UTA

INTERNAL AUDIT

Capital Projects Process Preliminary Assessment Follow-Up Report

R-20-07

May 15, 2023

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action[1]	For Information	Reviewed prior to release
Executive Director		*	*
Chief Operating Officer		*	
Chief Financial Officer		*	
Chief Development Officer	*		
Director of Capital Assets and Project Controls	*		
Records Manager			*

[1]For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.

Executive Summary

Introduction

In 2020 the Executive Director requested Internal Audit (IA) perform an audit to determine if controls over capital projects are designed adequately and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives. The preliminary assessment phase was concluded on January 27, 2021.The audit phase was concluded May 3, 2023, and was conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors.

Background and Functional Overview

The Capital Development Department ("CD") falls under the Chief Service Development Office and is headed by the Director of Capital Assets & Project Controls. Capital projects refers to activities that will be capitalized and not expensed using Governmental Accounting Standards Board ("GASB") Enterprise Fund Accounting. UTA's capital program is grouped into several main program or project categories. Categories include:

- Capital Projects
- Transit Oriented Development ("TOD")/Property
- Asset Management
- Operational Projects
- Information Technology
- Public Safety
- Safety and Security
- Special Projects Category

Categories may contain projects that may be discrete, one-off project efforts or they may be more long-term, ongoing programmatic efforts. Projects are typically funded through UTA dedicated tax revenues, federal grants, bonding, state and local contributions, and public-private partnerships.

CD is responsible for a portfolio of planning, project development, engineering, environmental approvals, quality and construction oversight and project/program monitoring and reporting. CD works with Finance to determine available capital funding and develop project/program funding strategies across all categories of the program.

CD is also responsible for development and delivery of the annual capital budget and five-year capital plan. These plans are developed through funding requests received from UTA business units. The requests are then reviewed, prioritized, and approved by the Executive Team with ultimate approval being given by the Board of Trustees. Projects with a construction component will generally have a multiple year time horizon from proposal to completion.

Objectives and Scope

The period of the audit focused on capital projects that were submitted for approval between January 1, 2022 to December 31, 2022.

The primary areas of focus for the budget management assessment were:
- Follow-up on recommendations from the preliminary assessment
- Changes in governance

IA reviewed internal policies and procedures, interviewed the project control specialist and Capital Development department leadership, and examined project documents to understand what changes were made in response to the preliminary assessment to the processes and internal controls relevant to capital projects.

Summary

IA noted in the preliminary assessment numerous opportunities to implement stronger central and authoritative oversight of the capital program and program of projects. UTA would benefit from a more organized and disciplined approach for Executive leadership to evaluate all aspects of project proposals, instruct project managers on responsibilities and best practices, and monitor project budgets and progress.

Action plans from the preliminary assessment were in various stages of completion – see Appendix B for details. While this report emphasizes continuing progress on previous action plans and recommendations for improvement, we also noted improvements to controls and various strengths and accomplishments within the capital program process. For example, the Capital Development department has hosted regular Capital & Finance Coordination Working Lunches to educate UTA's managers about the changes to the Capital Projects request and application process. Capital Development is also currently finalizing their work on the Capital Budget Request Manual which will help to provide future guidance for the entire capital assets development process. IA appreciates the assistance offered by the Capital Development department in completing this audit.

Attachment A: Details of Recommendations

| Audit Finding R-20-07-01 Project Requests	Risk Level: Not Applicable

No Additional Findings or Recommendations were made in this phase.

Attachment B: Status of Preliminary Assessment Recommendations

Preliminary Assessment Finding R-20-07-01 Project Requests	Risk Level: Medium

Management Response and Action Plan:
Estimates for smaller projects or programmatic activities like bus stop replacements, rail infrastructure and rail system projects are typically based on recently completed or similar projects. These projects and programs of projects typically have seasonal construction schedules. Detailed estimates and cash flow can quickly be generated.
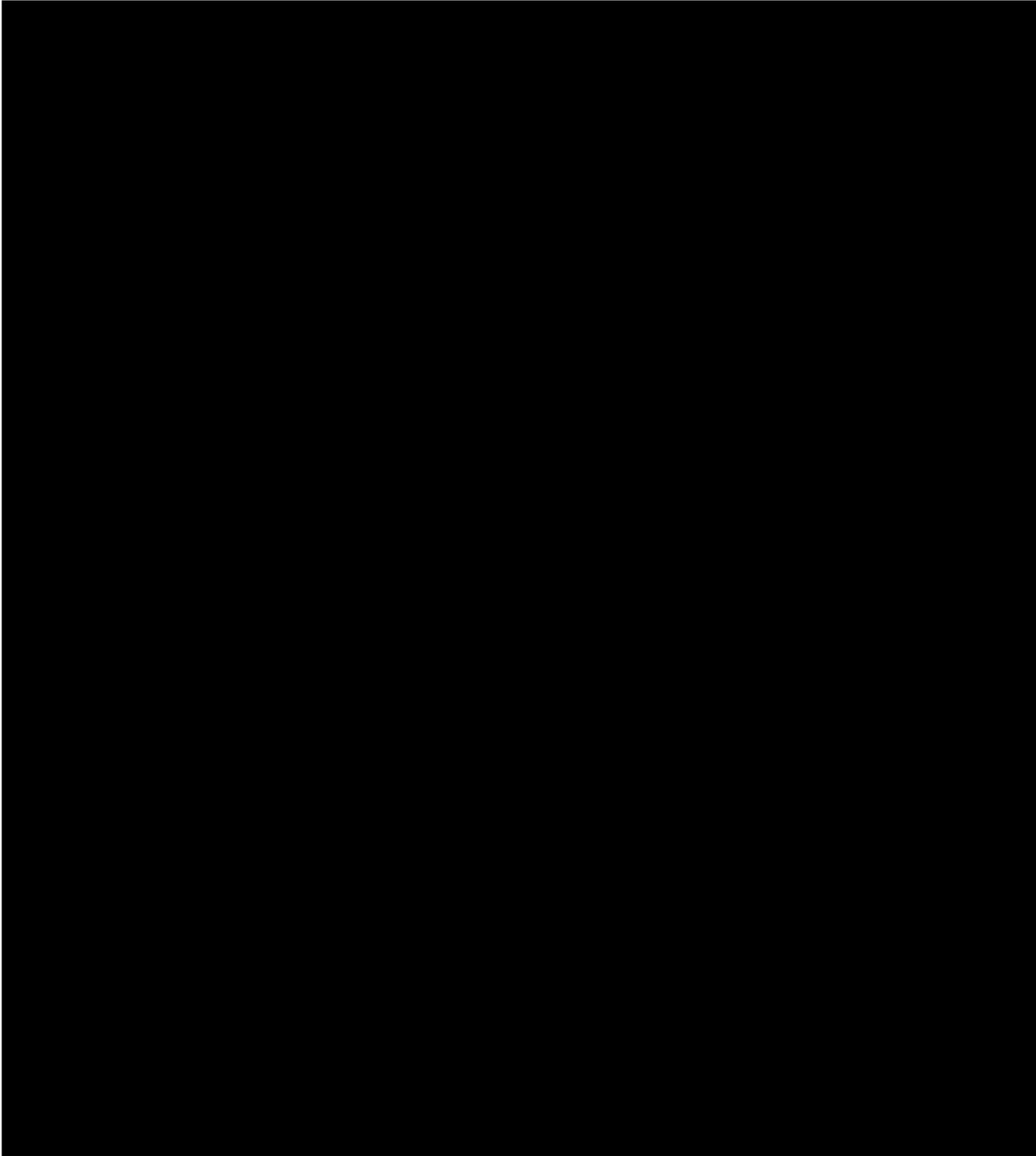
[███]

<u>Phase 1- Initial Request</u>
Phase 1 is intended for project managers to supply enough information to allow a project to be evaluated up to project approval. We will make use of the Laserfiche forms with some minor revisions to the current Initial Project Request Form. Revisions include:

[█████████████████████████████████]

- o Add in the Desired Project Timing field

Initial project request forms will require an additional review from the department Chief for submission.

Phase 2- Approval Pending- Detailed Capital Budget Request Form
[███████████████████████████████████████]
[██████████████]

[███████████████████████████████████]

Phase 3 will consist of the project aging process where the project managers can define the lifecycle phases of the project and establish baselines for project schedul [████████████████]
[██████████████]

Target Completion Date: Phase 1 and 2 by June 1, 2021, and Phase 3 will be addressed [████]
[████████████████████████████████████]

Current Status:
Pending remediation

<u>Phase 1- Initial Request process and form updates</u> – Management added fields to the Initial Project Request Form that indicate whether the project is an existing or new project; as well as providing information regarding the anticipated timeframe for the project to be completed. This phase of the Action Plan is completed.

Phase 2- Approval Pending- Detailed Capital Budget Request Form – Management added fields to the Initial Request Form where the procurement method and advertisement date can be provided. This phase of the Action Plan is also completed.

Phase 3 will consist of the project aging process – Pending; see finding 3 below.

Preliminary Assessment Finding R-20-07-02 Project Prioritization	Risk Level: Low

Details:
- Project proposals are evaluated and selected by Executive leadership. This is performed through an organized approach with clear authority.
- There is not a formal set of criteria to evaluate project proposals. Projects are selected on perception of need and the availability of funds. This approach could lead to subjective selections, whether by perception or actuality. Greater transparency would be achieved by defining selection criteria.

Criteria:
Not Applicable.

Underlying Cause:
Not Applicable.

Inherent Risks:
- Improper prioritization of projects.
- Unnecessary projects are approved.
- Approval might be based on favoritism or pet projects.
- Carryover projects not re-prioritized against new requests.

Recommendations:
- IA recommends that Management develop standardized and objective criteria for evaluating and prioritizing capital project proposals.

Management Response and Action Plan

Management will develop an overall process for project development and selection. This will be done as an Agency SOP. Agency SOP will ensure criteria is designed to support agency goals and objectives as well as legal requirements, safety consideration, and mitigate risk.

The updated TAM & SGR policy recently adopted outlines a framework that could be applied similarly to the overall process.

Target Completion Date:
October 1, 2021

Current Status:
Closed

Management chose to incorporate the process and project selection into the Capital Budget Request Manual rather than creating a new policy and SOP; see finding #3 below. The issue is closed.

Preliminary Assessment Finding R-20-07-03 Project Management Policy	Risk Level: High

██
██
██

Criteria:
Not Applicable.

Underlying Cause:
Not Applicable.

██
██
██

Recommendations:
- IA recommends that agency standard operating procedures be developed to establish practices of project management applicable to all departments. Guidance should be based on an existing standard, such as the Project Management Book of Knowledge or FTA project requirements, and should cover topics including, but not limited to, developing project budgets, tracking, reporting project costs and project progress, contractor oversight, and quality assurance.

Management Response and Action Plan:

Management will review the items referenced above and generate a Project Management SOP library for different elements related to the principles in the documents. The main document of focus will be the FTA Project and Construction Management Guidelines- 2016 (which is the current version) and will be supplemented by principles from the other documents as deemed appropriate.

Management will look to utilize the services of its new Project Management Services Consultants to fulfill much of this requirement.

Management will also evaluate whether a formalized training module is necessary for the Project Managers outside of the mentioned SOP's outlined above. As part of that evaluation, management will review the existing videos available through the LMS and Skillsoft website to see how they would fit into this overall process.

Target Completion Date:
December 31, 2021

Current Status:
Pending remediation

Management is currently developing the Capital Budget Request Manual which will guide the process of making annual capital budget requests. IA reviewed the current draft of the manual and currently has no additional recommendations.

	Risk Level: Medium

Preliminary Assessment Finding R-20-07-05 Progress Reporting   **Risk Level: Medium**
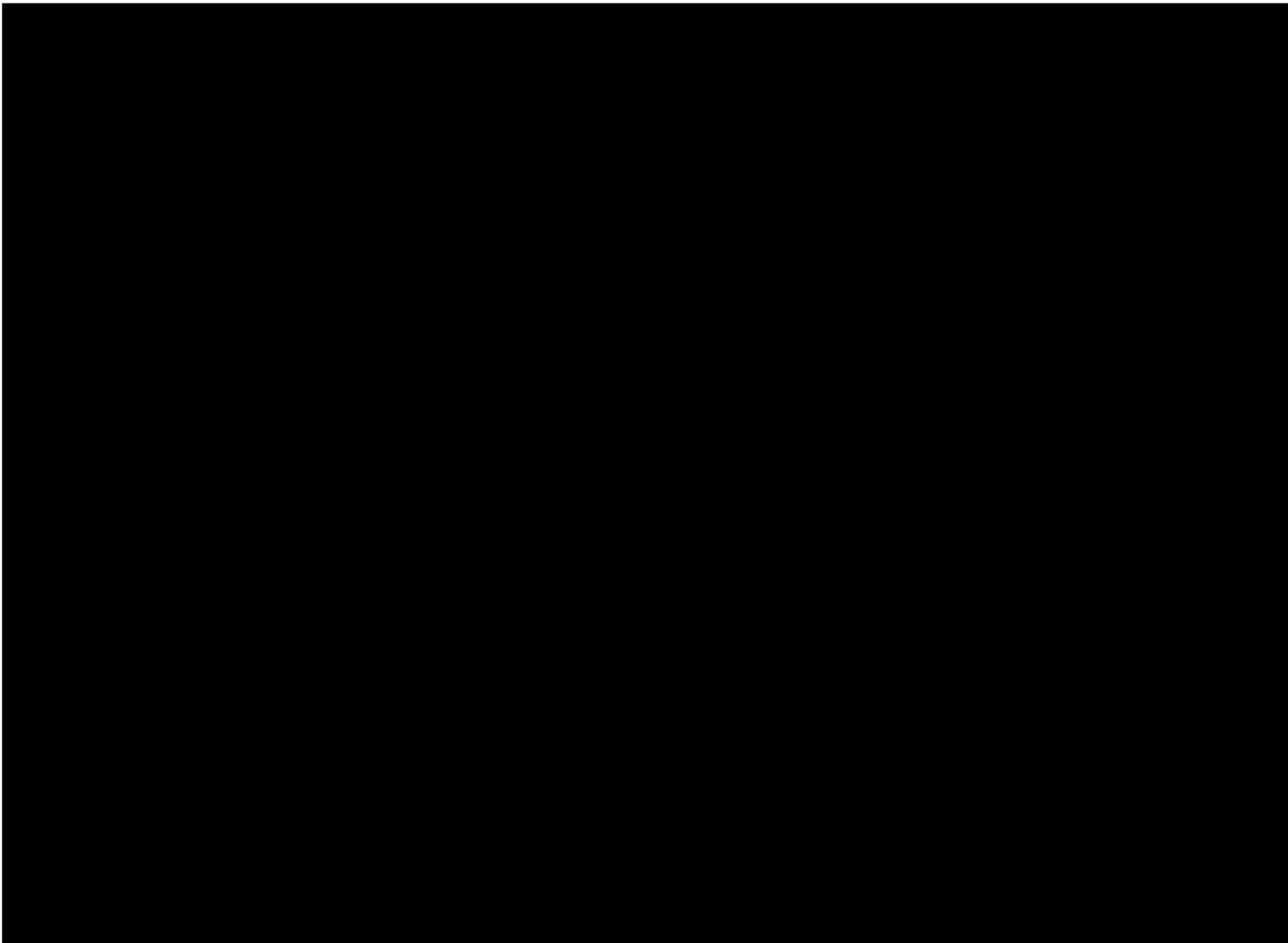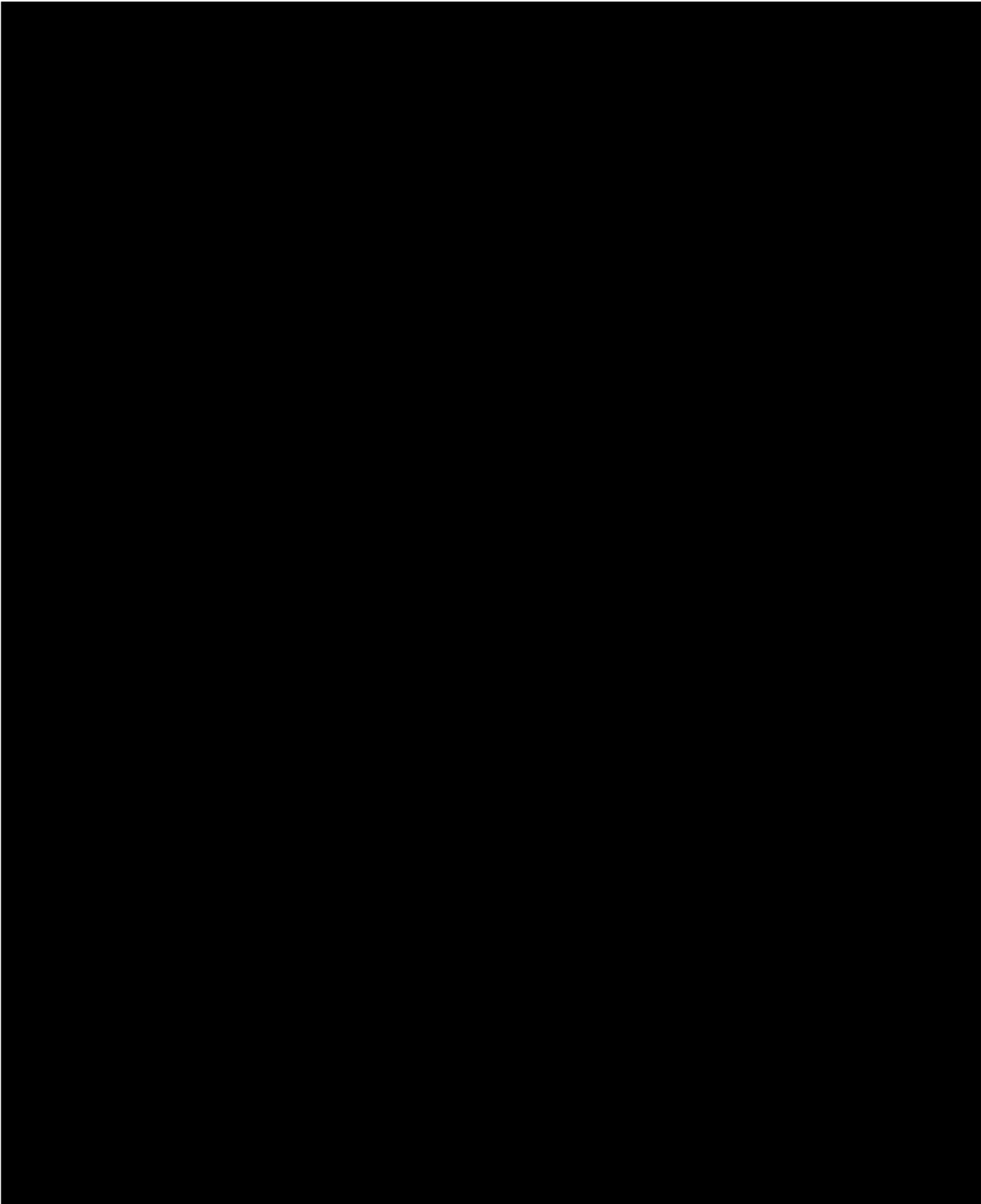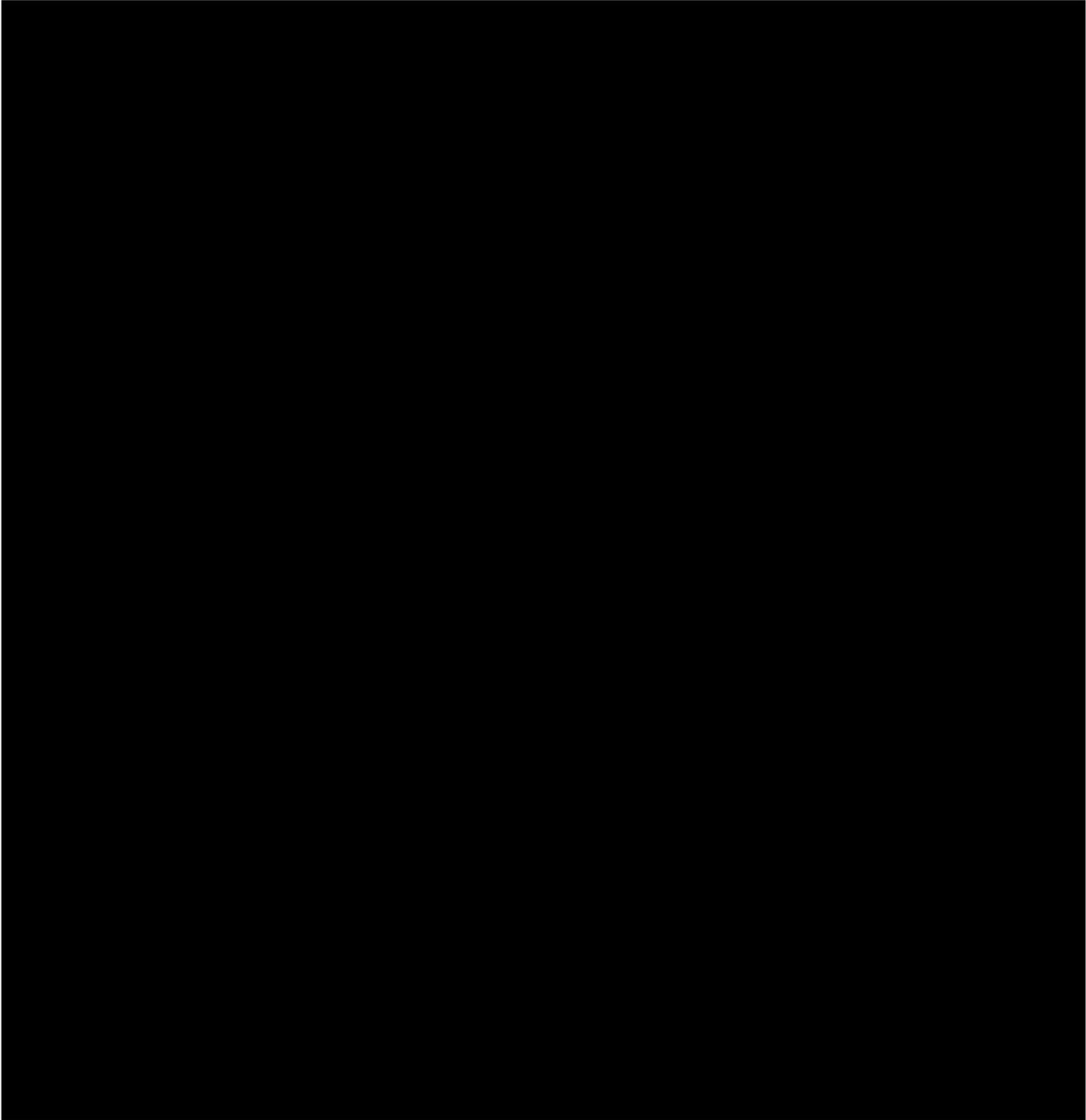
Target Completion Date:
12/31/2021

Current Status:
Pending remediation