Agenda

Capital Metropolitan Transportation Authority

Finance, Audit and Administration Committee

2910 East 5th Street
Austin, TX 78702

Wednesday, September 15, 2021 10:00 AM Videoconference Meeting

This meeting will be livestreamed at http://capmetrotx.legistar.com

I. Public Comment

II. Action Items

1. Approval of minutes from the August 18, 2021 Finance, Audit and Administration Committee meeting.
2. Approval of the Fiscal Year 2022 Operating and Capital Budget and Five-Year Capital Improvement Plan

III. Presentations

1. Audit Report - Payroll Controls Review
2. Internal Audit FY2021 Audit Plan Status

IV. Items for Future Discussion

V. Adjournment

ADA Compliance

Reasonable modifications and equal access to communications are provided upon request. Please call (512) 369-6040 or email ed.easton@capmetro.org if you need more information.

Committee Members: Terry Mitchell, Chair; Wade Cooper, Leslie Pool and Becki Ross.

The Board of Directors may go into closed session under the Texas Open Meetings Act. In accordance with Texas Government Code, Section 551.071, consultation with attorney for any legal issues, under Section 551.072 for real property issues; under Section 551.074 for personnel matters, or under Section 551.076, for deliberation regarding the deployment or implementation of security personnel or devices; arising regarding any item listed on this agenda.

Capital Metropolitan Transportation Authority

2910 East 5th Street
Austin, TX 78702

Finance, Audit and Administration Committee
Agenda Date: 9/15/2021

Item #: AI-2021-187

Approval of minutes from the August 18, 2021 Finance, Audit and Administration Committee meeting.

Minutes

Capital Metropolitan Transportation Authority

Finance, Audit and Administration Committee

2910 East Fifth Street
Austin, TX 78702

Wednesday, August 18, 2021 | **10:00 AM** | **Videoconference Meeting**

10:04 a.m. Meeting Called to Order

Present	Terry Mitchell, Wade Cooper, and Becki Ross
Absent	Leslie Pool

I. Public Comment

Zenobia Joseph provided public comment.

II. Action Items

1. Approval of minutes from the May 12, 2021 Finance, Audit and Administration Committee meeting.

   A motion was made by Cooper, seconded by Ross, that the minutes be adopted. The motion passes 3-0.

   Aye: Mitchell, Cooper, and Ross

2. Approval of a resolution authorizing the President & CEO, or his designee, to finalize and execute a contract for health plan administrative services for a three-year base period and three one-year options with United Healthcare in an amount not to exceed $15,384,283 for administration of third-party administration services and stop loss insurance for the Capital Metro self-insurance health and dental plans.

   A motion was made that this Resolution be recommended for the action item agenda at the Board of Directors meeting on 8/30/21. The motion carried by the following vote:

   Aye: Mitchell, and Ross

   Abstain: Cooper

3. Approval of a resolution authorizing the President & CEO, or his designee, to finalize and execute a contract with UNUM for basic life and AD&D insurance, long-term and short-term disability insurance; and FMLA administration paid by Capital Metro, and voluntary life , long term disability buy-up, accident, whole life and critical illness, paid by employees in an amount not to exceed $1,752,882.

   A motion was made by Cooper, seconded by Ross that this Resolution be recommended for the consent agenda at the Board of Directors meeting on 8/30/21. The motion carried by the following vote:

   Aye: Mitchell, Cooper, and Ross

4. Approval of a resolution adopting a Board Operating Procedures Policy and amending the Capital Improvement Program Policy.

   A motion was made by Ross, seconded by Cooper, that this Resolution be recommended for the action item agenda at the Board of Directors meeting on 8/30/21. The motion carried by the following vote:

   Aye: Mitchell, Cooper, and Ross

5. Approval of a resolution authorizing the President & CEO, or his designee, to extend an Interlocal Agreement (ILA) with Travis County for employee transit passes for a period of one year from October 1, 2021, to September 30, 2022.

   A motion was made by Cooper, seconded by Ross, that this Resolution be recommended for the consent agenda at the Board of Directors meeting on 8/30/21. The motion carried by the following vote:

   Aye: Mitchell, Cooper, and Ross

III. Presentations

1. FY2021 Financial Report - June 2021
2. FY2022 Proposed Budget Update
3. Internal Audit Semi-Annual Follow Up on Audit Recommendations
4. Internal Audit FY2021 Audit Plan Status
5. Internal Audit Presentation - UT Intern Reports

IV. Items for Future Discussion

V. Adjournment

11:32 a.m. Meeting Adjourned

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Committee Members: Terry Mitchell, Chair; Wade Cooper, Leslie Pool and Becki Ross.

The Board of Directors may go into closed session under the Texas Open Meetings Act. In accordance with Texas Government Code, Section 551.071, consultation with attorney for any legal issues, under Section 551.072 for real property issues; under Section 551.074 for personnel matters, or under Section 551.076, for deliberation regarding the deployment or implementation of security personnel or devices; arising regarding any item listed on this agenda.

2910 East 5th Street
Austin, TX 78702

Capital Metropolitan Transportation Authority

Finance, Audit and Administration Committee **Item #:** AI-2021-196
Agenda Date: 9/15/2021

SUBJECT:
Approval of the Fiscal Year 2022 Operating and Capital Budget and Five-Year Capital Improvement Plan

FISCAL IMPACT:
Adoption of the proposed Fiscal Year (FY) 2022 budget will provide an appropriation of $649,863,389 in FY2022 for operating and capital expenses that are supported by projected revenue and other funding sources.

STRATEGIC PLAN:
Strategic Goal Alignment:
☐ 1. Internal/External Customer Service Excellence ☐ 2. Stakeholder Engagement
☒ 3. Financial and Environmental Sustainability ☐ 4. Staff Development ☐ 5. Agency Growth Management

Strategic Objectives:
☐ 1.1 Safety & Risk ☐1.2 Continuous improvement ☐ 1.3 Dynamic Change
☐1.4 Culture of Innovation ☐2.1 Be an Employer of Choice ☐2.2 Organization Development
☐2.3 Organization Culture ☒3.1 Resource optimization ☐3.2 Safety Culture
☐3.3 Environmental Leadership ☐4.1 Educate & Call to Action ☐4.2 Build Partnerships
☐4.3 Value of Transit ☐4.4 Project Connect

EXPLANATION OF STRATEGIC ALIGNMENT: The proposed FY2022 budget includes funding to maintain Capital Metro's current services while also adding new innovative mobility initiatives, customer service enhancements and building infrastructure needed to support the region's current and future growth. The five-year capital improvement plan identifies planned projects that support achievement of Capital Metro's strategic goals, ensures regulatory compliance and maintains assets in a state of good repair.

BUSINESS CASE: Capital Metro has prepared a structurally balanced budget that provides the funding needed to continue delivering high-quality and efficient transportation services.

COMMITTEE RECOMMENDATION: This item was presented and recommended for approval by the Finance,

Audit and Administration Committee on September 15, 2021.

EXECUTIVE SUMMARY: The proposed FY2022 budget is structurally sound and balanced. Ongoing revenue is sufficient to fund operations and will also help provide funding for needed capital investments, including replacement of transit assets nearing the end or at the end of life cycles.

Capital Metro proposes to spend $318.6 million for operating expenses, $4.1 million for commitments under interlocal agreements with local government entities for mobility programs and $23.4 million to contribute to the Austin Transit Partnership for the Project Connect System Plan in FY2022.

Capital Metro will continue to respond to and recover from COVID-19, including funding to restore pre-pandemic levels of MetroExpress and MetroBus service and expanding service on several routes in the system, as well as funding for initiatives such as Pickup that will allow the agency to provide service in an efficient and cost-effective manner. Furthermore, the proposed budget provides adequate funding for MetroRideShare service and responds to a projected increase for MetroAccess service with additional funding for this mode of service.

Capital Metro prepared a five-year Capital Improvement Plan (CIP) for capital projects that support its strategic goals. The CIP is updated annually and addresses replacement or “state of good repair”, regulatory compliance and expansionary requirements for public transportation service in Central Texas. Capital Metro plans to invest $303.8 million in capital projects during FY2022.

Significant projects and acquisitions in the proposed FY2022 Budget, including “state of good repair”, regulatory compliance and new investments, are highlighted as follows:

- On the Red Line, we will break ground on McKalla Station, which will serve Austin FC’s Q2 Stadium and the thousands of fans and Capital Metro customers who attend games, and begin construction on a new Broadmoor Station, which will serve a new, large mixed-use development. To further support increased commuter rail service, we will complete work to double track the Red Line to increase capacity.
- Continuing replacement of vehicles with battery electric powered buses on the streets of Central Texas, helping us achieve our goal to create sustainable and equitable options for the entire community.
- Construction work will gather pace on the two new MetroRapid lines serving East Austin, Expo Center and Pleasant Valley, preparing for their initial service in FY2023.
- In addition to the highlights above, we will establish the Sustainability Capital Fund, begin a reserve for the Green Line Phase II project, expand our Pickup Service offerings throughout the community, build a demand response facility to better meet our needs, roll out new customer technology systems, establish improved workforce development programs to increase our support for our staff and their careers, and much more.

The proposed budget reflects the prudent use of projected revenue to provide funding for capital investments needed to maintain Capital Metro's transit assets in a state of good repair or to support enhanced services. The proposed, structurally balanced FY2022 budget totals $649.9 million with $8.3 million set aside for future funding of the 5-Year Capital Improvement Plan, and is comprised of the following funding and expense categories:

Budget Summary

Funding	**FY2022**
Sales Tax	$297,330,773
Passenger Revenue	18,147,285
Freight Railroad Revenue	6,492,814
Miscellaneous Revenue	6,553,816
Operating Contributions and Grants	172,283,309
Capital Grants - Federal	43,503,914
Capital Grants - State	2,045,419
Other Capital Contributions	111,802,665
Total Funding	**$658,159,995**

Expenses	**FY2022**
Operating Expenses	$318,607,750
Capital Project Expense	303,836,278
Funding for 5-Year Capital Improvement Plan	8,296,606
Austin Transit Partnership Contribution	23,365,670
Interlocal Agreements	4,053,691
Total Expenses	**$658,159,995**

The proposed budget reflects fund balance projections of $303.0 million by the end of FY2022 as outlined in the table that follows. Of this amount, Capital Metro will set aside $53.1 million in reserves for two months of operating expenses, which meets the level set forth by the Texas Legislature, $26.5 million for the budget stabilization reserve, $10.0 million to establish the Sustainability Capital Fund, $800 thousand set aside for the Green Line Phase II Manor Capital Reserve, $1.3 million for a self-insurance reserve, $2.9 million for city of Austin mobility programs and $208.4 million for future funding of the 5-year capital improvement plan as we look forward to future needs in the region.

FY2022 Estimated Ending Fund Balance:

Projected Beginning Balance	**$294,720,746**
FY2022 Projected Activity:	
+ Revenue	658,159,995
- Operating Expenses	318,607,750
- Interlocal Agreements	4,053,691
- Contribution to Austin Transit Partnership	23,365,670
- Capital Projects	303,836,278
= Projected Ending Balance	**$303,017,352**
Breakdown of Ending Balance:	
Statutory Operating Reserve Requirement	53,101,291
Budget Stabilization Reserve	26,550,645
Sustainability Capital Fund	10,000,000
Green Line Phase 2 Manor Capital Reserve	800,000
Self-Insurance Reserve	1,314,600
City of Austin Mobility Programs	2,883,602
Funding for 5-Year Capital Improvement Plan	208,367,214
= Projected Ending Balance	**$303,017,352**

Senate Bill 650 requires Capital Metro to prepare a five-year capital improvement plan, which is included in Appendix A of the budget document. This section provides additional information about each project category, including project descriptions, funding sources, project benefits and strategic objectives. The plan is updated annually and addresses replacement and expansion requirements for the delivery of public transportation services. The proposed FY2022 capital budget and capital improvement plan are outlined in the table that follows, summarized by project type and followed by projected funding sources.

Capital Project Type	FY2022	FY2023	FY2024	FY2025	FY2026	Total
Vehicles	$ 41,446,000	$ 65,362,000	$ 15,940,000	$ 3,843,000	$ 91,278,000	$ 217,869,00
Commuter Rail	43,124,069	24,395,000	3,000,000	2,750,000	3,250,000	76,519,06
Facilities	27,531,079	23,231,675	14,587,463	7,424,225	10,291,657	83,066,09
Freight Railroad	4,045,000	1,545,000	45,000	45,000	45,000	5,725,00
Information Technology	26,273,030	17,302,797	12,055,000	12,275,000	7,975,000	75,880,82
Other	6,931,650	2,462,000	2,503,633	2,405,000	2,000,000	16,302,28
Project Connect	137,994,219	107,786,504	52,027,213	325,000	732,063	298,864,99
Property and Asset Mgmt	16,491,231	12,417,608	853,950	1,107,200	976,000	31,845,98
Total Capital Projects	**303,836,278**	**254,502,584**	**101,012,259**	**30,174,425**	**116,547,720**	**806,073,26**
Funding Sources						
Grants/Contributions	157,351,998	115,928,794	56,596,225	2,750,000	8,831,414	341,458,43
Local Funding	146,484,280	138,573,790	44,416,034	27,424,425	107,716,306	464,614,83
Total Funding Sources	**$ 303,836,278**	**$ 254,502,584**	**$ 101,012,259**	**$ 30,174,425**	**$ 116,547,720**	**$ 806,073,26**

Over recent months, Capital Metro provided information regarding the budget process and the proposed

FY2022 budget in a variety of formats for the public and sought feedback using online engagement tools, as well as methods like virtual meetings. These outreach efforts included the following:

Presentations to Board of Directors and its Committees
May 12, 2021, Finance, Audit and Administration Committee
May 12, 2021, Operations, Planning and Safety Committee
June 28, 2021, Board of Directors
July 19, 2021, Board of Directors
August 18, 2021, Finance, Audit and Administration Committee
August 18, 2021, Operations, Planning and Safety Committee
September 15, 2021, Finance, Audit and Administration Committee
September 27, 2021, Board of Directors

Board and Committee Meetings on Microsoft Teams virtual meetings and available to the public and at Rosa Parks Board Room, 2910 East 5th Street, Austin, TX 78702
Served by routes 4, 300

Presentations to Access Advisory Committee
June 2, 2021, 5:30 - 7:00 PM
August 4, 2021, 5:30 - 7:00 PM
Microsoft Teams virtual meetings and available to the public.

Presentations to Customer Satisfaction Advisory Committee
June 9, 2021, 6:00 - 7:30 PM
August 11, 2021, 6:00 - 7:30 PM
Microsoft Teams virtual meetings and available to the public.

Proposed FY2022 Budget Document Available and Posted Online
August 22, 2021

Public Open Houses
Information made available to the public regarding the proposed FY2022 budget and five-year capital improvement plan.

August 23, 2021, 7:00 AM - 8:00 AM
Westgate Transit Center
Served by routes 30, 300, 311, 315, 318, 803

August 24, 2021, 7:00 AM - 8:00 AM
Leander Station
Served by routes 985, MetroRail, Pickup

August 25, 2021, 4:00 PM - 5:00 PM
Republic Square Park
Served by downtown routes

August 26, 2021, 4:00 PM - 5:00 PM
Norwood Walmart
Served by routes 10, 323, 325, 339

Online Webinar
Information made available to the public regarding the proposed FY2022 budget and five-year capital improvement plan.
August 27, 2021, 12:00 PM - 1:00 PM
Zoom virtual meeting and available to the public, Spanish-translated, recorded and posted on the CapMetro Blog, Facebook and YouTube.

Public Hearing on Proposed FY2022 Budget
September 15, 2021, 12:00 PM
Rosa Parks Board Room, 2910 East 5th Street, Austin, TX 78702
Served by routes 4, 300

Board of Directors Considers Adoption of Budget Proposal
September 27, 2021, 12:00 PM
Rosa Parks Board Room, 2910 East 5th Street, Austin, TX 78702
Served by routes 4, 300

DBE/SBE PARTICIPATION: Does not apply.

PROCUREMENT: Does not apply.

RESPONSIBLE DEPARTMENT: Finance

RESOLUTION
OF THE
CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY
BOARD OF DIRECTORS

STATE OF TEXAS
COUNTY OF TRAVIS

AI-2021-196

WHEREAS, pursuant to Section 451.102 of Chapter 451 of the Texas Transportation Code, the budget for Fiscal Year 2022 was made available to the public on August 22, 2021, and a budget public hearing was held on September 15, 2021; and

WHEREAS, pursuant to Section 451.132(c), the Board of Directors has reevaluated the five-year capital improvement plan.

NOW, THEREFORE, BE IT RESOLVED by the Capital Metropolitan Transportation Authority Board of Directors that the Fiscal Year 2022 budget in the amount of $649,863,389 is adopted.

BE IT FURTHER RESOLVED by the Capital Metropolitan Transportation Authority Board of Directors that the five -year Capital Improvement Plan for capital projects is amended.

BE IT FURTHER RESOLVED that the Capital Metropolitan Transportation Authority Board of Directors hereby requires the President & CEO to report at least quarterly on the operating expenses and capital project expenses of each major department in a financial report.

_____ **Date:** _____
Secretary of the Board
Eric Stratton

Capital Metropolitan Transportation Authority

2910 East 5th Street
Austin, TX 78702

Finance, Audit and Administration Committee
Agenda Date: 9/15/2021

Item #: AI-2021-197

Audit Report - Payroll Controls Review

PAYROLL & BENEFIT CONTROLS AUDIT (21-07)

Terry Follmer, VP of Internal Audit

Distribution List:
Capital Metro Board of Directors
Randy Clarke, President and CEO
Kerri Butcher, EVP, Chief of Staff
Donna Simmons, EVP of Administration, Diversity and Inclusion Officer
Dottie Watkins, Chief Customer Officer, Chief Operating Officer
Sharmila Mukherjee, EVP, Planning and Development
Gardner Tabon, EVP, Chief Safety Officer
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Kevin Conlan, Deputy CFO, Finance
Susan Renshaw, Controller, Finance
Terry Thomas, Senior Director of People & Culture
Sherine Spence, Director of People & Culture
Alyce May, Manager of Payroll & Accounts Payable

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EXECUTIVE SUMMARY

As part of our Fiscal Year 2021 Internal Audit Plan approved by the Capital Metro Board, we performed an audit of the payroll and benefit process to determine whether CMTA has sufficient internal controls to prevent and detect errors and/or irregularities. The scope included a review of internal controls and testing of payroll expenditure data for a selected time period in calendar year 2019 and 2020. The audit results including the objective, scope, and conclusion are as follows.

Background

The Finance Department's payroll section is charged with administering and overseeing payroll and consists of 2 employees (Manager and Coordinator of Payroll & Accounts Payable). Payroll operates on a biweekly pay schedule (26 pay periods per year) and each pay period's pay is paid the Friday after the ending of the two-week period. Outside of contracted labor, CapMetro employee labor and benefits is the largest operating expense. In Fiscal Year 2020, the operating budget included $49.2 million for CapMetro labor and benefits and represented 17% of the total operating budget. CapMetro employs a mix of hourly, salaried, and part-time Austin Police Department (APD) officers (through a separate contract). Each CapMetro position is classified as either Exempt or Nonexempt and CapMetro follows the U.S. Department of Labor's Fair Labor Standards Act (FLSA) laws for Nonexempt employees concerning minimum wage and overtime. In Calendar Year 2019, CapMetro employed 276 (51%) salaried/FLSA Exempt employees and 266 (49%) hourly/FLSA Nonexempt employees, which included 109 APD officers. CapMetro's contracted labor (e.g. Bus drivers, dispatchers, maintenance, etc.) are paid separately by third-party service providers (i.e. MV Transportation, Herzog, MTM Transit) and were not included in this audit.

CapMetro uses a cloud-based human resources system, called UltiPro, to collect and manage human resources, payroll, talent, and time and attendance information for employees. It was purchased in 2007 and helped automate the payroll process. For example, exempt (i.e. salary) employees log into the Employee Self Service (ESS) portion of UltiPro, enter their time and attendance for the pay period, and then electronically submit to their supervisor for review and approval. Nonexempt (i.e. hourly) employees use UltiPro web clock to electronically punch in and out and the punches round up or down to the nearest 15-minute increment. Once all time has been entered for the bi-weekly pay period, the payroll group performs a series of quality checks and then the data is uploaded to AX, the banking systems for accounting, and direct deposit to employee's bank accounts.

The People and Culture (P&C) Department is the Administrator of the UltiPro system and is responsible for employee compensation and benefits. This includes ensuring all personnel changes (e.g. pay rates, new hires, promotions, terminations, reclassifications, etc.) and benefit information (e.g. long-term disability, health insurance, dental, 401(k) retirement plans, etc.) is updated in the UltiPro system. When an employee's job changes or ends, the P&C staff fill out a Personnel Change Notice (PCN) form (see Appendix A) with the new information (e.g. position

title, salary/payrate, effective date, etc.) The employee, supervisor, and P&C employee must all sign and date at the bottom of the form to evidence review and approval of the PCN. Next, P&C staff manually enter the changes into UltiPro and email the PCN form to Payroll so they can double-check the information in UltiPro and ensure the payroll change was approved as evidenced by the signatures on the PCN form. As an additional control, the P&C Department perform a weekly audit of PCN forms to ensure they are all correctly and completely updated in UltiPro. P&C's role is very important because the payroll section depends on the accuracy and completeness of P&C staff's data entry into UltiPro to help ensure employees are paid correctly each pay period.

Audit Objective & Scope

The primary objective of this audit was to determine whether internal controls over payroll were sufficient to prevent and detect errors and/or irregularities. The audit scope included a review of internal controls and testing of payroll expenditure data for a selected time period in calendar year 2019 and 2020.

Opinion

Overall, we determined that internal controls are generally in place and properly functioning, however, we found opportunities to enhance the payroll and benefit process by improving oversight/monitoring and strengthening internal controls. We made the following recommendations (see finding table below for full listing):

- Automate and strengthen controls over personnel changes.
- Improve accuracy of benefit calculations.
- Review and revise policies related to payroll and benefits to ensure they include deadlines, approval process for exceptions, and are owned by the department that oversees that process.
- Increase oversight of annual merit raises.
- Ensure time and attendance reports are submitted and approved.

The detailed audit report that follows provides more context and understanding on the audit opinion and recommendations above.

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

Issues & Risk	*Recommendation*	*Management Action Plan*
1. <u>AUTOMATE & STRENGTHEN CONTROLS OVER PERSONNNEL CHANGES</u> The Personnel Change Notice (PCN) or HR16 form (see Appendix A) is a manual form with no automated workflow and is used to document and approve all personnel changes (e.g. pay rate, new hires, promotion, merit increase, termination[1], pay reduction, etc.). Policy HRC-200 (Compensation Plan & Administration) requires that compensation changes be documented and approved by the employee, supervisor and P&C Department using the PCN form. Once a PCN form is properly completed, the P&C Department enters in the approved changes into the UltiPro system. Because the PCN form and related workflow is manual, it is subject to human error and incomplete records and, as a result, there was $22,351 in retro pay corrections to 26% (165 out of 625) of employees at some point during calendar years 2019 and 2020. In some instances, this was caused by supervisors not submitting required paperwork to P&C in a timely manner. During our review, we determined the PCN form process was vulnerable to the following risks: • PCN form not being completed timely. • PCN form containing errors (e.g. pay rate, effective date, employment status, etc.) or data input errors when entering changes from the PCN form into UltiPro. • PCN form missing one of the required signatures.	The Controller and Senior Director of People & Culture should consider implementing the following improvements: a) Look at automating the PCN form and related workflow into the new ERP system. If this is not possible, look at automating the workflow using workflow features in Outlook and SharePoint and/or within the UltiPro system. The workflow should be a closed loop with the parties receiving notice that the change has been made in UltiPro. b) The P&C Department should develop written procedures and tools to help guide P&C staff on their day-to-day tasks. The guide should cover various personnel changes (e.g. pay rate, terminations, promotions, new hires, etc.), payroll deadlines and holidays, and year end processing procedures including annual merit process. c) The Controller and Payroll Manager should track root causes for payroll errors and schedule quarterly meetings with P&C Department to review trends and opportunities to reduce rework.	Management agrees with the recommendations. **<u>Target Completion Date</u>**: 1a) January 31, 2023 1b) December 31, 2021 1c) October 15, 2021

[1] Timely terminations are especially important because the Texas Labor Code § 61.014(a) legally requires an employer to pay a terminated employee within six days of the termination.

Issues & Risk	*Recommendation*	*Management Action Plan*
2. <u>IMPROVE ACCURACY OF BENEFIT CALCULATIONS</u> Employee benefits (e.g. medical, dental, long-term disability, life insurance, 401(k) retirement plan, etc.) are managed by the P&C Department. We reviewed the internal controls related to benefit calculations and noted the following weaknesses: • P&C Department has not developed written procedures for internal benefit calculations, including who within and outside of P&C must approve them. • Manual benefit calculations are not required to be approved by Finance Department or another independent consultant to validate accuracy. We believe the weaknesses noted above together with UltiPro system limitations and a small timeframe for staff to complete the changes contributed to the following benefit errors during 2019: • Error in manual entry of premium rates for long-term disability buy up insurance. • Error in manual entry of voluntary employee Group Term Life (GTL) insurance. • Duplicate life insurance premiums deducted from employee paychecks due to incorrect end date being entered into UltiPro. • Incorrect catch-up deducted from employee paychecks for 401(k), 401(k) Roth, and 457 retirement plans when the deductions should have been stopped.	The Controller and Senior Director of People & Culture should consider the following improvements: a) Create an internal P&C Department Procedures Guide for staff to follow, which should include each benefit category offered by CapMetro, internal processes that staff should follow, deadlines, specific calculations, review and approval process, etc. (part of recommendation 1b above). b) Ensure that manual data entry for benefit calculations is double checked and reviewed to ensure accuracy by the Finance Department or other independent party. c) Obtain temporary resources in the last two months of the calendar year to assist with administration and quality assurance check.	Management agrees with the recommendations. **<u>Target Completion Date</u>**: December 31, 2021

Issues & Risk	*Recommendation*	*Management Action Plan*
3. <u>P&C POLICIES – COMPLIANCE & APPROVED EXCEPTIONS</u> Leave Policy (HRC-440) defines and provides procedures for requesting and taking various types of leave including vacation, sick, bereavement, parental, military, and jury duty leave. After reviewing the policy, we identified the following control weaknesses and determined that the policy has: • No defined timeframe that specifies how long after a birth or adoption event an employee must start using parental leave. We identified one instance in CY 2020 where an employee utilized parental leave 3 months after an adoption which does not appear to meet the intended purpose of the policy. • No defined process to approve special exceptions to the policy to help ensure fairness and transparency. Currently staff use informal emails to approve exceptions to the leave policy. • Doesn't require employees to submit a long-term (greater than two weeks) leave request to the P&C Department (listed as optional in the policy) so staff can ensure requests are properly approved and help track them. For example, if P&C staff do not know who is taking parental leave, it's harder for them to update employee's status in UltiPro in a timely manner and communicate this information to the payroll group.	The Controller and Senior Director of People & Culture should consider the following improvements to Leave Policy (HRC-440): a) Ensure deadlines and the maximum elapsed time after an event are defined (birth, adoption, or placement of a child) in which the employee must start using the parental leave or other family related benefit. b) Define the process for approving special exceptions to the policy (e.g. who can approve them, how to document the approval). c) Require employees to submit a long-term (greater than two weeks) leave request to the P&C Department. d) Ensure parental and other types of leave are timely communicated to the payroll personnel so that time and attendance records can be properly updated.	Management agrees with the recommendations. **<u>Target Completion Date</u>**: May 31, 2022

Issues & Risk	*Recommendation*	*Management Action Plan*
4. <u>INCREASE OVERSIGHT OF ANNUAL MERIT INCREASES</u> Annual merit increases occur each January which is based on individual performance and operating budget availability. The P&C staff calculate the amount of merit increase by downloading performance ratings from UltiPro creating a Merit Matrix in Excel and calculating the amount of pay increase for each employee (i.e. using VLOOKUP formula). Next, the results are given to management for approval. Policy HRC-200 requires senior management to review and approve the Merit Matrix. We reviewed the controls related to the annual merit increases and identified the following weaknesses: • P&C Dept has not developed written procedures detailing the full life cycle of merit increases from individual performance ratings to payrate adjustments made in UltiPro and the double checks and approvals necessary to prevent/detect errors. • The Finance Department as well as individual department heads are not asked to formally review and approve final payroll adjustments based upon their purview and area of responsibility.	The Controller and the Senior Director of People & Culture should consider the following improvements: a) Review and document the full cycle of annual merit increases from employee ratings to the Merit Matrix table and payroll adjustments made in UltiPro ensuring proper segregation of duties and required approvals at each stage of the process life cycle. b) The Finance Department should attest to the accuracy of the annual merit payroll adjustments and sign-off on the final file and related details that is sent to the bank for payroll distribution. c) The Finance Department should review the Merit Matrix spreadsheet and sign off (e.g. Controller and/or Deputy CFO) on it as evidence of review and approval of the merit increases.	Management agrees with the recommendations. **<u>Target Completion Date</u>**: May 31, 2022

Issues & Risk	*Recommendation*	*Management Action Plan*
5. <u>TIME AND ATTENDANCE REPORTING & APPROVALS</u> Policy HRC-205 (Payroll Time & Attendance Administration) requires that employees enter their time and supervisors must review and approve. Payroll staff send an Unapproved Time Report to members of management after each bi-weekly payroll processing period to alert them of employee's whose time and attendance has not been formally approved in UltiPro by the payroll processing deadline (i.e. Monday at 10am). While this is a good control to have in place, employees are paid even if their time and attendance has not been submitted and/or formally approved by their supervisor. We noted the following weaknesses in the current process: • There is no follow-up and reconciliation to ensure that employees have submitted time sheets for all weeks employed. • There is no disciplinary action or consequences for either an employee not submitting their report and/or their supervisor not approving. • P&C Department owns policy HRC-205, however, the Finance Department enforces and oversees the content of the policy (policy owner not correctly aligned with who performs the work). We believe the weaknesses noted above were contributing factors to the fact that in a two-week pay period in May 2020, there were 34 out of 401 (8%) of employees with unapproved time and attendance that included a total of 14 overtime hours, 40 sick hours, and 10.25 vacation hours that were not formally approved. Failure to maintain properly approved time and attendance records may result in overpayments to employees for vacation and sick time when they leave the organization.	The Controller, along with the Manager of Payroll/Accounts Payable, should consider the following improvements: a) Create a cumulative report to track and report all unreported and unapproved time by week and by employee and manager until each week is properly reconciled and properly reported and approved. b) Have a formal process to communicate periodically (e.g. quarterly) to department heads regarding unapproved time for their department. c) During the employee exit process, require the manager to review unapproved time reports and certify prior to final paycheck. d) Setup an enterprise level calendar reminder to all CapMetro employees to remind them to submit and approve time before the payroll processing deadline. e) Ensure each supervisor has a back-up approver if they are on vacation or cannot approve time and attendance records. f) Review P&C policies to identify payroll and time and attendance policies that should be owned (e.g. HRC 205) by the Finance Department because their payroll group administers the area.	Management agrees with the recommendations. **<u>Target Completion Date</u>**: December 31, 2021

Appendix A
Example of Personnel Change Notice (PCN) Form

METRO

PERSONNEL CHANGE NOTICE | HR16

☐ CAPITAL METRO ☐ CAPITAL METRO IUE ID # _____

Name _____ Date _____

Address _____

City / State / Zip _____

Home Phone _____ Cell Phone _____

INFORMATION NEEDED FOR JOB CHANGES

Effective Date _____ Job Change Reason _____

New Job _____

Supervisor _____ Department _____ Division _____

Job Code _____ Scheduled Hours _____ Employee Type _____

Current Salary _____ New Salary _____ Increased % _____

☐ NON-EXEMPT ☐ EXEMPT ☐ FULL TIME ☐ PART TIME

Additional Information _____

INFORMATION NEEDED WHEN JOB ENDS

Reason for Separation _____ ☐ Voluntary ☐ Involuntary

Separation Date _____ Rehire Status (Y/N) _____ Estimated Unused Sick Hrs. _____

Last Day Worked _____ Benefit Arrears Owed (Y/N) _____ $ _____ Est. Unused Vac. Hrs. _____

Additional Information _____

_____ _____
Employee Signature Date

_____ _____
Supervisor Signature Date

_____ _____
People & Culture Signature Date

Capital Metropolitan Transportation Authority

2910 East 5th Street
Austin, TX 78702

Finance, Audit and Administration Committee
Agenda Date: 9/15/2021

Item #: AI-2021-201

Internal Audit FY2021 Audit Plan Status

FY21 INTERNAL AUDIT PLAN

Department Scorecard

	Projects	Status & % Complete	Additional Details
	FAA COMMITTEE & INTERNAL AUDIT CHARTER COMPLIANCE		
1	Finance, Audit & Administration (FAA) Committee Meetings: 10/14; 11/9; 12/7; 2/10; 3/17; 4/14; 5/12; 6/16; 8/18; 9/15	Ongoing	
2	Semi-annual Implementation Status Report - November 2020	Completed	February
3	Semi-annual Implementation Status Report - May 2021	Completed	August
4	FY2021 Risk Assessment & development of FY22 Audit Plan	In-Process	
	FY21 Audit Assurance & Advisory Projects		
1	Quadrennial Performance Audit (Requisition #306188) - RFP, Selection Process and Quadrennial Audit Report - Contract awarded to Weaver for $180,610	Completed	January
2	QAR (Quality Assurance Review) of Internal Audit practices - Started Self-Assessment. The external assessments have been postponed by GAO/ALGA due to COVID-19.	Postponed to FY22	
3	Payroll Process - SOX Like Key Financial Control Testing	Completed	July
4	Project Connect - System Controls & Processes (e-Builder)		
5	PTC (Positive Train Control) - Expenditures & Drawings	Completed	May
6	DBE Program	Completed	May
7	Petty Cash - Policy Compliance	Completed	February
8	Transit Store - SOX Like Key Control Testing	In-Process	
9	Saltillo Development Project	In-Process	
10	FTA Triennial Review	Postponed to FY22	
11	Annual Cybersecurity Review (AT&T vulnerability assessment)	In-Process	
12	Rail Systems Security (Railcomm, PTC, Signaling, etc.)	Postponed due to Procurement	
13	NIST Cybersecurity Framework (Facilitated Self Assessment)	In-Process	
	CONTINGENT AUDIT PROJECTS - FY21		
1	ITS2403: Governance Risk and Compliance Software - (ServiceNow; Galvanize) TXDOT implementing Galvanize	In-Process	
2	Downtown Station - Contract Closeout		
3	Project Connect - Marketing & Planning Expenditures		
4	Infor Asset Mgt System - Post Go-Live Review		
5	Discounted Pass Program (Advisory)	Completed	UT Interns-August
6	Facilities Maintenance - Contract Monitoring & Compliance		
7	Paratransit & Demand Response Operations (Advisory)	Completed	UT Interns-August
8	Board Policies/Goals - Monitoring & Reporting (e.g. OTP; Fare Recovery; DBE; Title 6 Equity Analysis; etc.)		

	NEW PROJECTS ADDED TO FY21 AUDIT PLAN by Terry Follmer		
1	New Electric Bus Fleet – In-Processing Procedures (Advisory)	Completed	UT Interns-August
2	Security Incidents – Process Flowcharting & Analysis (Advisory)	Completed	UT Interns-August
3	Security Incidents – Data Analytics (Advisory)	Completed	UT Interns-August
4	Marketing/Communication - Process Flowcharting & Forecasting (Advisory)	Completed	UT Interns-August
5	Quadrennial Recommendation - implement a Contract Performance Management System (ITS2205)	In-Process	
6	APTA - volunteered to help update APTA's Recommended Practices on Cybersecurity Considerations for Public Transit together with the TSA	Completed	
7	RFP No. 306897 – Enterprise Resource Planning (ERP) System - Technical Advisor to Selection Committee	In-Process	
8			
9			