Capital Projects Management Assessment

Governance & Audit Report No. 2021-3

Report Issued September 1, 2021

EXECUTIVE SUMMARY

Background

The FY 2021 Internal Audit Work Plan approved by the Governance and Audit Committee included a Capital Projects Management assessment.

IndyGo's updated Capital Plan totals nearly $600 million for 2019 to 2025. These planned investments include bus rapid transit projects, rolling stock, infrastructure, facilities, IT, finance, safety and training projects. There are over 35 capital projects currently underway. Capital asset additions $32.4 million in fiscal year 2020.

Our assessments are performed in accordance with the professional practice standards of the Institute of Internal Auditors. This report was prepared for use by IndyGo's Board of Directors, Governance and Audit Committee, and management.

Objective and Scope

- Obtain an understanding of IndyGo's processes and controls related to managing Capital Projects.
- Review key processes and test selected transactions, related to:
  - Project roles and responsibilities
  - Contract amendments and change orders
  - Invoices and payments
  - Labor and non-labor charges
  - Subcontractors
  - Insurance coverage
  - Performance bonds
  - Technology
- Assess the effectiveness of the design and operation of internal controls
- Identify potential opportunities for process and control improvements or revenue enhancement.

Overall Report Rating & *Observations*
(See Appendix A for definitions)

	Report Rating	Number of Observations by Rating		
		High	Medium	Low
Capital Projects Management	**Medium**	**2**	**0**	**2**

Overall Summary and Review Highlights

IndyGo's Planning and Capital Project Department is responsible for the design and construction of all capital projects. We selected varying types and sizes of projects for our review. These included the following:

Type	Project	Provider
Bus Rapid Transit	Purple Line, Design Phase	WSP USA
Facilities	Paint Booth and Wash Bay, Construction	R.L. Turner
Planning	Blue Line Transit Oriented Development	Gould Evans

The selected projects were well controlled, with experienced Project Manager oversight. However, we did have observation that could enhance the future management and delivery of the capital program. We have rated the overall risk associated with Capital Projects Management as "Medium."

We suggest that management focus on the observations related to:

- Labor Rates and Monitoring
- E-Builder and Technology Systems

We would like to thank IndyGo staff and all those involved in assisting us in connection with the review. Questions should be addressed to the IndyGo Department of Governance and Audit at batkinson@indygo.net.

OBSERVATIONS SUMMARY

Following is a summary of the observations noted. Definitions of the observation rating scale are included in Appendix A.

Governance and Audit Observations	
Recommendation Title	**Rating**
1. Labor Rates and Monitoring	High
2. E-Builder and Technology Systems	High
5. Capital Program Summary Dashboard	Low
6. Policy and Procedures	Low

IndyGo℠

1. Labor Rates and Monitoring

Observation:	**Recommendation:**	
Some provider contractual labor rates which were not updated consistently. Overhead and profit detail is not consistently obtained.	Enhance review of labor and related charges, and more consistently monitor provider compliance.	

Observation Rating: High

Labor and related burden costs are a significant component of planning, design and construction contracts. We reviewed the billed labor component of the three selected contracts. We noted: 1) The Purple Line design contract contains approved "fully loaded" billing rates (base pay rate, overhead and profit) as of the contract start date in 2017. There were no rates for future years of the project, or any rate escalation clause. Our testing revealed that the contractor's billing rates for some selected individuals were higher than contractual rates. The provider did not consistently submit updated personnel lists or request billing rate approval prior to submitting Pay Applications, over the four years of the project. IndyGo did not consistently have current labor rates on file, to be able to verify billings. 2) The Purple Line design contract included fully loaded billing rates. However, the overhead and profit components were not included in the contract, which would allow assessment of the reasonableness of the rates or the "multiplier". The fully loaded rates were approximately 2.82 times the base hourly pay rate, which is not unreasonable.	We did not identify significant labor overbillings. However, IndyGo should consider enhancing its review of labor charges on current large projects, and to more consistently monitor provider compliance. 1) IndyGo's new contracts should include agreed-upon future years' labor rates or escalation factors. IndyGo should maintain current personnel lists. IndyGo or its contractual construction management firm(s) should review labor rates for each billing and Pay Application. 2) IndyGo should require the providers to submit audited or provisional overhead rates and profit, to be assessed for reasonableness.	**Management's Action Plan:** 1) Capital Projects team has strengthened our invoice review process to regularly incorporate review of hourly rates against contract terms, where applicable. 2) Capital Projects team initiated a policy last year on Architectural and Engineering (A&E) contracts of requiring a firm's FAR overhead rate and a standard 10% profit margin be used to calculate their billing multiplier on any new task order or contract. Subconsultants (depending on the size of the firm) may provide a FAR overhead rate, a state-level DOT approved rate, or another audited rate. Capital Projects team will require backup calculations for all proposed multipliers and will assess reasonableness during negotiation. Audits will be conducted periodically or as needed. These practices may or may not apply to planning projects, depending on the contract type and work product.

3) The contracts reviewed contained provisions for IndyGo to audit the Provider's accounting records. However, IndyGo has given up the right to audit the "derivation of fixed price multiplier, lump sum or unit rate" in the Purple Line design contract, as well as the standard template for Task Order based contracts.

Also, IndyGo does not have a contractual requirement for the Provider to submit audited overhead rates. IndyGo has not exercised its audit clauses or reviewed any of its providers' base labor rates.

4) The Paint Booth construction services were billed under a "Schedule of Values" or percentage of completion basis, in accordance with the provider's contract. The provider's Pay Applications identified amounts billed for labor, materials and other categories. The provider also submitted a Certified Payroll report separately to IndyGo, as required under federal regulations. However, the labor charges on the Certified Payroll reports are not reconciled by IndyGo to the labor amounts on the Pay Applications. Also, the Certified Payroll reports may be submitted for different periods than the Pay Applications.

3) IndyGo should require audited overhead rates calculated in accordance with the Federal Acquisition Regulations (FAR) or audited by the Indiana Department of Transportation (INDOT). This is a common practice. If not obtained, IndyGo should exercise its right to request source documents, and consider performing periodic on-site reviews of providers' labor or other costs. This should be done on a random basis, especially for larger projects, and not only for challenged projects.

4) IndyGo should request the providers to submit a reconciliation of the labor amounts reported on the Certified Payroll reports to total amounts billed on the Pay Applications.

3) Capital Projects team is providing more consistent reviews of proposed contract and task order billing rates, including ensuring that escalation for multi-year contracts is included at a standard 3% (unless justified otherwise by the consultant/vendor).

4) Capital Projects team will require all A&E consultants to submit certified payroll documentation to support their review of any new cost proposals – whether at contract or task order stage. This practice may or may not apply to planning projects, depending on the contract and vendor type. Capital Projects team will also require contractors to submit certified payroll documentation prior to approval of Pay Applications to support their work during construction and ensure reconciliation of labor rates billed.

Responsible Parties:

Chief Development Officer / V.P. Infrastructure Strategy & Innovation

Due Dates:

September 30, 2021. Then on-going as new contracts and task orders are negotiated and executed.

2. E-Builder and Technology Systems

Observation:	Recommendation:	
The E-Builder construction management software system has not been fully implemented. Project Managers are utilizing Excel for cost management.	Complete the E-Builder cost module implementation, and consider reconciliations to the new Microsoft D365 ERP package.	

Observation Rating: High

1) The Infrastructure Department uses e-Builder for its construction management software system. The application has modules for document retention, planning, design and construction. However, the Cost module has not been fully implemented. Project Managers continue to rely on Excel spreadsheets for cost and budget management. The automated workflow provided by the E-Builder Cost module may help increase oversight and reduce delivery risk for IndyGo's large capital projects.

2) The Finance Department is currently upgrading its general ledger system from Microsoft Dynamics AX to the D365 suite for its enterprise resource planning (ERP) and general ledger system. We understand that D365 will not be integrated or interfaced to E-Builder.

   As a result, construction contractors' invoices must be re-entered into the ERP system by Finance to be paid. This process, and recent staff vacancies, have caused timing and reconciling differences. This can also affect the ability of the Project Managers to oversee their projects and grants.

1) IndyGo should complete the E-Builder cost module implementation by:
   - Hiring or assigning a new staff resource.
   - Finalizing a project schedule and budget.
   - Providing training to users.
   - Utilizing the expanded processes and workflow in the E-Builder module.

2) The D365 upgrade has an implementation team and a steering committee. We suggest that these teams work with its Finance and Infrastructure Department users. The groups should investigate the feasibility and technical requirements to:
   - Eliminate redundant entry of contractors' invoice data (perhaps by csv data file transfer)
   - Reduce timing delays.
   - Increase the accuracy of the budget to actual reports in E-Builder and/or D365.
   - Utilize the full functionality of the systems.

Management's Action Plan:

1) The E-Builder cost module has been implemented on select architectural and engineering projects for which adequate historical data is available. Capital Projects team hired a project coordinator in May 2021 to oversee E-Builder management and administrative tasks. The Capital Projects Coordinator has recently completed an audit of all users, processes, and projects, including seeking input from key stakeholders. The Capital Projects Coordinator is implementing the recommended changes to processes and workflows now.

2) Capital Projects team will request to participate in the D365 upgrade project with the goal of identifying efficiencies in interfacing with E-Builder.

3) The E-Builder system allows external contractors to submit invoices, work breakdown schedules (WBS) and other project artifacts. Its functionality and work flow allow improved milestone tracking and document retention.

We reviewed the system's administration access controls and users. We noted that there were 411 registered users, not all of which appeared to require current access.

3) IndyGo should assign an E-Builder system administrator to review and manage access by external parties. Any entity or person not requiring access for a current project should be denied access.

The project close-out procedures could also be modified so that the Project Managers remove access for contractors and subcontractors whose projects are completed and closed-out.

3) Capital Projects team will develop a close out process for inactive projects.

Responsible Party:

Chief Development Officer / V.P. Infrastructure Strategy & Innovation

Capital Projects Project Coordinator

Due Date:
E-Builder audit tasks and resulting modifications to be complete by end of 2021.

Closeout process will be defined and enacted by Q3 2022.

3. Capital Program Summary Dashboard

Observation:	Recommendation:	
IndyGo provides comprehensive project information to its board and the public, in a variety of formats. The information is detailed and not easily reconcilable.	Consider a summary "dashboard" in a recurring, graphical format, to summarize total Capital Program status.	

Observation Rating: Low

IndyGo has an expanding Capital Program. The Planning and Capital Projects Division provides the Board, and the public, with comprehensive information, including:

- A monthly detailed narrative report, with six or more pages of project descriptions and planned activities.

- A monthly Capital Projects Spending Report, with budget and actual amounts for 65 active projects.

- The annual five-year Capital Plan, with annual summaries by expenditure category and specific planned projects.

This constitutes comprehensive and transparent disclosure. However, it can be challenging to assess the status and the performance of the overall Capital Program at a point in time, or to understand the linkage between the various information and documents.

IndyGo should consider a summary "dashboard" for the entire Capital Program. E-Builder has existing Dashboard reporting Functionality, which may be able to be tailored.

Other agencies also provide online, searchable dashboards, which highlight:

- Total Program information, presented in a recurring, graphical format.

- Highlights for key milestones, change orders, schedule delays, or contractor issues (such as Covid staffing impacts).

- "Mega Projects" of high dollar value and high public visibility.

- Key public messages

Management's Action Plan:

Capital Projects team will publish a Purple Line dashboard to communicate construction and financial progress to Board Members and staff.

The Purple Line dashboard will be evaluated for effectiveness and accuracy and updated as needed. Once refined, the Capital Projects team will work with the Executive team to determine whether some or all of the dashboard should be made available to the public.

The Capital Projects team will identify other opportunities for creating dashboards. The Capital Projects team does not expect to devote additional staff to this work, so will be selective about which projects will benefit from and/or require this level of reporting.

Responsible Party:

Chief Development Officer / V.P. Infrastructure Strategy & Innovation

Due Date:

Purple Line dashboard completion by Q1 2022.

4. Policies and Procedures

Observation:	Recommendation:	
IndyGo has a variety of capital project policies and procedures, and some areas for which no policies exist.	Select and document the most appropriate policies and procedures.	

Observation Rating: Low

IndyGo has a variety of capital project policies and procedures contained in various documents:

- Capital Asset Management Policy - included in the annual Budget document.

- E-Builder – embedded policies, procedures and process flows, for key area such as Change Orders, Pay Apps and Project Closeouts.

- Purple Line, Project Management Plan (PMP) – includes project timeline, controls, personnel, federal requirements, financial budget, risks, and procedures specific to the project.

As a result, polices and procedure are not consistently deployed across the Capital Program. Each of the experienced Project Manager selects the tools and approach to best manage their projects.

There are also other areas for which policies and standard operating procedures have not yet been addressed.

IndyGo should catalogue the existing policies and procedures. While not all policies or standard operating procedures can be applied equally across all of IndyGo's various capital projects, IndyGo should select or develop those which:

- Reflect current IndyGo practices
- Utilize E-Builder process flows
- Adopt industry best practices
- Support training of new Project Managers
- Allow for differences in contract types, duration, funding, etc.
- Are accessible in an enterprise-wide SharePoint or data repository

Management's Action Plan:

Capital Projects team recognizes and supports the need to continuously improve its practices and policies, including documenting them for consistency and accountability.

Documentation of best practices, lessons learned, and design standards is underway. Capital Project team will review these documents and other current practices to identify opportunities for improved documentation.

Responsible Party:

Chief Development Officer / V.P. Infrastructure Strategy & Innovation

Due Date:

On-going. Progress checks scheduled for Q2 and Q4 of 2022.

APPENDIX A – RATING DEFINITIONS

Observation Rating Definitions		Report Rating Definitions	
Rating	**Definition**	**Rating**	**Explanation**
Low	Process improvements exist but are not an immediate priority for IndyGo. Taking advantage of these opportunities would be considered best practice for IndyGo.	**Low**	Adequate internal controls are in place and operating effectively. Few, if any, improvements in the internal control structure are required. Observation should be limited to only low risk observations identified or moderate observations which are not pervasive in nature.
Medium	Process improvement opportunities exist to help IndyGo meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception. This opportunity should be considered in the near term.	**Medium**	Certain internal controls are either: • Not in place or are not operating effectively, which in the aggregate, represent a significant lack of control in one or more of the areas within the scope of the review. • Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses which collectively are not pervasive.
High	Significant process improvement opportunities exist to help IndyGo meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception presents. This opportunity should be addressed immediately.	**High**	Fundamental internal controls are not in place or operating effectively for substantial areas within the scope of the review. Systemic business risks exist which have the potential to create situations that could significantly impact the control environment. • Significant/several control weaknesses (breakdown) in the overall control environment in part of the business or the process being reviewed. • Significant non-compliance with laws and regulations. • Observations which are pervasive in nature.
Not Rated	Observation identified is not considered a control or process improvement opportunity but should be considered by management or the board, as appropriate.	**Not Rated**	Adequate internal controls are in place and operating effectively. No reportable observations were identified during the review.