they are already in the process of formalizing the EPPM Steering Committee policy and are taking an additional step to automate the process and include it in the new EPPM tool so that all project changes are in a centralized location. Starting in 2019, project changes need EPPM Steering Committee approval if they are over \$150,000, delay the project schedule by 3 months or more, or necessitate steering committee approval. Additionally, the authority implemented an electronic approval system called eSign in 2019 to make it easier for PM’s to obtain all committee member signatures instead of having to physically track members down.</p>	<p>The VP of Capital Projects should develop the following internal control enhancements:</p> <ul style="list-style-type: none"> <li>a) The Capital Projects Department and the Authority as such should adopt the formalized policy on when PM’s need to obtain Steering Committee approval that is being developed as part of the EPPM tool. This should include the implementation of a formal EPPM Steering Committee charter.</li> <li>b) PM’s should ensure that they obtain all of the required committee approvals and signatures for changes to projects, utilizing the new eSign system.</li> </ul>	<p>Management agrees with the recommendations.</p> <p><b><u>Target Completion Date:</u></b></p> <p>10/31/2019</p>

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>2. <u>INVOICE SUPPORT NOT IN ACCORDANCE WITH CONTRACT REQUIREMENTS</u></b></p> <p>CMTA contracts require contractors to submit detailed invoices with a breakdown of staff positions, rates, hours, percentage complete, etc., and even provide an example of the required format in an exhibit at the end of the contract. This detail helps PM’s review project expenses and ensure work is completed in accordance with the contract. We reviewed a targeted selection of 15 invoices that totaled \$415,551 for the Downtown Station Improvement project and found 7% (1 out of 15) of the invoices were not in compliance with the contractually required invoice format and didn’t list the specific staff position or percentage complete for the work completed. This information was important because the contract listed different rates for different staff positions. While multiple departments were involved in the approval process, the Capital Projects Department PM did not notify the contractor that they needed to submit more detailed invoices as required by contract terms but did verify that the work was completed.</p>	<p>The VP of Capital Projects should develop the following internal control enhancements:</p> <p>a) PM’s should monitor contractor invoices and ensure they are in the contractually required format so they can easily verify rates and work completed.</p>	<p>Management agrees with the recommendation.</p> <p><b><u>Target Completion Date:</u></b></p> <p>10/31/2019</p>

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>3. <u>FULL PROJECT MANAGEMENT PLAN NOT USED ON ALL PROJECTS PRIOR TO 2017</u></b></p> <p>The Capital Projects Department uses a Project Management Plan (PMP) to summarize and help plan each project’s unique scope, budget, schedule, project risk, quality control, safety, communications, resource requirements, etc. According to the Project Manager’s Book of Knowledge (PMBOK), the PMP is the project managers road map and guiding document and probably the single most important document for the project manager. While all projects had a scope, schedule, budget, and project profile, we found that smaller projects initiated before 2017 did not have a full PMP to help guide PM’s and help them see the big picture. Full PMP’s were only created for large, federally funded projects to comply with grant requirements.</p> <p>According to management, the authority started taking steps towards standardizing the project management planning process in 2017 with a workbook spreadsheet that contained all components of a PMP and then in 2019 with the new EPPM tool that also utilizes all elements of a PMP electronically, regardless of funding sources. State and Federally funded projects still have unique PMP requirements that must be completed in addition to the CMTA EPPM system.</p>	<p>The VP of Capital Project should develop the following internal control enhancement:</p> <p>a) Ensure that all projects utilize the new EPPM tool that includes all PMP elements.</p>	<p>Management agrees with the recommendation.</p> <p><b><u>Target Completion Date:</u></b> 10/31/2019</p>



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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p><b>4. <u>LACK OF CURRENT FORMALIZED POLICIES &amp; PROCEDURES</u></b></p> <p>The Capital Project Department regularly manages long-term, high dollar, complex projects, and generally has strong controls in place. However, we found that the following three key controls lacked specific definition for how and when they should be completed and were not formalized in writing to ensure all PM’s consistently followed them:</p> <ul style="list-style-type: none"> <li>• Construction site visits</li> <li>• Contractor progress/update meetings</li> <li>• Acceptance certificate</li> </ul> <p>Additionally, we found that while the department had a <i>Capital Metro Capital Projects Group Policies and Procedures</i> guide in place, it had not been updated since 2008. Procedure guides are important because they set clear expectations for performance, help train new staff, and provide standardized templates, checklists, and guidance on day-to-day administration tasks for the entire project life cycle.</p> <p>According to management, the authority started taking steps towards standardizing the project management planning process in 2017 with a comprehensive workbook spreadsheet and then in 2019 with the EPPM tool that defines and controls all capital project processes from initiation through execution, implementation, and close out. EPPM incorporates and automates key controls into the</p>	<p>The VP of Capital Project should develop the following internal control enhancements:</p> <ul style="list-style-type: none"> <li>a) Develop formalized policies and checklists for the department’s key controls, add these to the <i>Capital Metro Capital Projects Group Policies and Procedures</i> guide, and provide the guide to department staff.</li> </ul>	<p>Management agrees with the recommendation.</p> <p><b><u>Target Completion Date:</u></b></p> <p>12/31/2019</p>

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<i>Issues &amp; Risk</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
Microsoft Project Online portion of the tool. Additionally, the department assigns each new PM to a senior PM who mentors them on project and administrative requirements.		

## Appendix A

Capital Projects Department Projects Managed from October 1, 2015 - June 30, 2019 (Approximately 4 Fiscal Years)				
Number	Project Number	Name	Total Expenditures	Percent of Total Expenditures
1	RRC1407	TIGER V Rail Infrastructure Improvements	\$ 28,260,187.25	49.55%
2	CPG1516	Downtown Station Improvements funded by TxDOT	\$ 7,063,553.37	12.38%
3	CPG1605	Westgate Transit Center Park and Ride	\$ 4,036,987.73	7.08%
4	CPG1704	MetroRapid - Additional Stations for 801 and 803	\$ 2,624,451.04	4.60%
5	CPG1503	Lakeline Additional Parking	\$ 2,194,071.84	3.85%
6	CPG1713	Double Tracking-NBFR to Plaza Saltillo	\$ 2,122,282.87	3.72%
7	CPG1805	Connections 2025 - New Bus Stops	\$ 1,756,746.54	3.08%
8	CPG1521	MetroRapid Project	\$ 1,350,871.71	2.37%
9	RRC1604	North Operations Improvements to Accommodate New Rail Cars	\$ 1,071,822.30	1.88%
10	CPG1602	North Operations SERTA Demolition/Paving	\$ 869,832.48	1.53%
11	CPG1803	Administrative Office Lease Space	\$ 852,848.91	1.50%
12	CPG1808	Operations Control Center	\$ 776,394.31	1.36%
13	CPG1518	Bus Stop Signage	\$ 756,512.51	1.33%
14	CPG1522	Bus Stop Accessibility Improvements	\$ 699,643.11	1.23%
15	CPG1712	Downtown Station - Storm Water Improvements	\$ 616,733.54	1.08%
16	CPG1502	Howard Lane Parking Spaces	\$ 475,265.82	0.83%
17	CPG1520	Bus Shelters	\$ 304,812.37	0.53%
18	CPG1706	South Congress Transit Center Parking Expansion	\$ 251,067.91	0.44%
19	CPG1517	Bus Stop Litter Containers	\$ 176,925.00	0.31%
20	CPG1607	Facility Improvement Projects	\$ 174,265.47	0.31%
21	CPG1902	Bus Stop Enhancements	\$ 134,399.11	0.24%
22	CPG1417	Rail Maintenance Floor Deflection	\$ 77,261.29	0.14%
23	CPG1807	Office Space Re-Configuration (Headquarters Facility)	\$ 61,562.15	0.11%
24	CPG1501	Bus Stop Improvements - Rebranding Effort Upgrades	\$ 58,882.40	0.10%
25	CPG1519	Bus Benches	\$ 58,621.36	0.10%
26	CPG1412	Rail Maintenance Building Drainage	\$ 57,976.47	0.10%
27	CPG1715	North Operations Rail Maintenance Facility Light Replacement	\$ 56,075.96	0.10%
28	CPG1903	North Lamar Mobility Hub - Engineering	\$ 47,806.24	0.08%
29	CPG1413	Rail Maintenance Building Ventilation System	\$ 32,131.69	0.06%
30	CPG1409	North Lamar Transit Center Facility Enhancements	\$ 17,890.00	0.03%
<b>Grand Total:</b>			<b>\$ 57,037,882.75</b>	<b>100%</b>