CapMetro
Internal Audit

UT Intern Audit Projects:
Keolis Payroll & Invoice Controls

McKalla Station Contract Testing

Spring 2024

May 8, 2024

CapMetro – UT Audit Intern Program

- CapMetro joined UT Audit Intern Program in the 2018 Fall semester.

- UT's #1 ranked Masters of Professional Accounting Audit class requires volunteer audit work at about 5 hours per week on assigned projects.

- Course Syllabus Objective: "…introduce students to the current scope of internal auditing that extends far beyond the traditional external audit attestation of financial statements."

- Teams of three students are assigned to each audit project.

- Audit project objectives and deliverables are identified and set at the beginning of the project in the planning stage.

- The audit projects require a combination of auditing skills, business acumen, and consulting and advisory capability.

- UT Audit Interns work under the guidance of the VP of Internal Audit and staff.

Deliverables from UT Interns

	Process Review	Flowcharting	Contract/Policy Review	Invoice Testing	Presentation with Recommendations
Keolis Contract – Payroll & Invoice Controls	☑	☑	☑	☑	☑
McKalla Station Contract Testing	☑	☑	☑	☑	☑

Keolis Contract & Costs – Overview

CapMetro changed Bus service providers from MV Transportation to Keolis effective 1/1/2024. Keolis Transit Services, LLC contract for bus operations and maintenance services for a base period of three (3) years, plus two (2) one-year options, with a 5% contingency, in an amount not to exceed $753,651,081.

- The Bus workforce is large at 1,300 plus Operators (Drivers) and Non-Operators (Mechanics & Other) and the union Collective Bargaining Agreement (CBA) is complex as it relates to pay and benefits.

- Changes to the CBA were made as part of the change-over from MV to Keolis which further complicated the payroll processes.

- Keolis payroll system is UKG and CapMetro's Trapeze system captures Operators (89% of CBA) and UKG time & attendance used for Non-Operators (Mechanics & Others).

- Monthly Invoice approximately $12 million: Fixed Cost $1.9m ~ 16% and Variable (Pay & Benefits) $9.7m ~ 81% plus other variable costs. The Keolis Invoice is a complex Excel file with 17 tabs, various pivot tables, etc..

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Audit Objective and Scope

Objectives:

- Flowchart the new processes used by Keolis and CapMetro for Payroll & Invoicing.

- Review completeness and accuracy of Keolis Invoices which is in Excel file based upon contract and spreadsheet controls.

- Identify opportunities for process improvement and internal control enhancements.

Scope:

- Reviewed the following: Keolis contract; Keolis Invoices which are in Excel and related spreadsheet controls; updated prior MV Transportation flowcharts to reflect new Keolis processes and systems.

Recommendations

Monthly Keolis Excel Invoice Enhancements

- For all 17 Excel tabs: document source and extraction process for all data as well as logic and calculations (especially payroll, benefits and taxes).
- Leverage Spreadsheet Best Practices & SOX 404 Guidance to enhance Excel file controls through:
  - <u>Change Controls</u> – Locking formula cells so only authorized personnel can modify formulas. Creating Controlled process for requesting, making, and testing changes to Excel file, with formal sign-off between CapMetro and Keolis.
  - <u>Version Control</u>: Ensuring only spreadsheet versions tested and approved by both CapMetro and Keolis are used.
  - <u>Archiving</u>: Maintaining historical files in read-only mode.
  - <u>Logic Inspection</u>: Formal review of critical spreadsheet logic by independent parties.
  - <u>Segregation of Duties</u>: Defining and implementing roles, responsibilities, and procedures.
  - <u>Overall Analytics</u>: Using analytics to detect errors in spreadsheet calculations, recognizing limitations.

Recommendations

Leverage Technology (e.g. UKG Payroll System; Power BI; etc.) to analyze bi-weekly payroll:

- ○ Automate CapMetro's analysis of bi-weekly and year to date payrolls.

- ○ Perform payroll data analytics and analysis (by date, employee, position, hours, payrates, overtime, bonuses, paid time off, payroll taxes, etc.), identify unusual and abnormal data, data visualization, trend analysis, forecasting future payrolls, etc.

- ○ Obtain from Keolis an HR Roster for each bi-weekly payroll showing effective dates of employment status (i.e. hire and termination dates) for ingestion into the analysis.

McKalla Station Project

McKalla Station Project

- Total project budget was approximately $58.8 million comprised of four contracts:

  1. McKalla Station contract – Stacy Witbeck $21 million
  2. Track & Drainage contract – Jay Reese $25 million
  3. Advance Culvert Construction contract – Jay Reese $3.7 million
  4. Domain Quiet Zone contract – Jay Reese $1 million

- Other components such as betterments, real estate and construction management were also included in total project budget.

- Construction was substantially completed when the station opened on February 24, 2024.

- The UT interns agreed all invoices received to date for two largest contracts to Board-approved budget amounts and Oracle payment disbursements. No exceptions were noted.

- Internal Audit staff will review subsequent invoices for March and April 2024 and final project closeout.

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Audit Objectives and Scope

Objectives:
- Analyze payments made for the design and construction of McKalla Station to ensure payments were made in accordance with contract terms
- Ensure 5% retention was held on every invoice
- Analyze the invoice approval process and ensure system approval levels are properly configured
- Develop recommendations on ways to make processes more efficient and transparent

Scope:
- We reviewed and evaluated invoices and supporting documentation for the period from June 2022 to February 2024 for both the Stacy Witbeck McKalla Station "Design-Build" Contract and Jay Reese Track and Drainage Contract.

*Invoices for March and April and final closeout payment are still pending subsequent to this review.

Control Findings

Our testing did not discover any exceptions. We noted an opportunity for process improvement.

- Capital Project Policy and Procedures Manual is specific on required Board-level approvals but does not elaborate on internal invoice approval processes.

Recommendations

Update Capital Projects Policy and Procedures Manual to specify invoice workflow and approval limits.