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## **Procurement Process Review**

**Governance & Audit Report No. 2020-9**

Report Issued January 4, 2021

## EXECUTIVE SUMMARY

### Background

The FY 2020 Internal Audit Work Plan approved by the Governance and Audit Committee included a review of IndyGo's Procurement Process.

IndyGo's Procurement team is responsible for purchasing, contracts administration, and the disadvantaged business enterprise (DBE) program. Procurement ensures IndyGo is compliant with Federal, State, and Local guidelines.

IndyGo's annual operating expense budget is projected at \$117M for 2021, while the capital budget is projected at \$83.7M. Approximately 40% of operating expenses are comprised of materials, supplies, professional and other contracted services, all of which require involvement from Procurement. Additionally, all spend associated with the capital improvement program involves Procurement.

Accordingly, based on budgeted projections, approximately \$130M of spend will flow through Procurement in some form or fashion related to 2021 activity. Given that a significant portion of funding for both operating capital improvement activity is derived from Federal Assistance, IndyGo must maintain compliance with the Rules and Regulations of the United States Department of Transportation (USDOT) through the Federal Transit Administration (FTA).

Finally, it is also helpful to note that from the most recent round of completed FTA triennial reviews (FY19), Procurement and DBE, combined, accounted for 37% of all findings identified across transit agencies nationally. For context, the next largest category of findings was ADA (Americans with Disabilities Act), at 14%. This underscores the importance of ensuring that Procurement is managed well, maintains strict documentation standards, and is enabled by the agency to perform its responsibilities effectively and efficiently.

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.

### Overall Report Rating & Observations

(See Appendix A for definitions)

	Report Rating	Number of Observations by Rating		
		High	Medium	Low
<b>Procurement Process Review</b>	<b>Medium</b>	<b>1</b>	<b>2</b>	<b>1</b>

### Overall Summary and Review Highlights

As a result of our review, we have noted three opportunities for process improvement and one opportunity for internal control improvement. We would like to recognize current Procurement leadership, and the entire Procurement team, for having implemented the policies and procedures that have supported the positive results of our review.

We performed substantive testing over many of the most significant large procurements transacted recently, even expanding our testing period beyond our typical 12-24 months. We did so due to the significance of past large procurements pertaining to the Red Line, and the similar risks related to soon forthcoming large procurements related to the Purple Line. It should be noted that we identified no internal control failures with respect to any recent bid files.

Additionally, as part of our review of selected IndyGo Procurement policies compared to FTA Circular 4220.1F, Third Party Contracting Guidance, we found IndyGo's Procurement Manual to be substantively complete. The update currently underway and slated for completion in March 2021 will be critical to complete timely. Given the volume of forthcoming procurement related to both Purple Line and new facility renovation, operating against the most recent policy guidance will be important.

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](mailto:batkinson@indygo.net).

## EXECUTIVE SUMMARY *(CONTINUED)*

### Objective, Scope, and Approach

Overall, our objective in reviewing IndyGo's Procurement function was to understand the people, processes, internal controls, and technologies currently being used to fulfill its mission within the agency. In doing so we examined the following areas:

- Compliance with internal bidding policies in the context of significant procurements, including goods and services
- Comparison of the various procurement methods in use (e.g., Invitations for Bid, Requests for Proposals, etc.) to identify potential overlap or gaps in coverage.
- Sole source justification and documentation
- Vendor performance evaluation (primarily current procedures during the bid process)
- Vendor master file – specifically, we tested for improper inclusion of employees as vendors, duplicate vendors, and appropriate segregation of duties within role assignments within Microsoft Dynamics AX relative to the vendor master file
- Disposal of vehicles when removed from service

Our procedures included a combination of interviews, inquiries, observations, document inspection, analytical procedures, substantive testing, review of system access reports, and review of selected procurement policies compared to FTA Circular 4220.1F, Third Party Contracting Guidance.

## 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. Web-Based Procurement Solution	High
2. Conflict of Interest Assertion	Medium
3. Vendor Performance Evaluation	Medium
4. Key Performance Metrics	Low

## 1. Web-based Procurement Solution

### **Observation:**

IndyGo Procurement does not currently benefit from the use of a multi-faceted web-based procurement solution.

### **Recommendation:**

We recommend that Procurement management consider looking into possible options that may fit well within IndyGo's procurement profile.

### **Management's Response:**

### Observation Rating: High

Web-based procurement tools can offer multiple benefits to Procurement functions, providing both efficiency enhancements and hard cost savings.

Such tools can offer automation around virtually every step of bid issuance and management, contract management, and vendor management. Another best practice that such a tool enables is the reverse auction capability. This approach to facilitating commodity procurements can generate noticeable annual savings even beginning the first year after implementation.

Having the level of sophistication and efficiency provided by such automation will be increasingly important for the agency as a whole as it continues to grow with future BRT lines, forecast increases in ridership, and the addition of new facilities.

Additionally, nationally these types of solutions are common within government entities – from cities, counties and states, to various utility districts, airports, and transit agencies.

Finally, Procurement adding a cloud-based solution would be consistent with IndyGo's broader go-forward cloud migration strategy.

Management should research possible options for a web-based procurement solution that would fit IndyGo's purchasing profile.

Before a solution is selected and implemented, Procurement should work to align its current processes with the capabilities and automation available within the proposed solution. Particular attention should be paid to ensuring that the requirements set forth within the Procurement Manual are complied with, thus providing for ongoing compliance with FTA regulations regarding Procurement.

Additionally, to help maximize IndyGo's return on investment, Procurement should leverage an appropriate amount of training, if available, from any vendor that supports the tool's implementation.

Finally, while the solution being recommended here is distinct from the capabilities offered by Microsoft D365, there are many opportunities for automation integration in D365. Care should also be taken throughout the D365 implementation so that such opportunities are captured.

### **Action Plan:**

A Web-based solution was proposed with the 2021 procurement budget; however, it was not approved. The approximation of \$40k per year was proposed as it relates to how the Indianapolis Airport procured their web-based solution. Until funding is allocated to this project by the agency, it will be on hold. A system would be beneficial as we move into a paperless environment, as well as new buildings. A system would be a valuable asset with the potential splintering of the procurement department to multiple locations.

### **Responsible Parties:**

Executive Committee, Budget Director, Procurement Director

### **Due Date:**

On-going until approval is received

## 2. Conflicts of Interest Assertion

### **Observation:**

Employees within the Procurement department do not sign an annual conflict interest assertion.

### **Recommendation:**

Procurement management should work with IndyGo leadership to add a conflicts of interest assertion to future annual Ethics certifications.

### **Management's Response:**

### Observation Rating: Medium

Conflicts of interest can pose particularly significant risks within a purchasing and contracting environment. FTA Circular 4220.1F (Chapter 3, Section 1a) also prohibits certain circumstances which could bring rise to conflicts of interest in the context of procurement.

In addition to the self-certification provided annually by Procurement, in conjunction with FTA Circular 4220.1F (Chapter 3, Section 2), Leading practices commonly allow for a specific conflicts of interest assertion to be included in the organization's broader annual Ethics certification attested to by all employees.

Within IndyGo there currently is no annual conflicts of interest attestation for employees. Furthermore, there is no overarching annual Ethics certification process in place within IndyGo.

Management should ensure that an appropriate level of conflicts of interest training is provided to new employees and coverage of conflicts of interest is included in future annual Ethics certifications. Since IndyGo is currently in the process of designing an annual Ethics training, Procurement management should work with the training team to ensure inclusion of the proper conflicts of interest attestation wording.

### **Action Plan:**

This process can easily be incorporated into the annual self-certification that Executives already participate in. Additionally, it is proposed that a gifts and gratuities policy be visited annually for procurement staff as well as all IndyGo.

### **Responsible Party:**

Executive Committee, Legal, Procurement Director, VP Human Resources

### **Due Date:**

January 1, 2022

### 3. Vendor Performance Evaluation

#### **Observation:**

There is currently no process in place to formally evaluate vendor performance on a regular basis.

#### **Recommendation:**

Management should consider implementing a formalized process, including user-friendly tools, that will allow for periodic vendor performance reviews.

#### **Management's Response:**

#### Observation Rating: Medium

While IndyGo Procurement has tools in place to help remedy instances of vendor underperformance, there is no formal procedure in place to allow IndyGo departments to quickly escalate instances of underperformance or non-performance of vendors.

Certain measures are in place which Procurement can leverage when vendor performance issues are identified. However, the following measures are generally used after the fact (post-contract), rather than proactively (during the contract term):

- Standard contracts allow IndyGo to change vendors if expectations are not met.
- Service Level Agreements are used when appropriate (i.e., copier machine repair vendor).
- Consumable parts vendors are managed through purchase orders governed by terms and conditions protecting IndyGo's rights against substandard service.

Additionally, there is no formalized process providing for periodic vendor performance review. Informal meetings are held on occasion. However very little is documented and there are no tools in place to allow for department-level consumers of goods and services to effectively evaluate the performance of their vendors.

Guidance from APTA also recommends the use of vendor evaluation tools in order to enhance agencies' leverage in contract negotiations and overall control over long-term quality of goods and services delivered.

We recommend that Procurement consider creating a framework around vendor evaluation. Such a framework may include:

- Standard forms available to all IndyGo departments. These would allow for a documented, periodic formal evaluation of service providers or goods vendors.
- Formalized policies and procedures. These would allow departments to promptly escalate vendor performance shortcomings before they become critical from an operational perspective or before IndyGo incurs undue costs to remedy the substandard performance.
- A routine cadence of organizational vendor performance review meetings. This would allow a forum for potential issues to be voiced, with proactive remediation efforts activated before issues become more serious and/or costly.

#### **Action Plan:**

Establish a committee comprised of active Project Managers, Executive Leadership, and Procurement Staff to develop and define program. The scale and parameters, as well as the timing of evaluation, will be discussed.

#### **Responsible Party:**

Procurement Director

#### **Due Date:**

First meeting and established parameters to be complete by 2/1/21. First evaluation period to be complete by 3/1/21.

#### 4. Key Performance Indicators

##### **Observation:**

Procurement does not monitor and manage department performance against quantifiable key performance indicators.

##### **Recommendation:**

Procurement should agree internally upon a set of actionable KPIs and design a monitoring framework around them.

##### **Management's Response:**

##### **Observation Rating: Low**

While Procurement management has expressed a desire to manage against certain key performance indicators (KPIs), system limitations currently prohibit the extraction of the appropriate data.

Having visibility to KPIs that correlate with departmental performance allows management and team members to manage real-time performance more effectively. By identifying instances of cost irregularities in real-time, Procurement can quickly take actions to investigate the issue.

Examples of KPIs that Procurement leaders often find helpful in managing and improving their function may include: spend under management, cost per invoice and purchase order, purchase order cycle time, purchase order and invoice accuracy (sometimes tracked by the inverse metric or error rate), supplier lead time, rate of emergency purchases, cost avoidance or reduction, managed vs. total spend, etc.

We recommend that Procurement work with the Strategic Planning Committee in advance of the forthcoming upgrade to Microsoft Dynamics 365 to ensure that requisite data feeds are designed in, so that desired KPIs will be easily accessible.

Once the availability of KPIs is confirmed, Procurement should work internally to agree upon the optimal set of KPIs to track. Finally, a framework should be designed with roles and responsibilities assigned so that managing against the KPIs can be integrated into current management processes.

##### **Action Plan:**

Key Performance Indicators were provided to the Strategic Plan Performance Pod in 2019. Since then, a third-party contractor has been selected and awarded to begin work on the Employee Intranet. Within the scope of this work will be a KPI Dashboard implemented to develop the reporting of the metrics provided in 2019.

##### **Responsible Party:**

Strategic Plan Performance Pod, Employee Intranet Project Manager, Procurement Director

##### **Due Date:**

On-going effort that is dependent on the implementation schedule of the Employee Intranet

## 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: <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses which collectively are not pervasive.</li> </ol>
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. <ol style="list-style-type: none"> <li>1. Significant/several control weaknesses (breakdown) in the overall control environment in part of the business or the process being reviewed.</li> <li>2. Significant non-compliance with laws and regulations.</li> <li>3. High observations which are pervasive in nature.</li> </ol>
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.