DELAWARE RIVER PORT AUTHORITY
OFFICE OF THE
INSPECTOR GENERAL

February 7, 2025

Audit of Budget Preparation, Administration, and Reporting

Performed by:
Angeleen Coppolino, CPA, Manager, Internal Audit

AUDIT OF BUDGET PREPARATION, ADMINISTRATION, MONITORING, AND REPORTING

Contents

DELAWARE RIVER PORT AUTHORITY

OFFICE OF THE INSPECTOR GENERAL

AUDIT OF BUDGET PREPARATION, ADMINISTRATION, MONITORING, AND REPORTING

A. Objective / Scope / Methodology

The Office of the Inspector General (OIG) conducted an audit of Budget Preparation, Administration, Monitoring, and Reporting. The budgeting process is a systematic management tool to develop and communicate future plans for the allocation of resources toward achieving strategic goals. Budget administration and monitoring assists the Authority with controlling spending, predicting cash flows, and monitoring progress towards goals. The audit objectives included:

- evaluating the completeness and accuracy of documented policies and procedures related to the various components of both Operational and Capital budget preparation, administration, monitoring (including budget to actual comparisons) and reporting;
- evaluating controls over data security and access to enter and/or modify budget information;
- identifying and evaluating the effectiveness of internal controls to ensure that budget preparation and compilation to an Authority-wide budget is complete and accurate;
- assuring that the budget is approved by the appropriate level of management and the Finance Committee / Board of Commissioners;
- assuring that significant variances or updates to the budget identified throughout the year are communicated to the appropriate level of management and the Finance Committee;
- evaluating the clarity of instructions and preparation tools provided to the Chiefs and Directors used for developing departmental operating budgets for consistency with the Authority's strategic objectives and expectations;
- evaluating the inputs, processes, and tools utilized for development of a Capital budget consistent with the Authority's strategic objectives and expectations; and,
- assuring that records related to budgetary planning, administration, monitoring, and reporting are retained in accordance with the Authority's record retention schedule

The scope of our audit focused on budget preparation, administration, monitoring, and reporting activities for the 2024 annual budget. The 2024 combined DRPA and PATCO Operating Budget for all operations totals $188,635,161 and the Capital Budget totals $156,965,000.

To assist in the evaluation of budget preparation, administration, monitoring, and reporting, OIG was provided access to requested information and documentation, including:

- policies and procedures related to budget preparation, administration, monitoring, and reporting;
- the 2024 and 2025 Operating and Capital Budget Guidelines;
- access to SAP Budget and Planning (SBP);
- instructional materials and timelines related to SBP and Operating Budget preparation developed by the Manager – Budget/Financial Analysis;
- the DRPA 2024 Capital Program and examples of interim work products used in its development;
- examples of monthly monitoring and reporting of budget to actual analysis for both the Operating and Capital Budgets.

In addition to being provided the documentation noted, OIG communicated with the Chief Engineer, Acting - Engineering Program Manager, Engineering Program Analyst, Chief Financial Officer, General Manager (PATCO), Director – Finance (DRPA), Director – Finance (PATCO), Manager – Budget/Financial Analysis, and various other staff members during the course of the audit.

B. Background

The focus of the annual budget process is to help ensure the effective allocation and use of limited resources to advance the strategic and operating objectives required to accomplish the Authority's mission: "As stewards of public assets, we provide for the safe and efficient operation of transportation services and facilities in a manner that creates value for the public we serve." Overall direction for the annual budget process is set by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) and is governed by the Finance Committee of the Board of Commissioners.

The annual "Budget Call" process begins in June of each year with the distribution of the annual Operating and Capital Budget Guidelines to Authority Chiefs, Directors, Administrative and other personnel responsible for development of the budget. This document contains the current year's Program Schedule, including key milestone dates for submission and approval of applicable forms and budgets, the current Strategic Initiatives, and instructions for completion and submission of budget information in SBP. The document also contains instructions for budgeting various types of operating expenditures, as well as criterion for determining if an expense should be capitalized.

Operating Budget Preparation

Responsibility for overseeing the preparation of the operating budget is divided between the Manager - Budget/Financial Analysis and Budget Financial Analyst for the DRPA, and the Director – Finance (PATCO) and the Senior Accountant (PATCO) for PATCO.

Prior to the Budget Call in June of each year, SBP is reset and new templates/forms are created for each designated funds center. Chiefs and Directors are instructed to review prior year budget and actual expenses and to work with their staff to identify any changes in recurring expenses, anticipated contract changes, or other operational changes that may require consideration in the upcoming budget.

Beginning with the Budget Call, designated staff for each department/funds center enter the following year's operating expense budget into SBP at the general ledger expense account level. Additional details and specific descriptions can be added within SBP by using the "Details" button. Once the amounts are entered, the designated employee can advance the form to the applicable Chief or Director for review. Once approved by the Chief or Director, the form is advanced to the Budget Financial Analyst. Operating expense budget forms are due for submission to the Budget Financial Analyst by mid-September.

The Manager, Budget/Financial Analysis is responsible for loading all salary and benefits information in SBP. The Manager, Budget/Financial Analysis coordinates with Human Resource Services to ensure that employee salary and benefit data is up to date. The salary and benefits data is then extracted from SAP Human Capital Management (HCM). A percentage increase and any projected bonus amounts are applied by Pay Scale Type (salaried, non-represented, and various represented types). All benefit rates are stored within SBP and updated manually each year by the Budget team as new rates are received from the various vendors. The Manager, Budget/Financial Analysis runs a Pay Period Projection within SBP which applies any increases in pay and rates to the current employee's existing salary and benefit coverages. The data from HCM also identifies the fund center for allocation of each employee's costs and the allocation occurs automatically as part of the Pay Period Projection. The Budget team reviews the data and compares the allocation of positions based on authorized positions for each fund center.

Operating Budget Development and Approval Process

Suppliers	Inputs	Process	Output	Customer
Who supplies the process inputs?	What inputs are required?	What are the major steps in the process?	What are the process outputs?	Who receives the outputs?
Department Chiefs, Directors, and Managers	Departmental operating expense predictions for the subsequent fiscal year	Budget Administration creates forms for operating expenses within SBP for each department/fund center.	Annual Operating Budget	Chiefs and Directors
Human Resources Services	Labor costs imported from SAP Human Capital Management (HCM)	Forms are completed by each department and approved by the department's Director/Chief.		Board of Commissioners
Benefits Administration	Updated benefits rates	The Operating Budgets are reviewed at the internal Budget Review Committee hearings.		Employees
	Personnel costs to be allocated to capital projects	The final Annual Operating Budget is presented to the full Board of Commissioners for approval.		
	New positions approved by the CEO	Any changes made to the budgets as part of the internal Budget Review Committee hearings are communicated in writing by the CEO to the respective Chief or Director subsquent to Board approval.		

<u>Capital Budget Preparation</u>

The Chief Engineer has overall responsibility for overseeing the development of the capital budget for both the DRPA and PATCO. The annual Capital budget includes both the costs for projects initiated in prior years that are ongoing, as well as newly identified projects. New potential projects are identified by the following:

- <u>Biennial Inspection process</u>: Once every two years, a required and thorough inspection of facilities and equipment is performed to identify the need for any upcoming maintenance, repairs, and/or replacement. The DRPA Engineering department engages engineering consulting firms to perform the inspections. Five to six firms may be engaged (one for each of the four DRPA bridges and one or two for PATCO). DRPA Engineering avoids engaging the same firm to perform two consecutive inspections of the same facility in order to avoid any bias or dependence on prior work. The inspection reports are provided to Engineering department management for review.
- <u>Engineering recommendation</u>: A DRPA engineer is assigned to each facility. The goal is for the engineer to visit the facility on a regular basis and to work with

management of the facility to identify any upcoming maintenance, repair, replacement and/or new projects.

- Budget Call: During the annual Budget Call, DRPA and PATCO Chiefs and Directors can submit requests for capital projects. Typically, PATCO, Bridge Operations, and Information Services supply the higher valued projects.

All proposed capital projects are entered into a spreadsheet and prioritized. The highest priority is given to projects that are required to maintain or improve safety and to allow the facilities to operate at the expected capacity. Each capital project cost is determined by either an engineering cost estimate (larger projects) or a vendor quote (smaller projects). Project costs also consider internal labor (salaries and benefits expenses for DRPA and PATCO employees that may spend time working on the capital projects). Meetings are held with the Chiefs and Directors at the facilities to ensure that priority rankings and cost estimates are as accurate as possible. Engineering management also coordinates with the Government Relations and Grants Administration department to identify any potential grant funding that may be available to offset the costs of certain projects.

Each capital project has its own form in SBP. For multi-year projects that are continuing from prior year, Engineering begins entering estimated expenses into the form as soon as costs are known for the year. For newly proposed projects, the associated forms are typically not completed in SBP until after review and acceptance by the Budget Review Committee during the Capital Program Hearings in October.

Capital Budget Development and Approval

Suppliers	Inputs	Process	Output	Customer
Who supplies the process inputs?	**What inputs are required?**	**What are the major steps in the process?**	**What are the process outputs?**	**Who receives the outputs?**
Engineering Consultanting Companies	Biennial Inspection Reports	Proposed capital projects are entered in a spreadsheet by Engineering management	Annual Capital Budget	Chiefs and Directors
Internal DRPA Engineers	Engineering recommendation	The Chief Engineer meets with each department to review proposed projects and cost estimates.	WBS project codes in SAP for recording hours and costs by Capital Project	Board of Commissioners
DRPA Department Chiefs and Directors	Budget Call submissions / Departmental requests	Proposed capital projects are priortized based on safety and maintenance of operations at expected capacity.		Employees
PATCO Department Chiefs and Directors		The Chief Engineer prepares the proposed Annual Capital Budget for presentation at the internal Budget Review Committee Hearings.		
		The final Annual Capital Budget is presented to the full Board of Commissioners for approval. This is presented at : O&M Committee, Finance Committee, and the Board Meeting.		
		Capital Project forms are created in SBP for all approved projects for the current year.		
		Any changes made to the budgets as part of the internal Budget Review Committee hearings are communicated in writing by the CEO to the respective Chief or Director subsquent to Board approval.		

Revenue Budget

The Supervisor E-ZPass Technology and Toll Analysis, Manager – Finance (DRPA), and the CFO coordinate the preparation of the annual revenue budget for the DRPA. Toll revenues account for over 90% of the Authority's combined total annual operating revenues. Since the Covid-19 pandemic, 2019 has been utilized as a base year, with total annual traffic forecasted as a percentage of 2019 levels. The prior year average toll is then applied to the forecasted traffic to determine the budgeted toll revenue. Other types of revenue consist of other E-ZPass related revenues such as monthly membership fees, interest income from investments, and rental income. These revenue streams are budgeted

based on a combination of historical data and assumptions regarding future activity (e.g. current lease agreements, expected investment balances, and predicted interest rate fluctuations).

The Director – Finance (PATCO) and the General Manager (PATCO) are responsible for preparation of the annual PATCO revenue budget. PATCO passenger fare revenue accounts for 3% to 4% of the Authority's combined total annual operating revenues. Like toll revenue, 2019 has been used as a baseline after the Covid-19 pandemic to assess ridership. Ridership is predicted as a percentage of 2019 levels with considerations given to any planned station openings or closures during the upcoming year. An average fare is calculated based on historical data and applied to the predicted ridership to determine the budgeted passenger fare revenue. Other revenue sources such as advertising, parking, and leases/rentals are forecasted based on current year to date actuals adjusted for any known changes to contracts/agreements that will be in place during the upcoming year.

Budget Review and Approval

All budget forms in SBP are assigned an approver by the Manager - Budget/Financial Analysis. The list of approvers is reviewed and updated each year based on the current Chiefs and Directors responsible for each budget area. In addition to the approval within SBP, a meeting is held with each Chief during the formal budget hearing process. This process includes the CEO, Deputy CEO, CFO, Director – Finance (DRPA), and Director – Strategic Initiatives. Budget hearings are held for both Operating and Capital budgets. At the hearings, each budget is reviewed with the respective Chief and any proposed changes are discussed. Any changes made after the hearings are communicated by Finance to the Chiefs. After all budgets have been finalized, Summary Statements and Resolutions (SS&Rs) are drafted for presentation to the Finance Committee, and subsequently the Board of Commissioners. Historically this has occurred at the November or December meetings.
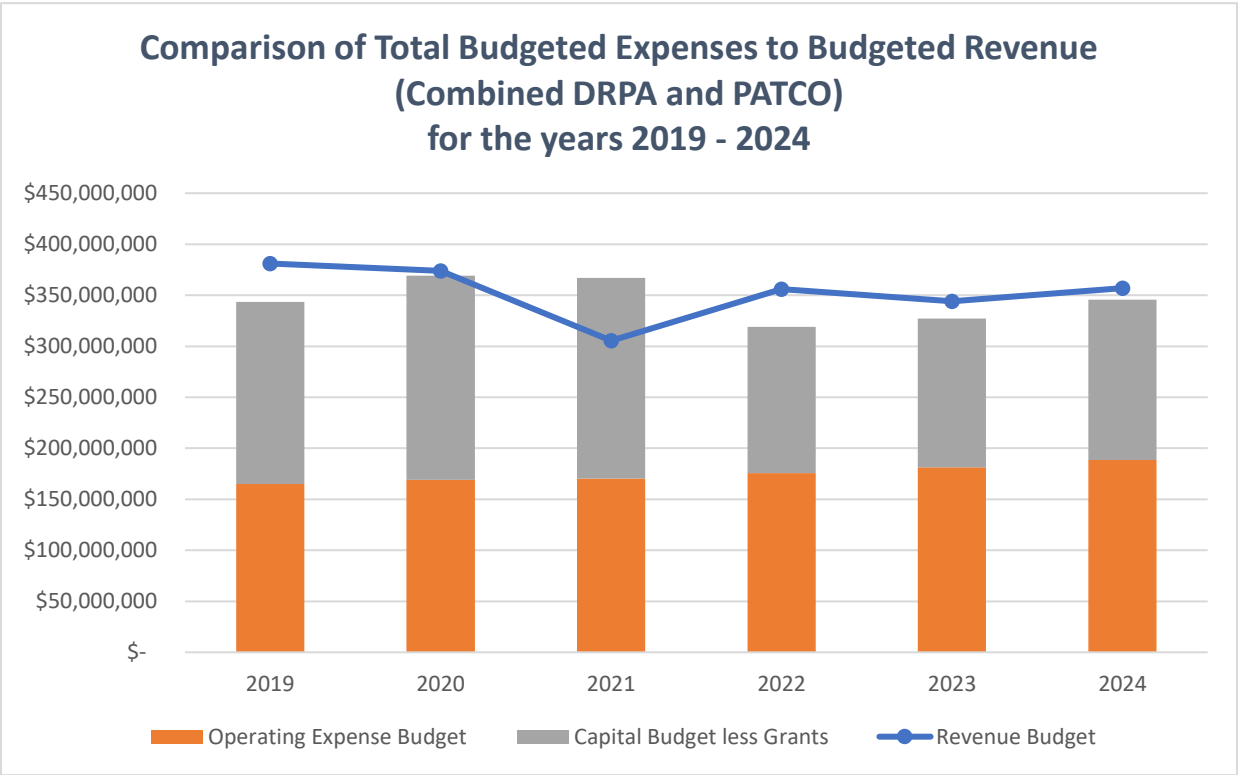
Budget Administration, Monitoring, and Reporting

Once all budgets have been approved by the Board of Commissioners, budget data is "retracted" (i.e. transferred electronically) from SBP into the SAP ERP system. Actual expenditures are tracked against the budgeted line items as incurred and entered in SAP. Management is able to view budget to actual comparisons for their departments by accessing reports in SAP.

The chart below shows the total dollar amounts budgeted for revenue, operating expenses, and capital expenditures (less budgeted amounts for federal and state grants) for each of the last six fiscal years. The revenue budget for 2021, prepared in the latter half of 2020, considers the uncertainty of traffic volume resuming during and after the Covid-19 pandemic. Post pandemic, Authority management has been disciplined in maintaining a consistent expense budget and evaluating options for funding of capital projects.

Total Budgeted Amounts (Combined DRPA and PATCO) for the years 2019 through 2024
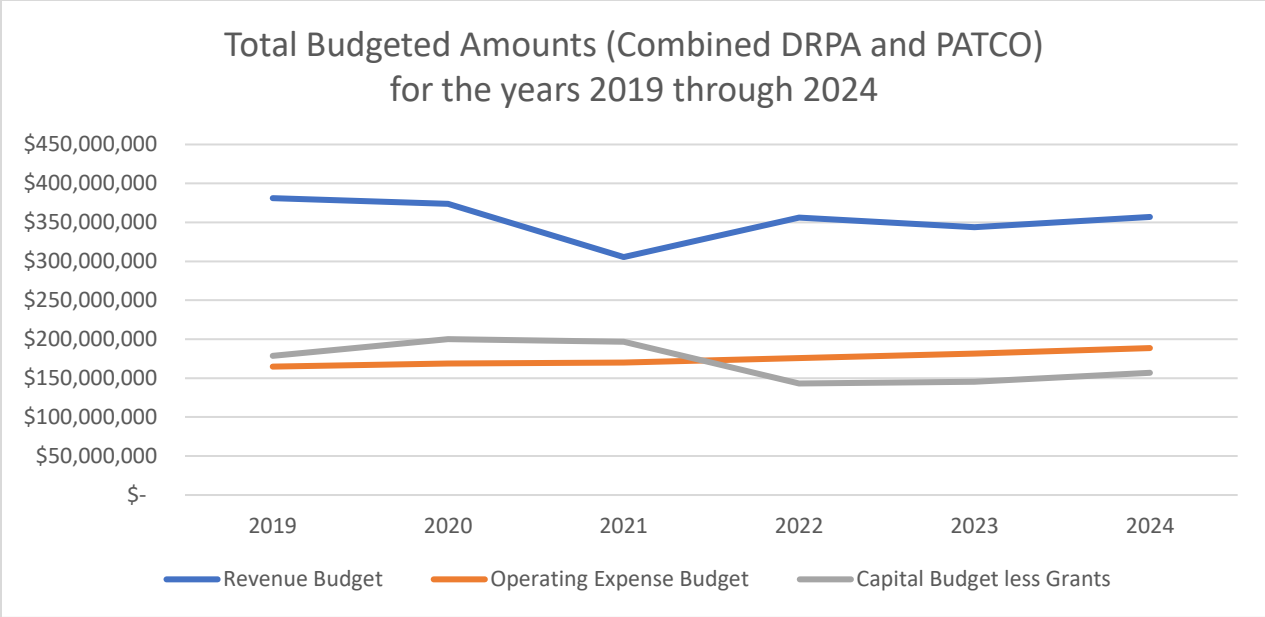
The chart below shows the total Operating Budget and Capital Budget in comparison to budgeted revenue for each of the past six fiscal years. Note: Total combined budgeted expenses exceeded budgeted revenue for 2021 as the Authority attempted to adjust revenue projections to the decreased traffic volumes encountered due to the Covid-19 pandemic while continuing to maintain Authority facilities and operations.

Comparison of Total Budgeted Expenses to Budgeted Revenue (Combined DRPA and PATCO) for the years 2019 - 2024

SAP announced that the end-of-life date for ERP Central Component (ECC 6.0), the ERP system currently used by the Authority, will be December 31, 2027 with extended maintenance (including updates, security patches, and functional improvements) available for an additional cost through December 31, 2030. The Authority is currently evaluating options regarding timing of migration to SAP S/4HANA. SBP, the current budget system, is linked to SAP ECC 6.0. Therefore, a decision regarding new budgeting software will need to be made as part of the migration. Management intends to develop a plan and projected timeline for migration to S/4HANA by June 30, 2026. Management also intends to evaluate and select a new budget software tool by December 31, 2026.

C. Audit Summary

Based on conversations with Authority management and testing performed, OIG determined that a methodical process is in place to prepare, administer, monitor, and report upon the Authority's annual operating and capital budgets. Employees participating in the budget process are provided with clear instruction and expectations, including the current strategic goals of the Authority. Opportunities exist to improve documentation of these processes, as well as to consider ways to improve the assignment of labor costs between the operating and capital budget. In summary, based on the completion of our audit, the following was determined and communicated to the Chief Engineer, the Chief Financial Officer, the General Manager (PATCO), the Director – Finance (DRPA), the Director – Finance (PATCO), the Manager – Budget/Financial Analysis, and the Acting - Engineering Program Manager:

- The preparation of the annual budget was completed within the Authority's prescribed timelines (generally between June and November of each year) and approved by the Board of Commissioners prior to the calendar year end for the years reviewed as part of this audit (fiscal years 2019 through 2024).
- Although various spreadsheets, calendars, and other tools have been developed and utilized consistently in the preparation, administration, monitoring, and reporting of the annual budgets, OIG recommends formally documenting the processes in an SOP(s). Documented SOPs promote consistency in practice, assist with training, and allow for continuity in the absence or departure of employees.
- Access to SAP Budget and Planning (SBP) is not limited to the employee's assigned budget area/fund center. An employee with access to SBP can enter information into any open (not advanced/approved) form. In addition, SBP does not enforce system approvals and/or advancement at the department level (for operating) or at the project level (for capital) for budget forms to advance to the final approval stage. There is currently no manual process to ensure that all budgets are formally approved within SBP prior to final Board approval and closeout to SAP. While SBP is still in use, documented approvals should be obtained at the

time of the Budget Hearings to indicate acceptance of the department budget by the appropriate Chief or Director. Finance indicated that amounts in SBP are reconciled to the results of the Budget Hearings (and updated, if necessary) prior to retraction into SAP.

- The budget process occurs on a regular schedule with finalization and Finance Committee approval of all budgets prior to the start of the fiscal year.

- Sufficient guidance is provided to employees responsible for participation in the budget process. The Operating and Capital Program Guidelines are distributed to applicable employees via email in advance of the request to complete departmental operating budgets and capital budget requests. The document contains expectations from Authority leadership regarding schedule, strategic goals and initiatives, and guidance on recognizing capital versus operating costs, as well as specific instructions on how to complete the necessary screens within SBP. The Manager – Budget/Financial Analysis also holds an annual training session to review the process and answer any specific questions.

- Preparation of the Authority's Capital Budget prioritizes projects related to safety and the ability to maintain operations at full capacity. New projects are analyzed and thoroughly vetted by Engineering, in conjunction with the applicable department and/or facility management. As many capital projects may take more than one year to complete, a five-year estimated cost summary is also presented with the annual Capital Budget. Projects are clearly identified and linked to a project tracking number within SAP for monitoring project costs.

- Opportunities exist to improve the budgeting of labor costs between departmental operating budgets and capital project budgets. In order to assign labor costs to capital projects within the budget, SBP requires the selection of individual employees within the operating areas to calculate budgeted amounts. Amounts are then budgeted based on that employee's salary and benefits rates. Although the capital budget process considers the level and job position of employees when budgeting projects, individual employees are not assigned until projects progress and services are required. In addition, the capital budget projects are guided by the Engineering department and developed outside of SBP (mainly in Excel) until final approval from the Board in November. The operating departments must enter capital labor estimates when operating budgets are due in September. This causes some disconnect when budgeting capital labor between the operating expense budgets and the capital budget. Finance and Engineering are coordinating to identify potential improvements to this process within the current budget system.

- Budget administration and monitoring occur within SAP utilizing various reports. A more formal budget to actual review is performed at least monthly by the Finance department at both DRPA and PATCO in preparation for the monthly Finance Committee meetings of the Board of Commissioners. Year-to-date progress of actual compared to budgeted results of revenues (both dollars and traffic/ridership) and operating expenses are presented at each monthly Finance Committee meeting.

Opportunities exist to increase the shared responsibility with the various departments for tracking budget to actual results and providing updates and explanation of variances to Finance.

- Requested records were available and maintained in accordance with the Authority's Records Retention Schedule.
- SAP announced that the end-of-life date for ERP Central Component (ECC 6.0), the ERP system currently used by the Authority, will be December 31, 2027 with extended maintenance (including updates, security patches, and functional improvements) available for an additional cost through December 31, 2030. The Authority is currently evaluating options regarding timing of migration to SAP S/4HANA. SBP, the current budget system, is linked to SAP ECC 6.0. Therefore, a decision regarding new budgeting software will need to be made as part of the migration. Management intends to develop a plan and projected timeline for migration to S/4HANA by June 30, 2026. Management also intends to evaluate and select a new budget software tool by December 31, 2026.

These summarized findings, and associated recommendations and management's corrective actions, are presented in more detail within the report.

D. Budget Preparation (Operating and Capital Budget)

Overall, the preparation of the annual budget is completed within the Authority's prescribed timelines (generally between June and November of each year) and approved by the Board of Commissioners prior to the calendar year end. Communication regarding expectations and training opportunities are provided to the employees responsible for preparing the operating budgets or completing capital budget forms for their respective areas on an annual basis at the start of the budget preparation process. Finance department personnel, including the Manager – Budget/Financial Analysis and the Director – Finance (PATCO), work closely with the departments to answer any questions and to assure that operating budgets are in line with expectations.

Preparation of the Authority's Capital Budget prioritizes projects related to safety/security and the ability to maintain operations at full capacity. New projects are analyzed and thoroughly vetted by Engineering, in conjunction with the applicable department and/or facility management. As many capital projects may take more than one year to complete, a five-year estimated cost summary is also presented with the annual Capital Budget. Projects are clearly identified and linked to a "WBS" or project tracking number within SAP for monitoring project costs.

SBP will no longer be supported by SAP at the end of calendar year 2027 and the Authority is currently evaluating options for a new budget system. Opportunities exist to consider both current and future process changes related to usage of SBP (or new budget system),

in particular for approval of budget forms and capital labor allocations, as well as to more formally document SOPs related to all areas of budget management.

OIG inquired of the respective members of management including: the Manager – Budget/Financial Analysis, the Director – Finance (PATCO), the Director – Finance (DRPA), the General Manager (PATCO), the Chief Engineer and the CFO regarding the budget preparation process. OIG obtained and reviewed the 2024 Budget Call Memorandum and accompanying 2024 Operating and Capital Program Guidelines sent to employees in June 2023 for preparation of the 2024 annual budget. OIG's Manager, Internal Audit attended the training session to review key areas of the Operating and Capital Budget process that was offered in July 2024, as well as reviewed the instructional materials available on SAP Enable Now. For all years within the audit scope, OIG reviewed the applicable SS&Rs and agreed all approved budgeted amounts for the Operating Budgets (both DRPA and PATCO) and the Capital Budgets to SAP. In addition, OIG reviewed the approvals and stage advancement for all completed budget forms within SBP for the 2024 Operating Budget and a selection of forms for the 2024 Capital Budget.

Through inquiries with management and employees responsible for entering budgets into SBP, OIG notes that access within SBP is not limited to the employee's fund center or department. All employees with access to SBP can enter budgeted expenses into any operating expense form within the system. This increases the risk of errors in assigning costs to the correct fund center/department. (See **Audit Finding #1**).

Sufficient guidance is provided to employees responsible for participation in the budget process. In June of each year, the Operating and Capital Program Guidelines are distributed to applicable employees via email in advance of the request to complete departmental operating budgets and capital budget requests. The document contains expectations from Authority leadership regarding schedule, strategic goals and initiatives, and guidance on recognizing capital versus operating costs, as well as specific instructions on how to complete the necessary screens within SBP. The Manager – Budget/Financial Analysis holds an annual training session to review the process and answer any specific questions. In addition, Authority Policy 403 - Preparation of Budget Operating and Capital and Policy 404 – Commitments, Reporting of, for Operating Budget Purposes provide a high level overview of the responsibilities of Chiefs and Directors in the budget process.

Chiefs and Directors are instructed to approve and advance operating expenses forms within SBP. However, SBP has not been configured to enforce approval and advancement of forms prior to allowing forms to be finalized and retracted into SAP. In addition to providing formal documented approval of the budget, approval and advancement of budget forms in SBP locks the budget form and prohibits changes from being made during the time between submission to the Budget Financial Analyst and final Board approval. While most forms reviewed showed evidence of approval, OIG identified at least one operating expense form and one capital expense form for 2024 that did not have an approval within SBP. There is currently no manual process to ensure that system approvals are received

for all forms prior to finalizing the budget for approval by the Board of Commissioners. (See **Audit Finding #2**).

Although department Chiefs and Directors do not have responsibility for entering details related to employee salaries and benefits in the operating budget forms, the Chiefs and Directors of certain departments (PATCO, Bridge Operations, etc.) coordinate with Engineering to determine the amount of labor costs that should be budgeted to capital projects during the year. This requires an allocation to be made in SBP to move labor costs from the department operating budget into designated capital projects. In order to assign labor costs to capital projects within the budget, SBP requires the selection of individual employees within the operating areas to calculate budgeted amounts. Amounts are then budgeted based on that specific employee's salary and benefits rates. Although the capital budget process considers the level and job position of employees when budgeting projects, individual employees are not assigned until projects progress and services are required. In addition, the capital budget projects are guided by the Engineering department and developed outside of SBP (mainly in Excel) until final approval from the Board in November. The operating departments must enter capital labor estimates when operating budgets are due in September. This causes some disconnect when budgeting capital labor between the operating expense budgets and the capital budget. (See **Audit Finding #3**).

Currently, there are a variety of methods used to document and manage the detailed steps of the budget preparation process (e.g. review and compilation of departmental budgets, assimilating salary and benefits information, and prioritization of capital projects) that are performed by Finance and Engineering staff. These include an operational user manual (provided by SAP upon implementation), a series of simulation videos, a Gantt chart with a historical timeline for completion of various budget related tasks, various excel files for both operational and capital budget preparation review, tracking, and prioritization, and templated presentation materials for communication to the Board of Commissioners. However, a formally documented set of SOPs was not available for either the Operating Budget or Capital Budget process at the time of the audit. (See **Audit Findings #4 and #5**).

> **Audit Finding #1**: Access to SBP is not limited to the employee's assigned budget area/fund center. An employee with access to SBP can enter information into any open (not advanced/approved) form.
>
> **Audit Recommendation #1**: As the Authority will be implementing a new system for budget development (selection of a new system is targeted for December 31, 2026), OIG recommends considering whether the new system can be configured to assign access based upon the fund center. Limiting employee access to the fund centers/forms for which they are responsible reduces the risk that data will be accidentally entered into the wrong fund center resulting in inaccuracies in the budget.

While SBP is still in use, employees responsible for the input of budget information should be reminded to ensure that they are entering information into the correct fund center. All information should be reviewed carefully before being approved and advanced to the next stage. In addition, documented approvals should be obtained at the time of the Budget Hearings to indicate acceptance of the department budget by the appropriate Chief or Director. Finance indicated that the budgeted values entered in SBP are reconciled to the results of the Budget Hearings (and updated, if necessary) prior to retraction into SAP.

Management Response #1: The CFO and the Director, Finance (DRPA) concur with the finding and recommendation. Under the current and historical budgeting process, Budget has a meeting with each Chief during the formal budget hearing process. This process involves a panel of the CEO, Deputy CEO, CFO, Director of Finance and Strategic Initiatives. At these hearings, each budget is reviewed with the respective Chief. Any proposed changes are discussed with the Chief at the hearing. We will seek confirmation of budget approval via email from all Chiefs when all budgets under each Chief are finalized. Budget finalization will happen at the later of the budget hearing or when all final adjustments are entered in ESS. This process will be implemented for the 2026 Budget Hearings, which are expected to occur in October and November of 2025. We will consider approval flow and form protection and other functions when it comes time to evaluate budget systems that work with the upgraded/new ERP system.

The Chief Engineer and the Acting, Engineering Program Manager also concur with the finding and recommendation. Approval/acceptance of Capital Budgets will either be included in the confirmation email sent by Finance (combined Operating and Capital Budgets) or obtained in a separate email sent by Engineering. This decision will be made based on the timing of the presentation of the overall Capital Budget and Operating Budget to the Board.

Audit Finding #2: SBP, the current application used for drafting the annual budget, does not enforce system approvals and/or advancement at the department level (for operating) or at the project level (for capital) for budget forms to advance to the final approval stage. There is no manual process to ensure that all budgets are formally approved within SBP prior to final Board approval and closeout to SAP. In addition to providing documented approval of the budget, approval and advancement of budget forms in SBP locks the budget form and prohibits further changes.

Audit Recommendation #2: When the Authority implements a new system for budget development (selection of a new system is targeted for December 31, 2026), OIG recommends considering whether the new system can be configured to enforce formal documented approval by the Chief or Director responsible for each budget upon submission to the Budget Financial Analyst. Approval and advancement of the budget forms also locks the forms from editing by any employee other than the employee identified within the system for approval/advancement.

While SBP is still in use, documented approvals should be obtained at the time of the Budget Hearings to indicate acceptance of the department budget by the appropriate Chief or Director. Finance indicated that the budgeted values entered in SBP are reconciled to the results of the Budget Hearings (and updated, if necessary) prior to retraction into SAP.

Management Response #2: The CFO and the Director, Finance (DRPA) concur with the finding and recommendation. Under the current and historical budgeting process, Budget has a meeting with each Chief during the formal budget hearing process. This process involves a panel of the CEO, Deputy CEO, CFO, Director of Finance and Strategic Initiatives. We will seek confirmation of budget approval via email from all Chiefs when all budgets under each Chief is finalized. Budget finalization will happen at the later of the budget hearing or when all final adjustments are entered in ESS. This process will be implemented for the 2026 Budget Hearings, which are expected to occur in October and November of 2025. We will consider approval flow and form protection and other functions when it comes time to evaluate budget systems that work with the upgraded/new ERP system.

The Chief Engineer and the Acting, Engineering Program Manager also concur with the finding and recommendation. Approval/acceptance of Capital Budgets will either be included in the confirmation email sent by Finance (combined Operating and Capital Budgets) or obtained in a separate email sent by Engineering. This decision will be made based on the timing of the presentation of the overall Capital Budget and Operating Budget to the Board.

Audit Finding #3: In order to assign labor costs to capital projects within the budget, SBP requires the selection of individual employees within the operating areas to calculate budgeted amounts. Amounts are then budgeted based on that employee's salary and benefits rates. Although the capital budget process considers the level and job position of employees when budgeting projects, individual employees are not assigned until projects progress and services are required. In addition, the capital budget projects are guided by the Engineering department and developed outside of SBP (mainly in Excel) until final approval from the Board in November. The operating departments must enter capital labor estimates when operating budgets are due in September. This causes some disconnect when budgeting capital labor between the operating expense budgets and the capital budget.

Audit Recommendation #3: When the Authority implements a new system for budget development (selection of a new system is targeted for December 31, 2026), OIG recommends that Finance and Engineering consider whether the new system can provide for an estimate for capital labor without having to assign specific employees at the time of budget development. In addition, aligning the timelines for assignment of capital labor between the operating and capital budgets would improve the accuracy of the operating budget process at the department level. In

the interim, Finance and Engineering should consider options for improving the assignment of capital labor within SBP to make the process more efficient and to allow the operating budget to more closely reflect the manner that labor is estimated within the capital budget preparation process.

Management Response #3: The CFO and the Director, Finance (DRPA) concur with the finding and recommendation. The CFO will assemble a workgroup which will include representatives from Finance, Budget, Engineering, and Operations to discuss alternative methods for entering capital labor into SBP for the annual 2026 budget. The initial meeting was held on January 14, 2025. When evaluating a new system, we will look to find one where capital labor actuals and budget fringe rates and accounts used for capital match. We will also consider using a blended fringe rate in the budget module rather than using fringe rates of specific employees.

Audit Finding #4: There are no documented SOPs for the preparation, administration, monitoring, and reporting of the annual Operating Expense Budget.

Audit Recommendation #4: Although various spreadsheets, calendars, and other tools have been developed and utilized consistently in the preparation, administration, monitoring, and reporting of the annual Operating Expenses Budget, OIG recommends formally documenting the process in an SOP(s). Documented SOPs promote consistency in practice, assist with training, and allow for continuity in the absence or departure of employees. The SOP(s) should include the spreadsheet models used, timing of preparation, delineation of responsibility, information system considerations, required approvals, ongoing monitoring of budget to actual results, and frequency/level of reporting.

Management Response #4: The CFO and Director, Finance (DRPA) concur with the recommendation and finding. Current documentation of procedures already includes 85 Budget related Enable Now Simulations that detail all major system functionalities step by step. There is also an operational manual broken down by system functionality explaining how to perform tasks within SBP and what each respective field & code means. We also have a Master Gantt chart that explains all the major functionalities, and when they need to be performed. Video SOPs for the PEP and Benefit rates are available to select Finance personnel. The Manager – Budget/Financial Analysis has already started drafting SOPs related to procedures specific to the Authority such as verifying extracted personnel data and reconciling final budget information prior to retraction to SAP. Finance will continue to analyze specific procedures within the annual budget process that require an SOP. The target date for completion is April 30, 2025.

Audit Finding #5: There are no documented SOPs for the preparation, administration, monitoring, and reporting of the annual Capital Budget.

Audit Recommendation #5: Although various spreadsheets, calendars, and other tools have been developed and utilized consistently in the preparation, administration, monitoring, and reporting of the annual Capital Budget, OIG recommends formally documenting the process in an SOP(s). Documented SOPs promote consistency in practice, assist with training, and allow for continuity in the absence or departure of employees. The SOP(s) should include the spreadsheet models used, timing of preparation, delineation of responsibility, information system considerations, required approvals, ongoing monitoring of budget to actual results, and frequency/level of reporting.

Management Response #5: The Chief Engineer and the Acting - Engineering Program Manager concur with the Audit recommendation. Engineering will have documented SOPs prior to the start of the next budget cycle, July 1, 2025. The SOP will be specific to the Engineering Department. It should be noted that changes to the SOP will be required at the time a new budget system is implemented.

E. Budget Preparation (Revenue)

A revenue budget is prepared for both DRPA toll revenue and PATCO fare revenue on an annual basis. Historical traffic volumes and average toll revenue per transaction are the key drivers of the toll revenue budget. Similarly, historical ridership and average fare revenue per rider are the key drivers of the PATCO fare revenue budget. Spreadsheet models are used to track data and perform calculations. Opportunities exist to better document the process through the development of formal SOPs.

OIG inquired of the respective members of management including the Director – Finance (PATCO), the Director – Finance (DRPA), the General Manager PATCO, and the CFO regarding the revenue budget preparation process. OIG reviewed the spreadsheet models utilized to prepare the annual revenue budgets for 2024 and 2025 (in process at the time of the audit) and assessed the reasonableness of the inputs to the calculation. Formally documented SOPs for development of the annual revenue budget were not available. (See **Audit Finding #6**).

Audit Finding #6: There are no documented SOPs for development of the annual revenue budget.

Audit Recommendation #6: Although spreadsheet models have been developed and utilized consistently by both DRPA and PATCO Finance in the annual revenue forecasting process, OIG recommends formally documenting the process in an SOP(s). Documented SOPs promote consistency in practice, assist with training, and allow for continuity in the absence or departure of employees. At a minimum, the SOP(s) should include the spreadsheet models used, timing of preparation, delineation of responsibility, information system considerations, and required approvals.

Management Response #6: The CFO and Director, Finance (DRPA) concur with the finding and recommendation. An SOP for the logic/math behind forecasting toll revenue was completed in December 2024. Toll revenue accounts for approximately 93% of total operating revenue. The CFO works closely with the E-ZPass team to utilize existing traffic & revenue data to assist with next year's forecast. An SOP for PATCO fare revenue was completed and provided to the CFO and OIG during January 2025. Other operating revenue estimates come from the terms in the existing and expected to be executed revenue contracts. Interest income is calculated using funds we expect to have on hand, current and expected changes in interest rates for money markets and average returns on managed funds. There are simulations and other training data available on how to enter the Revenue Budget into SBP.

F. Budget Administration, Monitoring, and Reporting

Overall, budget administration and monitoring occur within SAP utilizing various reports. A more formal budget to actual review is performed at least monthly by the Finance department at both DRPA and PATCO in preparation for the monthly Finance Committee meetings of the Board of Commissioners. Year-to-date progress of actual compared to budgeted results of revenues (both dollars and traffic/ridership) and operating expenses are presented at each monthly Finance Committee meeting. Opportunities exist to increase the shared responsibility with the various departments for tracking budget to actual results and providing updates and explanations of variances to Finance. In addition, development of formal documented SOPs promotes consistency in practice, assists with training, and allows for continuity in the absence or departure of employees (See **Findings #4 and #5**).

OIG inquired of the respective members of management including the Director – Finance (PATCO), the General Manager PATCO, the Manager – Budget/Financial Analysis, and the CFO regarding the process for ongoing budget to actual monitoring and reporting. OIG reviewed a sample of monthly presentations to the Finance Committee noting that actual to budget information was presented. OIG notes that management is also provided with instructions to self-monitor expenditures for their respective departments and to be prepared to provide explanations for all variances in excess of $5,000. (This is included on page 29 of the Guidelines that is distributed at the start of budget preparation.) In practice, budget to actual monitoring is largely driven by the Finance department for both DRPA and PATCO. If unusual items or significant variances are identified, Finance will contact the applicable Chief or Director for an explanation. During 2024, documentation related to these variances has become more formalized, although an exact threshold for follow-up has not been defined.

> **Audit Finding #7:** Budget to actual monitoring for the Operating Budget is performed largely by the Finance teams at both DRPA and PATCO throughout the year. Although department Chiefs and Directors are advised to self-monitor expenditures as part of the Guidelines that are distributed during the budget call, confirmation of this is not currently requested/required by Finance. The Guidelines

also indicate that Directors will be asked to provide projections for end of year expenditures during the third quarter with written explanations for all significant variances or exceptions exceeding the approved budgeted amounts. This is not currently enforced. In addition, while a high-level budget to actual analysis for the year is performed and presented at the March Board of Commissioners meeting, a final annual budget to actual analysis at the department level was not available.

Audit Recommendation #7: Tools are available within SAP to allow for Chiefs and Directors to monitor performance against budget on an ongoing basis. OIG recommends that responsibility for budget management be shared by the Chiefs and Directors, in particular for non-labor related expenses, and that a threshold/process be established for Chiefs and Directors to report overruns/variances to Finance. Periodic reviews should also be performed to identify expenses posted to accounts with no budget to identify errors and ensure that actual recorded amounts can be compared to budgeted line items.

In addition, OIG recommends that Finance perform a quarterly and year-end analysis of budget to actual results by department (or other relevant division/level). A budget to actual review by department or function can identify any drivers of budget variances, assist in determining the effectiveness of the budget process, and identify areas for improving the accuracy of future budgets.

Management Response #7: The CFO and Director, Finance (DRPA) concur with the finding and recommendation. Beginning in November 2024, processes have been implemented to obtain and provide more detailed explanations related to budget variances on a monthly basis in preparation for the monthly Finance Committee meetings. Rather than have the Chiefs and/or Directors provide the information monthly, the Budget department personnel monitor the budget and contact the appropriate Chief and/or Director for further details if necessary. A large portion of the budget is salary and benefits related and not directly budgeted by the department Chiefs and Directors. Chiefs and Directors are advised that they can monitor their year-to-date budget to actual spending utilizing the GR55 reports within SAP. The Director of Finance does a final look back to make sure the total budget has not been overspent after the year is official closed out from further posting. The official close out happens after the last entry when we run the final year-end T-code to close the books. The last entry is usually tied to GASB 68 for NJ pension. The Director reverified that we did not overspend in 2023 back in December 2024. For YE2024, the review will be documented and discussed with the CFO. Target date for completion is June 30, 2025.

When evaluating a new budget system, comprehensive, user-friendly reporting functionality will be a key requirement.