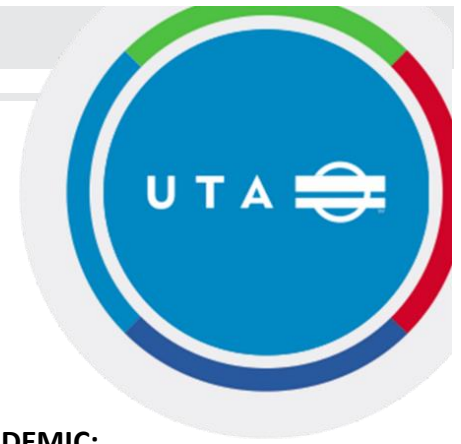


Regular Meeting of the  
**Utah Transit Authority Audit Committee**

Monday, February 1, 2021, 3:00 p.m.

Remote Electronic Meeting – No Anchor Location – Live-Stream at  
[https://www.youtube.com/results?search\\_query=utaride](https://www.youtube.com/results?search_query=utaride)



**NOTICE OF SPECIAL MEETING CIRCUMSTANCES DUE TO COVID-19 PANDEMIC:**

In keeping with recommendations of Federal, State, and Local authorities to limit public gatherings in order to control the continuing spread of COVID-19, and in accordance with the Utah Open and Public Meetings Act, (Utah Code § 52-4-207.4), the UTA Audit Committee will make the following adjustments to our normal meeting procedures.

- All members of the Audit Committee and meeting presenters will participate electronically via phone or video conference.
- Meeting proceedings may be viewed remotely through YouTube live-streaming.  
[https://www.youtube.com/results?search\\_query=utaride](https://www.youtube.com/results?search_query=utaride)

- |   |   |
|---|---|
| <b>1. Call to Order &amp; Opening Remarks</b>                   | <b>Chair Carlton Christensen</b>          |
| <b>2. Safety First Minute</b>                                   | <b>Sheldon Shaw</b>                       |
| <b>3. Consent</b>   | <b>Chair Carlton Christensen</b>          |
| a. Approval of October 19, 2020 Audit Committee Meeting Minutes |   |
| b. Internal Audit Charter Approval                              |   |
| <b>4. Internal Audit Update</b>                                 | <b>Ron Ellis</b>                          |
| <b>5. 2021 Internal Audit Plan Approval</b>                     | <b>Ron Ellis</b>                          |
| <b>6. Internal Audit Report Review</b>                          |   |
| a. Grants Management Follow-Up Audit Report                     | Ron Ellis, Kenya Fail                     |
| b. State of Good Repair Audit Report                            | Ron Ellis, Eddy Cumins,<br>Dan Hofer      |
| c. Budget and Preparation Management Audit Report               | Ron Ellis, Bill Greene,<br>Brad Armstrong |
| <b>7. Other Business</b>  | <b>Chair Carlton Christensen</b>          |
| a. Next meeting: Monday, April 12, 2021, 3:00 p.m.              |   |
| <b>8. Adjourn</b>   | <b>Chair Carlton Christensen</b>          |

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**Public Comment:** Members of the public are invited to provide comment during the public comment period of *regular* Board of Trustees meetings. Public comment will not be taken at this Audit Committee meeting. General comment may be given online through [www.rideuta.com](http://www.rideuta.com). Comments may also be sent via e-mail to [boardoftrustees@rideuta.com](mailto:boardoftrustees@rideuta.com).

**Special Accommodation:** Information related to this meeting is available in alternate format upon request by contacting [callredge@rideuta.com](mailto:callredge@rideuta.com) or (801) 287-3536. Request for accommodations should be made at least two business days in advance of the scheduled meeting.

**UTAH TRANSIT AUTHORITY  
ELECTRONIC BOARD MEETING DETERMINATION**

Consistent with provisions of the Utah Open and Public Meetings Act, (UTAH CODE § 52-4-207 [4]), as the Chair of the Board of Trustees ("Board") of the Utah Transit Authority ("UTA"), I hereby make the following written determinations in support of my decision to hold electronic meetings of the UTA Board without a physical anchor location:

1. Due to the ongoing COVID -19 pandemic, conducting Board and Board Committee meetings with an anchor location presents a substantial risk to the health and safety of those who may be present at the anchor location.
2. Federal, state, and local health authorities have adopted guidelines which encourage institutions and individuals to limit in-person interactions and recommend increased virtual interactions.

This written determination takes effect on January 27, 2021, and is effective until midnight on February 26, 2021 and may be re-issued by future written determinations as deemed appropriate.

Dated this 22<sup>nd</sup> day of January 2021.

DocuSigned by:



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Carlton Christensen, Chair of the Board of Trustees



## MEETING MEMO

**TO:** Utah Transit Authority Audit Committee  
**FROM:** Jana Ostler, Board Manager

**AUDIT COMMITTEE MEETING DATE:** February 1, 2021

<b>SUBJECT:</b>	<b>Approval of October 19, 2020 Audit Committee Meeting Minutes</b>
<b>AGENDA ITEM TYPE:</b>	<b>Consent</b>
<b>RECOMMENDATION:</b>	Approve the minutes of the October 19, 2020 Audit Committee Meeting.
<b>BACKGROUND:</b>	A regular meeting of the UTA Audit Committee was held electronically and broadcast live on YouTube on Monday, October 19, 2020 at 3:00 p.m. Minutes from the meeting document the actions of the committee and summarize the discussion that took place in the meeting. A full audio recording of the meeting is available on the <a href="#">Utah Public Notice Website</a> and video feed is available on You Tube at <a href="https://www.youtube.com/results?search_query=utaride">https://www.youtube.com/results?search_query=utaride</a>
<b>ATTACHMENTS:</b>	1) 2020-10-19_AUDIT_Minutes_UNAPPROVED



Minutes of the Regular Meeting of the  
**Utah Transit Authority (UTA) Audit Committee**  
Monday, October 19, 2020, 3:00 p.m.  
**held remotely via phone or video conference  
and broadcast live for the public via YouTube**

**Audit Committee Members Participating:**

Carlton Christensen, Chair  
Beth Holbrook  
Kent Millington  
Karen Cronin  
Troy Walker

Also attending were members of UTA staff and outside presenters.

**Call to Order and Opening Remarks.** Chair Christensen welcomed attendees and called the meeting to order at 3:00 p.m. The Utah Transit Authority Electronic Board Meeting Determination Statement was read by Jana Ostler, UTA Board Manager. The full text of the statement is appended to these minutes.

**Safety Minute.** Chair Christensen yielded the floor to Sheldon Shaw, UTA Director of Safety & Security for a brief safety message.

**Consent.** The consent agenda was comprised of:

- Approval of August 24, 2020 Audit Committee Meeting Minutes

A motion to approve the consent agenda was made by Member Walker and seconded by Member Holbrook. The motion carried unanimously.

**External Financial Auditor Recommendation (Crowe, LLP).** Troy Bingham, UTA Comptroller, recommended Crowe, LLP as the external financial auditor for UTA.

The committee asked questions about the firm being out of state and the timing of the contract. Mr. Bingham responded. Discussion ensued.

Motion by Member Walker to approve. Second by Member Cronin. Approved unanimously.

**Internal Audit Update.** Ron Ellis, UTA Director of Internal Audit, gave an update on the internal audit plan as it was amended. The transit-oriented development preliminary assessment and maintenance of way-infrastructure audit are complete. Budget management, grants management, and state of good repair audits are in progress. The capital projects and IT business continuity/disaster recovery audits are in process, and the accounts payable audit is planned. Audits with open findings include budget management, payroll, vanpool operations, and maintenance of way-infrastructure.

Mr. Ellis reported that communication, training, and distribution of disclosures on the UTA ethics policy is complete.

Mr. Ellis gave an update on Auditboard software and the internal audit process. The annual risk analysis and audit planning was presented.

The committee asked questions on the findings data and the implementation of Auditboard. Mr. Ellis responded. Discussion ensued.

#### **Internal Audit Report Review.**

**Maintenance of Way Audit (MOW) Report.** Mr. Ellis gave the audit scope of the MOW Audit, which included governance, maintenance, training, inspection, and third-party contracts. Two issues remain in progress. MOW has implemented formal governance controls, a new training program, and updates to the supply standard operating procedure (SOP).

The committee asked about the budget, the needs of the organization, and the timeline of the new software. David Hancock, UTA Director of Asset Management, responded. Discussion ensued.

**Transit-Oriented Development (TOD) Preliminary Assessment Report.** Mr. Ellis gave the TOD follow up report, noting the policy operating effectiveness exceptions and design of TOD policy and procedures. He also gave an update on the contracting authority policy.

Chair Christensen asked questions on the exceptions that were found. Mr. Ellis and Paul Drake, UTA Director of Real Estate and TOD, responded. Discussion ensued.

(Note: The Maintenance of Way Audit Report and Transit-Oriented Development Preliminary Assessment Report were discussed in a different order than listed on the agenda.)

**Other Business.**

**Next Meeting.** The next audit committee will be held in 2021 and information will be forthcoming.

**Adjournment.** The meeting was adjourned at 3:43 p.m. by motion from Member Cronin, with a second by Member Holbrook.

Transcribed by Stephanie Withers  
Executive Assistant to the Board  
Utah Transit Authority  
[swithers@rideuta.com](mailto:swithers@rideuta.com)  
801.278.2581

*This document is not intended to serve as a full transcript as additional discussion may have taken place; please refer to the meeting materials or audio located at <https://www.utah.gov/pmn/sitemap/notice/634483.html> for entire content.*

*This document along with the digital recording constitute the official minutes of this meeting.*

Approved Date:

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Carlton J. Christensen  
Chair, Board of Trustees

**UTAH TRANSIT AUTHORITY  
ELECTRONIC BOARD MEETING DETERMINATION**

Consistent with provisions of the Utah Open and Public Meetings Act, specifically UTAH CODE § 52-4-207(4), and acting in my capacity as the Chair of the Board of Trustees ("Board") of the Utah Transit Authority ("UTA"), I hereby make the following written determinations in support of my decision to hold and convene electronic meetings of the UTA Board without a physical anchor location:

1. Conducting Board and Board Committee meetings with an anchor location that is physically accessible for members of the public to attend in person presents a substantial risk to the health and safety of those who may be present at the anchor location.
2. This determination is based upon the following facts, among others:
  - a. The COVID-19 pandemic is ongoing and significant and continued community, person-to-person virus transmission continues to occur in the state of Utah; and
  - b. Federal, state, and local health authorities have adopted guidelines for the general public and businesses which encourage institutions and individuals to take precautions, including limiting in-person interactions and recommending increased virtual interactions.

This written determination takes effect on October 7, 2020, and is effective until midnight on November 6, 2020, (no more than 30 days after the effective date of this Declaration) and may be re-issued by future written determinations of the Chair of the Board at that or any other appropriate time.

Dated this 30 day of September, 2020.

  
\_\_\_\_\_  
Carlton Christensen Chair of the Board of Trustees





## MEETING MEMO

**TO:** Utah Transit Authority Audit Committee  
**FROM:** Ron Ellis, Director Internal Audit  
**PRESENTER(S):** Ron Ellis, Director Internal Audit

**AUDIT COMMITTEE MEETING DATE:** February 1, 2021

<b>SUBJECT:</b>	<b>Internal Audit Charter Approval</b>
<b>AGENDA ITEM TYPE:</b>	<b>Charter</b>
<b>RECOMMENDATION:</b>	Approve the Internal Audit Charter
<b>BACKGROUND:</b>	<p>The International Standards for the Professional Practice of Internal Auditing, no 1000, requires an Internal Audit function to have a charter in place that defines the purpose, authority and responsibility of such a function. The charter should be reviewed on a periodic basis.</p> <p>UTA's Bylaws direct the Audit Committee to adopt a charter, to be reviewed annually, that establishes the scope of the Internal Auditor's responsibilities. The Audit Committee approved the existing Internal Audit Charter at their February 10, 2020 meeting.</p>
<b>DISCUSSION:</b>	The Internal Audit Charter is being presented to the Audit Committee with no changes.
<b>ATTACHMENTS:</b>	1) Internal Audit Charter

# **INTERNAL AUDIT CHARTER**

## **FOR THE UTAH TRANSIT AUTHORITY**

The Board of Trustees (“Board”) has established the Internal Audit Department (“Internal Audit”) as a key component of the Utah Transit Authority’s (“UTA”) governance framework.

This Internal Audit Charter serves as a framework for Internal Audit in the performance of its duties and is intended to provide a basis for the Board to evaluate the Internal Audit function.

The components of this Internal Audit Charter include:

- Mission Statement
- Scope of Work
- Responsibilities
- Audit Plan
- Reporting
- Independence and Authority
- Standards of Audit Practice

### **MISSION STATEMENT**

The mission of Internal Audit is to improve UTA's operations and systems of internal controls and add value through independent, objective assurance, and consultative support. Internal Audit helps UTA accomplish its objectives through a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance activities and processes.

### **SCOPE OF WORK**

The scope of audit coverage is agency-wide including all departments and business units of UTA.

In order to fulfill its mission, Internal Audit assesses whether UTA's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in areas such as:

- Risk identification and management
- Operational control
- Accurate, reliable, and timely financial, managerial and operating information
- Compliance with policies, standards and procedures
- Adherence to applicable laws and regulations
- Management’s achievement of goals and objectives
- Economic acquisition, efficient use, and adequate protection of resources
- Support of management in their interaction with the various internal organizations and external regulatory authorities as needed.

## **RESPONSIBILITIES**

The Chief Internal Auditor and the Internal Audit staff have responsibility to:

- Facilitate UTA's annual risk assessment
- Develop an annual Audit Plan using appropriate risk-based methodology (including risks or control concerns identified by management, the Audit Committee and external audits) and submit that plan to the Audit Committee for review and approval
- Perform a preliminary assessment of the key processes and related internal controls supporting operations and financial reporting as part of the audit process
- Communicate preliminary assessment results and recommendations to management and the Audit Committee as part of the audit process
- Complete internal audits to assess the key processes and related internal controls by testing the adequacy of design and operational effectiveness of the key controls supporting operations and financial reporting
- Communicate audit findings, recommendations and management action plans to management, the Audit Committee, and any other relevant parties through an audit report at the finalization of each audit
- Follow-up with management to assess whether action plans are completed by management within the mutually agreed timeframe to address the risks and deficiencies identified
- Prepare and present reports to the Audit Committee summarizing the status of Internal Audit's work at least quarterly but could be more frequently as directed by the Audit Committee
- Design and roll-out programs and practices around ethics, with support from the Compliance Officer
- Assist in the investigations of suspected misconduct or fraudulent activities within the organization and notify management and, in the event of significant ethical violations, the Audit Committee of the results
- Support UTA management in their interaction with the external financial auditors
- Assist UTA management to facilitate other external compliance audits generally managed through other departments within UTA
- Assist UTA in identifying the characteristics of adequate systems of control
- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certification to meet the requirements of this Charter
- Keep the Audit Committee informed of emerging trends and best practices in internal auditing
- Assist the Audit Committee in any other way in connection with the discharge of its duties and responsibilities

## **AUDIT PLAN**

The annual Audit Plan is developed each year based upon input from UTA leadership and the Audit Committee.

The annual Audit Plan may include a combination of the following:

- Assessments of compliance with UTA's policies and procedures
- Reviews of internal controls related to significant processes and IT systems to determine whether or not they are properly designed and functioning as intended

- Reviews of financial and operating information
- Assessing whether corporate assets are properly safeguarded
- Reviews of computer-based systems focusing on data security, disaster recovery, and effective use of resources
- Reviews of internal controls designed to ensure compliance with external laws and regulations, including accounting rules and applicable regulations
- Operational audits focusing on improving efficiencies or effectiveness with a goal of contributing to cost reduction efforts
- Strategic audits, such as reviews of due diligence activities and the execution of UTA's strategic objectives

To develop the annual Audit Plan, an overall risk-based approach is used to ensure that the Internal Audit function provides the greatest possible benefit to UTA. On an ongoing basis, matters considered in developing the annual Audit Plan include the following:

- Strategic and operational plans of UTA;
- Risk for potential loss to UTA;
- Opportunities to achieve operating benefits;
- Existence of known errors, irregularities or control weaknesses;
- Results of previous audits;
- Changes in operations, systems or controls;
- Changes in regulatory or other requirements; and
- Requests from management, Audit Committee and External Auditor.

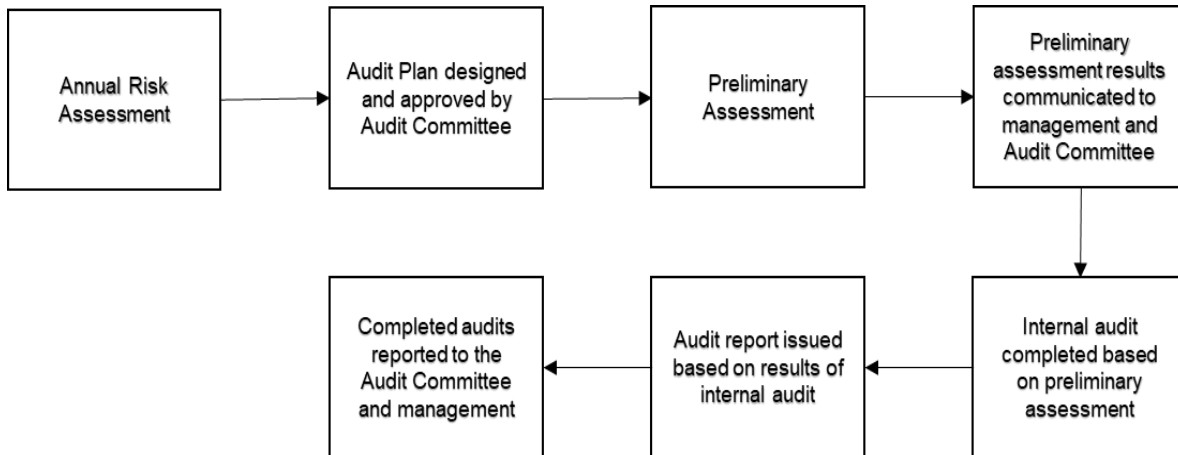
Each year, Internal Audit will work with UTA's leadership to perform risk assessment activities designed to identify and prioritize UTA's key risks. This information will be used to identify priorities to be addressed by the annual Audit Plan.

Based on the risk assessment performed, the Chief Internal Auditor will present a proposed annual Audit Plan to the Audit Committee for approval. Any significant deviation from the formally approved Audit Plan will be communicated to the Audit Committee.

The Internal Audit Plan will be developed in a manner that allows for the coverage of UTA's highest risk areas in a 3 year period. The Chief Internal Auditor, in consultation with the Audit Committee, will determine when certain critical risks and controls require more frequent coverage.

## **BACKGROUND INFORMATION ON AUDIT PROCESS**

The following process flow depicts the audit process at a high-level:



## REPORTING

- A preliminary assessment report will be prepared by the Chief Internal Auditor following the assessment of a process or department to provide an initial view on the governance and control environment as part of the audit process. The preliminary assessment will be discussed with the Audit Committee.
- A final written report will be prepared and issued by the Chief Internal Auditor following the finalization of each audit and will be distributed as appropriate. The report will include findings and recommendations along with management’s action plans. The audit report will be discussed with the Audit Committee.

## INDEPENDENCE AND AUTHORITY

To provide for Internal Audit’s independence, the Chief Internal Auditor reports directly to the Board of Trustees. All Internal Audit personnel will report to the Chief Internal Auditor. The Chief Internal Auditor will meet at least once every quarter but more frequently, if necessary, with the Audit Committee. The Audit Committee may choose to meet with the Chief Internal Auditor in private and apart from UTA management, if the meeting satisfies the criteria for a closed session under Utah’s Open and Public Meeting Act.

To maintain its independence, Internal Audit will have no direct operational responsibility or authority over any of the activities under scope of its review. Accordingly, Internal Audit will not be responsible to develop or install systems or procedures, prepare records, or engage in any other activity that would normally be audited but may perform a consulting role without any decision making authority.

Internal Audit is authorized to have unrestricted access to all company activities, records, property and personnel. Restriction to these accesses imposed by any employee or management of UTA, which prevents Internal Audit from performing its duties, will be reported immediately to the Executive Director, Board Chair, or directly to the Audit Committee, based on circumstances as determined by the Chief Internal Auditor.

## STANDARDS OF AUDIT PRACTICE

The Internal Audit will adhere to the Code of Ethics and International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors in the execution of its duties.



## MEETING MEMO

**TO:** Utah Transit Authority Audit Committee  
**FROM:** Ron Ellis, Director Internal Audit  
**PRESENTER(S):** Ron Ellis, Director Internal Audit

**AUDIT COMMITTEE MEETING DATE:** February 1, 2021

<b>SUBJECT:</b>	<b>Internal Audit Update</b>
<b>AGENDA ITEM TYPE:</b>	<b>Internal Audit Update</b>
<b>RECOMMENDATION:</b>	Informational report for discussion
<b>BACKGROUND:</b>	The Director of Internal Audit provides regular updates on current internal audit activities to the Audit Committee.
<b>DISCUSSION:</b>	This is an update on internal audit activities including the 2020 Internal Audit Plan Status and other items of interest.
<b>ATTACHMENTS:</b>	None



## MEETING MEMO

**TO:** Utah Transit Authority Audit Committee  
**FROM:** Ron Ellis, Director Internal Audit  
**PRESENTER(S):** Ron Ellis, Director Internal Audit

**AUDIT COMMITTEE MEETING DATE:** February 1, 2021

<b>SUBJECT:</b>	<b>2021 Internal Audit Plan</b>
<b>AGENDA ITEM TYPE:</b>	<b>Audit Plan</b>
<b>RECOMMENDATION:</b>	Approve the 2021 Internal Audit Plan as presented
<b>BACKGROUND:</b>	<p>On an annual basis, the Internal Audit Department designs a risk-based internal audit plan, which is presented to the Audit Committee for approval.</p> <p>Internal Audit prepared a risk assessment using various inputs such as financial reports, management survey, prior risk assessments and hotline reports.</p>
<b>DISCUSSION:</b>	The draft 2021 Internal Audit Plan is risk-based. The risk analysis prepared by Internal Audit formed the basis of the audit plan. The purpose of this agenda item is to discuss the draft internal audit plan with the Audit Committee and seek approval for the plan.
<b>ATTACHMENTS:</b>	None



## MEETING MEMO

**TO:** Utah Transit Authority Audit Committee  
**FROM:** Ron Ellis, Director Internal Audit  
**PRESENTER(S):** Ron Ellis, Director Internal Audit  
Kenya Fail, Manager of Civil Rights Compliance

**AUDIT COMMITTEE MEETING DATE: February 1, 2021**

<b>SUBJECT:</b>	<b>Internal Audit Report Review – Grants Management Follow-up</b>
<b>AGENDA ITEM TYPE:</b>	<b>Audit Report Review</b>
<b>RECOMMENDATION:</b>	Informational report for discussion
<b>BACKGROUND:</b>	The Audit Committee engages in a dialogue with the Internal Audit department and Management on audit reports issued by the Internal Audit department to understand the risks identified and management actions planned or already taken.
<b>DISCUSSION:</b>	The Audit Committee will receive information on: <ul style="list-style-type: none"><li>• Grants Management Follow-Up Audit Report</li></ul>
<b>ATTACHMENTS:</b>	1) Grants Management Follow Up Audit Report





# **INTERNAL AUDIT REPORT**

## **Grants Management**

**R-19-06**

**October 21, 2020**

## Executive Summary

### Introduction

In conjunction with the Board of Trustees' Audit Committee, Internal Audit (IA) developed a risk-based annual audit plan. All of the audits on the audit plan are conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute for Internal Auditors (IIA), and provide several benefits:

- Management's continuous improvement efforts are enhanced
- Compliance is verified and shortfalls are identified so that they can be corrected
- Board of Trustee oversight of governance, control and risk management is strengthened

All of these benefits contribute toward the Board of Trustees' strategic plan focus areas of:

- Customer Service – Improve products, services, accessibility, and mobility
- Leadership and Advocacy – Address current and future transportation challenges
- Access to Opportunity – Enrich transit access and quality of life
- Strategic Funding – Be wise stewards of public resources
- Workplace of the Future – Foster dynamic, diverse, and engaged employees

As part of the 2020 internal audit plan, IA was directed by the Audit Committee to perform a follow-up audit to determine if controls over the grants management process are designed and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives. A preliminary assessment of grants management was concluded on August 28, 2018 and the audit was completed in August 2019.

### Background and Functional Overview

The Grants Manager for the Utah Transit Authority (UTA), provided a functional overview of the grants management processes to provide context to this report. Please note that all of the statements made are assertions by the Grants Manager and were not assessed by Internal Audit.

The UTA Grants Management Program team administers Federal Transit Administration and other Federal, State, and local agency grants awards, and ensures uninterrupted flow of federal formula funds. The Grants team coordinates closely with staff from other departments regarding their grant duties as outlined in the Grant Management Standard Operating procedures, including: Civil Rights; Procurements and Contracts; Accounting; and Coordinated Mobility; as well as Project Managers from any UTA department that manages a project receiving grant funding. With the exception of the 5310 Grant Program, the Grants Management team is responsible for ensuring the tracking of all grants from the pursuit phase, through implementation, reporting, and final closeout. In addition there are also general responsibilities that the Grants Management team oversees, such as Metropolitan Planning Organization coordination, Certifications and Assurances, FTA Master Agreement, and assisting with preparing UTA's portion of the Transportation Improvement Programs (TIPs) and the Statewide TIP assembled by UDOT. To date in 2020, UTA has 33 active grants, totaling \$145.9M in awards.

### Objectives and Scope

The period of the preliminary audit was March 1, 2017 through to February 28, 2018 with the completion of the audit work focusing on January 1, 2019 through to May 31, 2019. The follow-up audit focused on period after May 31, 2019.

The primary areas of focus for the grants management audit were:

- Governance
- Grant approvals
- Contracting & Payments

- Drawdowns
- Grant closeouts
- FFR and MPR reviews
- Grants Asset tracking
- Accounting

## Audit Conclusion

### Audit Report Rating\*

Progress was made since the 2018 preliminary assessment in specific areas, directly and indirectly related to Grants Management. Stronger segregation of duties have been introduced in some of the departments that participate in the grants management program. Workflow approval was added to the journal entry process in the Accounting Department as well as for Real Estate inventory. The Coordinated Mobility Department created Standard Operating Procedures to help guide users in carrying out sub recipient monitoring with 5310 grant funds and created reporting tools to aid management in tracking progress. Acceptable expense types for formula fund grants were also defined to assist users in complying with Federal requirements.

While progress has been made to address previously identified risks, the audit revealed that key risks remain in grants management governance. The overall accountability for monitoring compliance with all grant requirements have been excluded from the Grants Manager's responsibilities but not been assigned to another UTA official, which increases the risk that critical Federal grant requirements are not being met. While a control has been designed to monitor compliance with all grant requirements it is not adequate to achieve the objective of the control because it lacks accountability, adequate delegation of authority, as well as clear assignment of roles and responsibilities. Parties are requested to sign off on a pledge to verify compliance with assigned requirements for grant compliance, however, it is unclear that assignees have a clear understanding of the intent of the sign off and therefore UTA may be under a false sense of comfort that requirements are being monitored and verified.

The lack of a complete, valid, and accurate asset listing, including necessary attribute information and supporting documentation, impedes compliance with certain critical grant requirements as well requirements related to state of good repair and financial reporting.

In the event that management addresses these key risks, it would reduce the risk of non-compliance with FTA requirements significantly.

Based on the preliminary assessment and subsequent audit work performed, it is was found that Management's responses in designing and implementing controls are adequate and effective for the risks identified by Management related to grant pursuit approvals, grant closeouts, as well as FFR and MPR reviews.

While this report details the results of the audit based on limited sample testing, the responsibility for the maintenance of an effective system of internal control and the prevention and detection of irregularities and fraud rests with management.

\*Rating is defined in Appendix 2

Internal Audit would like to thank management and staff for their co-operation and assistance during the audit.

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# APPENDIX 1

## Index of Findings

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# APPENDIX 1

## 1. Grants Management Process Governance

Preliminary Finding R-18-2-1	High
<p>Criteria:</p> <ul style="list-style-type: none"><li>Enterprise governance is an overarching system, which seeks to align priorities, funding, and resources and elevates decision-making responsibility, authority, and accountability to the appropriate levels. Governance principles include:<ul style="list-style-type: none"><li>Management establishes reporting lines, with board oversight, of the development and performance of internal control.</li><li>Individual accountability is in place for internal control responsibilities that support entity objectives.</li></ul></li></ul> <p>Sources: COSO Enterprise Risk Management: Establishing Effective Governance, Risk, and Compliance (GRC) Processes, Robert R Moeller COSO: How the COSO Frameworks Can Help, James DeLoach and Jeff Thomson</p> <ul style="list-style-type: none"><li>UTA Corporate Policy No. 3.1.7, "Grants Management," (Grants Management Policy) assigns the Grants Manager the responsibility for monitoring compliance with grant requirements.</li><li>UTA Corporate Policy No. 1.1.2, "Creation, Revision, Retention, and Distribution of Policies and Procedures," establishes that a business unit or corporate office must obtain the review and approval of the executive for proposed policies or Standard Operating Procedure (SOP) and must post approved SOPs on the business unit or corporate office's area on the Intranet</li></ul> <p>Condition:</p> <p>The following gaps in the grants management governance environment were identified:</p> <ul style="list-style-type: none"><li>Compliance monitoring with critical grant requirements, as assigned in UTA Corporate Policy 3.3.7, was not performed for areas, including but not limited to; asset tracking, asset disposals, and determination of allowable costs for formula grants.</li><li>Neither the Grants Management Policy or The Grants Development and Management SOP (Grants Management SOP) address record retention for documentation related to FTA grants.</li><li>Continuing Control of Federally Funded Assets Procedure for Assets over \$50,000 and Non-Revenue Service Vehicles (Continuing Control SOP) and Accounting Policy Manual do not have evidence of dated executive approval.</li><li>The Grants Management SOP and the Continuing Control SOP were not available on the Intranet as required by UTA Corporate Policy 1.1.2.</li></ul> <p>Root/Cause Analysis:</p> <ul style="list-style-type: none"><li>Grants Management Policy may be open to interpretation for the Grants Manager's role in monitoring compliance with grant requirements.</li><li>No risk assessment had been performed for the Grants Management process.</li></ul> <p>Effect:</p> <p>Increased risk of the following:</p> <ul style="list-style-type: none"><li>Non-compliance with federal grant requirements.</li><li>Inconsistent practices and activities diverge from SOPs.</li><li>Responsible parties not following best practices.</li></ul>	

# APPENDIX 1

Recommendations		
<ul style="list-style-type: none"> <li>The Grants Manager’s monitoring responsibilities for grant compliance should be clarified. If limits to the Grants Manager’s responsibilities for monitoring grant compliance are intended they should be defined and documented in the policy.</li> <li>A process should be undertaken to identify, assign, and document all responsibilities for monitoring of grant compliance, asset tracking, asset disposals, and determination of allowable costs for formula grants.</li> <li>The Grants Management Policy should be updated, if needed, to reflect management’s intentions and to assure that an adequate system is in place for monitoring compliance with all grant requirements.</li> <li>Policies should be updated to include requirements for record retention.</li> <li>Grant SOPs should be posted to the Intranet.</li> <li>All grants management related SOPs should be approved and dated by an Executive.</li> </ul>		
Management Agreement	Owner	Target Completion Date
Yes	Director of Capital Projects	October 31, 2018
<p>Action Plan:</p> <ol style="list-style-type: none"> <li>The Grants Management Policy will be updated to clarify responsibilities for grant compliance.</li> <li>The responsibilities for grant compliance will be determined by grants management team in conjunction with the accounting, contracts and procurement, civil rights, and asset management departments. The process will be documented and included in either the Grants Management Policy and/or the Grants Management Procedures.</li> <li>The Grant Policy will be updated if needed to reflect the grant management compliance process once it is defined.</li> <li>The Grant Management Procedures are currently being updated and will include requirements for records retention.</li> <li>We will add the Grant Management Procedures to the Intranet after they have been updated and approved by the Executive Director.</li> <li>We will advise that the Continuing Control SOP be approved and dated by the responsible Executive and then added to the Intranet.</li> </ol> <p>Due to changing management personnel and the need to hire a new Grants Manager, who should weigh in on any changes, additional time is needed to complete Management’s Action Plan by October 31, 2018.</p>		

Audit Status	High
<ul style="list-style-type: none"> <li>Audit procedures revealed that these prior recommendations have been implemented:               <ul style="list-style-type: none"> <li>The Grants Manager’s monitoring responsibilities for grant compliance were clarified and limits to the Grants Manager’s responsibilities for monitoring grant compliance were defined and documented in the policy.</li> <li>Policies were updated to include requirements for record retention.</li> <li>Grant SOPs were posted to the Intranet.</li> <li>The Grants Management SOP was approved and dated by an Executive.</li> </ul> </li> </ul>	

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**Conditions:**

- To receive Federal assistance through grant funding the UTA Executive Director must sign a Certifications and Assurances form which pledges to comply with all grant requirements. To give the Executive Director comfort prior to signing off each year a process is undertaken to assign each requirement identified on the Certifications and Assurances form to a responsible party at UTA who signs off that they verify compliance for their assigned requirement.

Testing revealed that for:

- 1 (of 2) items selected the responsible party did sign off on the certification and assurance that the requirement was being met but as part of the audit procedures communicated that there is a likelihood that UTA was not compliant with the related requirement.
- 1 (of 2) items selected the responsible party did sign off on the certification and assurance that the requirement was being met, however based on their subsequent response to IA and IA's previous audit procedures and findings it is known that this item has elements of non-compliance.

These two abovementioned items are indicating that there is an elevated risk of non-compliance due to misinterpretation of the responsible parties' roles.

This reduced accountability of the Grants Manager increases the risk of non-compliance as oversight of the overall Grants Management process, including responsibility to monitor compliance with all requirements, was not adequately reassigned.

**Recommendations:**

- Management should assign oversight, including responsibility for monitoring compliance with all grant requirements, to an appropriate UTA official
- A process to identify and document all requirements in the legal and regulatory framework for grant compliance should be undertaken to ensure that all requirements are considered for compliance purposes by UTA such as those found in FTA Circulars 5010.E *Award Management Requirements* and 9070.1G *Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions*
- The Certifications and Assurances process should be enhanced by including:
  - Appropriate delegation of authority and responsibility to be able to carry out the assigned compliance monitoring role
  - A separate process which assigns roles and accountability prior to circulation of sign-off sheet to help parties understand what they need to achieve as well as the repercussions of non-compliance
  - A checklist per requirement to provide the responsible parties with further guidance on what minimum governance and control should be in place to satisfy the requirement
  - That the process allow for a responsible party to identify gaps and design an action plan as needed

Management Agreement	Owner	Target Completion Date
Yes	Executive Director	June 30, 2020

The Executive Director signs the Certifications and Assurances form submitted to FTA. The Grants Manager is responsible for assuring that all responsible parties are aware of the requirements in their area prior to signing the Certifications and Assurances checklist. Prior to requiring signing of



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<p>the Certifications and Assurances checklist, the Grants Manager will hold a meeting with all applicable staff to explain and discuss requirements for signing the Certifications and Assurances checklist. The checklist process will be updated to allow for the responsible party to identify gaps and design an action plan as needed.</p>		
<b>Final Status</b>		<b>Implemented</b>
<ul style="list-style-type: none"> <li>• Management adopted standard operating procedures that established:             <ul style="list-style-type: none"> <li>○ Roles and responsibility among employees for Certifications and Assurances.</li> <li>○ A process to address compliance gaps</li> </ul> </li> </ul>		
<b>Management Agreement</b>	<b>Owner</b>	
Not applicable		

## 2. Asset Tracking

<b>Preliminary Finding R-18-2-2</b>	<b>High</b>
<p>Criteria:</p> <ul style="list-style-type: none"> <li>• 49 CFR 625.25 – Transit Asset Management Plan requirements, including the requirement to have an inventory of the number and type of capital assets with a condition assessment at a level of detail sufficient to monitor and predict the performance of the assets</li> <li>• <u>FTA Circular 5010.1E Award Management Requirements, Chapter IV, Section (4) Maintenance and Warranty, Part b) Records and Oversight:</u>  <i>Recipients must keep satisfactory records pertaining to the use of federally assisted property, and submit to FTA upon request such information as may be required to assure compliance with federal requirements. Recipients must have appropriate procedures in place to ensure that management and oversight of federally assisted property is properly administered for assets controlled by subrecipients</i></li> <li>• UTA Policy 2.1.10, “Continuing Control of Capital Assets,” assigns responsibility for maintaining equipment records and conducting equipment inventories in the following manner:             <ul style="list-style-type: none"> <li>○ The Asset Manager is responsible for all equipment with an acquisition value of \$50,000 or more and all service vehicles.</li> <li>○ The Comptroller is responsible for all federally funded equipment with an acquisition value over \$5,000 but less than \$50,000, except service vehicles.</li> </ul> </li> <li>• Accounting records consist of the original source documents, journal entries, and ledgers that describe the accounting transactions of a business. Examples of accounting records are the general ledger, all subsidiary ledgers, invoices, bank statements, cash receipts, and checks. (AccountingTools.com)</li> </ul> <p>Condition:</p> <ul style="list-style-type: none"> <li>• Federally funded asset records were not centralized, complete, or easily understood.             <ul style="list-style-type: none"> <li>○ IA selected a sample of 5 asset records and found the following:                 <ul style="list-style-type: none"> <li>▪ 5 had no support for the grant number or federal percentage.</li> <li>▪ 5 did not support the location.</li> </ul> </li> </ul> </li> </ul>	

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- 5 did not support the use and condition.
  - 5 did not have title support.
  - 1 had no support for the description.
  - 4 did not adequately support the acquisition date.
  - 4 did not adequately support the original cost.
- Although there was evidence of a limited inventory of rolling stock and mobile assets performed by Accounting in 2017, no complete physical inventory for federal assets has been undertaken within the last two years.
  - At the time of the audit, 65% of grant assets in the JDE fixed asset master had not been reconciled to Bentley.
  - The biennial reconciliation of grant asset records between the Grants Management Team, Accounting, and the Asset Manager could not yet be performed, as designed in the SOP, due to the ongoing project to identify all grant assets in the two asset tracking systems not yet being completed.
  - Asset useful life methods differ between Bentley and JDE. Additionally, there is not a policy or SOP to identify which useful life information should be reported to FTA.
  - Real property has been tracked in an Access Database. Additions, deletions, and changes were not formally reviewed or approved nor could changes to the database be tracked.

## Root/Cause Analysis:

- The lack of sufficient records for grant assets is due to a combination of a historical lack of oversight responsibility, the absence of a defined procedure, the nonexistence of a centralized system of records, and varying interpretations for the term “asset record”.
- The absence of a full physical inventory for grant assets for the last two years is due to the lack of assigned responsibility prior to the creation of the UTA Policy 2.1.10 Continuing Control of Capital Assets.

## Effect:

- There is a risk that a significant portion of the management assertions, including valuation and existence, for asset information in the JDE and Bentley systems are not supported and may not be accurate. This could result in reductions to existing federal funding, diminished consideration for available competitive grants, and/or additional oversight of the grants management process.
- Although outside the scope of this assessment, the lack of adequate asset records and a timely complete physical inventory also increases the risk that financial statement assertions of asset valuations are not adequately supported.

## Recommendations

- Management should fully define the documentation support standards for asset record attributes, beyond the required information to be included in the asset tracking systems. Next, a project should be undertaken to understand the extent to which gaps exist in the documentary support for assets in the JDE Fixed Asset Master.
- Management should also consider creating a centralized repository for tracking all required asset record support. Authority and responsibility should be assigned for asset records, including monitoring and reporting the accuracy and completeness of records and system information. Asset records and tracking should be incorporated into an annual comprehensive risk assessment process for the Authority’s activities.

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- The Asset Manager should continue to follow the process as documented in the Continuing Control SOP to ensure that the information in the Bentley System includes all the required attributes for grant asset reporting. Additionally, the Asset Manager should undertake the existing plan to perform a full physical inventory of UTA's grant related assets.
- The Property Management team should implement a new system for recording and reporting property transactions and inventories that has a workflow for the approval requirement for changes made to the system.

Management Agreement	Owner	Target Completion Date
Yes	Director of Asset Management	December 31, 2018

Asset Management will define the support standards for grant asset record attributes *Use and Condition* and *Location* and be responsible for the retention of associated documentation and support for those record attributes. Additionally, Asset Management will coordinate with Accounting in how *Use and Condition* and *Location* support will be included or referenced within a centralized repository of grant asset records and will design a process to monitor the accuracy and completeness of *Use and Condition* and *Location* grant asset record attribute support.

The Asset Manager will continue to follow the process as documented in the Continuing Control SOP to ensure that the information in the Bentley System includes all the required attributes for grant asset reporting and will undertake the existing plan to perform a full physical inventory of UTA's grant related assets in coordination with Accounting.

Management Agreement	Owner	Target Completion Date
Yes	Chief Financial Officer	December 31, 2018

Accounting will work with Asset Management staff to define the documentation standards for asset records. Accounting will evaluate documentation gaps for assets in JDE and seek to add as much of the documentation as possible. Accounting will work with Records Management to develop the centralized repository for tracking asset record documentation. Accounting will have primary responsibility for the completeness of records and system information for acquisition, historical cost, funding sources, depreciation, and disposition. Official useful life for reporting in financial statements and to FTA will reside in Accounting. Real Estate will continue to migrate the property inventory database to the Bentley system for recording and reporting property transactions and inventories along with an approval workflow for system changes.

Additional time over the customary three months is needed to implement those items related to the Accounting department as they have been running two positions short. Bringing in those new employees and getting them up to speed, along with the amount of work needed for other projects related to Internal Audit recommendations, will require taking until the end of 2018 for addressing this issue.

Audit Status	High
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- Audit procedures revealed that the prior recommendation that the Property Management team implement a workflow for recording and reporting property transactions and inventories has been implemented.

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## Conditions:

- Management has not defined the asset attributes or established minimum standards for documentary support for said asset attributes.
- Management has not performed a complete inventory of capital assets, including grant related capital assets.
- Management has not designed a document retention repository for tracking all required asset records, attributes, and related support.

## Recommendations:

- Management should perform a risk assessment for the asset management process to identify critical risks for example non-compliance with FTA requirements. Where needs are identified based on the risk assessment, Management should design processes to address those needs including assigning responsibility and accountability, minimum expectations, and monitoring to confirm progress.
- An exercise should be undertaken which includes identification of all Federal requirements related to asset management (e.g. Continuing Control, State of Good Repair) and an assessment of UTA's processes and operations for addressing those requirements, for example defining asset attributes and related supporting documentation.
- The capital asset physical inventory count should be carried out as planned and oversight should be in place to ensure that the process is adequately planned and resourced to assure it is successful in establishing a complete, accurate, and valid inventory of UTA's capital assets.
- Where required historical asset information is lacking, non-existent, or not supported, Management should identify alternative methods to create and support those attributes required by Federal regulation.
- Management should create a document retention repository for tracking all required asset records, attributes, and related support.

Management Agreement	Owner	Target Completion Date
Yes	Chief Operating Officer	12/31/2020

This finding is related to another finding that was identified during the SGR audit in Q3, 2019. Due to these overlapping nature of these findings, efforts were put on hold to address attribute definitions until the SGR finding could be articulated. The end results of the SGR finding will require a complete top to bottom review of the current capital inventory process in order to address roles and responsibilities, process definition, record attribute definition including use and condition, reporting requirements, and physical inventory counts.

The next physical inventory will happen in Q4 of 2019.

In regards to the first two bullet points listed in the recommendations, Management views these as similar recommendations and will address these concerns after roles and responsibilities have been clearly defined and documented. Management views the asset management component of Continuing Control separate from the asset management function of State of Good Repair. They have different exercises, informational needs, and they also are born out of different federal requirement documents. The link between the two is Management recognizes that the inventory source for both efforts should be the same.

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Management will continue on its path of first doing its risk assessments for the SGR audit as those findings need to be addressed before this particular finding can be adequately addressed, as roles and responsibilities need to be clearly defined. At a minimum, the Continuing Control policy will be tweaked and/or simplified.

Final Status		Implemented
This finding was closed as it was covered by a concurrent State of Good Repair audit.		
Management Agreement	Owner	Target Completion Date
Not applicable		

### 3. Coordinated Mobility

Preliminary Finding R-18-2-3	Medium
<p>Criteria:</p> <ul style="list-style-type: none"> <li>• 49 CFR 625.25 – Transit Asset Management Plan requirements, including the requirement to have an inventory of the number and type of capital assets with a condition assessment at a level of detail sufficient to monitor and predict the performance of the assets.</li> <li>• FTA Master Agreement which is incorporated into all FTA grants and documents grantee requirements to follow the Transit Asset Management Plan and to assure that all third parties will comply with FTA regulations.</li> <li>• UTA Program Management Plan FTA Section 5310 (PMP) documents UTA’s responsibility to ensure compliance with federal requirements by sub-recipients and includes biannual site visits and inspections as part of UTA’s compliance program.</li> </ul> <p>Condition:</p> <ul style="list-style-type: none"> <li>• The tracking file used for monitoring sub-recipient capital assets was not reviewed for validity, accuracy, or completeness.</li> <li>• The tracking file was not dated to indicate when it had been most recently updated nor was a separate file created for each period of tracking. Evidence of site visits and physical inventory checks for coordinated mobility grant sub-recipients could not be provided.</li> </ul> <p>Root/Cause Analysis:</p> <ul style="list-style-type: none"> <li>• The Coordinated Mobility Department has created a general outline of many of the activities required to support a sub-recipient compliance monitoring program in their PMP. The current PMP lacks sufficient details in directing users in the identification and execution of standard operating procedures to carry out a compliance program.</li> <li>• Although the grant compliance requirements are the same as for larger grants, monitoring compliance of external parties increases the complexity of execution.</li> </ul> <p>Effect:</p> <ul style="list-style-type: none"> <li>• External and internal reporting may be inaccurate or incomplete.</li> </ul>	

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- Assets may be used outside of their intended purpose or be maintained in a condition which does not meet minimal requirements and remain undetected by UTA which could result in a loss of federal funding.

## Recommendations

- Management should document Coordinated Mobility monitoring compliance program procedures in an SOP.
- Where applicable, SOPs should identify other departments involved in the process and be aligned with those department's process documentation.
- Where tracking reports are required to monitor program progress, a minimum period should be established for updating reports and a review and approval process should be instituted to ensure reports are timely, accurate, and complete.
- A document retention system and the related standards should be designed and implemented to enhance and facilitate oversight of the Coordinated Mobility Program.

Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager	November 15, 2018

Coordinated Mobility is aware and currently has actions in place to address these issues.

UTA CMM will create an SOP that includes the sub-recipient monitoring program procedures and how other UTA departments will coordinate with CMM to carry out sub-recipient monitoring.

UTA CMM staff have met with Special Services Fleet Maintenance, Civil Rights, Accounting and Supply Chain to determine the roles each of those departments would play in assisting CMM with 5310 compliance monitoring and site visits. SSBU Maintenance will be assisting in annual vehicle inspections and vehicle compliance reviews. We are in the process of developing a compliance checklist for SSBU staff to use in their reviews. Site visits and documentation will be completed for all sub recipients by 12/31/18.

CMM's RidePilot software system has the capacity to provide asset tracking and management. CMM is in the process of putting all vehicles into this system which tracks the location of the vehicle, date vehicle was placed in service, preventive maintenance activities, vehicle mileage and ridership as well as the types of trips being provided to insure compliance with the use intended by the grant. We will be updating this software to allow the tracking of other types of assets as well. The program allows for periodic reporting and per our program management plan CMM will create these reports on a quarterly basis. Management will review these quarterly reports and will evidence through sign off that reports are accurate and complete.

CMM has implemented an online grant management system (Amplifund) that allows for management of the entire grant program from application to closeout. All aspects of the grant progress will be monitored through Amplifund. Document retention will also be done through our online software. The documentation in RidePilot and Amplifund are kept permanently in the system. Management will utilize its grant management software system for documentation retention. UTA CMM will develop an SOP identifying the standards of documentation and identification of documentation required to carry out critical tasks.

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Audit Status		Implemented
<ul style="list-style-type: none"> <li>Audit procedures revealed that these prior recommendations have been implemented:                             <ul style="list-style-type: none"> <li>Management documented Coordinated Mobility monitoring compliance program procedures in an SOP.</li> <li>SOPs identified the Legal and Procurement departments' involvement in the process, which were aligned with these departments' responsibilities.</li> <li>A minimum period was established for updating reports and a review and approval process was instituted to ensure reports are timely, accurate, and complete.</li> <li>A document retention system and the related standards were designed and implemented to enhance and facilitate oversight of the Coordinated Mobility Program.</li> </ul> </li> </ul> <p>Please see the Final Status of finding R-18-2-1 above for Internal Audit's governance related recommendation for addressing the risk of non-compliance related to process and control design for all grant requirements.</p>		
Management Agreement	Owner	Target Completion Date
Not applicable		
Final Status		Implemented
Not applicable		
Management Agreement	Owner	Target Completion Date
Not applicable		

## 4. Disposals

Preliminary Finding R-18-2-4	High
<p>Criteria:</p> <ul style="list-style-type: none"> <li>Corporate SOP 2.1.2 Asset Disposal Process Describes the process for all asset or equipment disposals and identifies the Supply Chain Manager as the owner of the disposal process (except for IT Hardware, scrap from operations, and real property).</li> <li>Corporate Policy 2.2.1 Real Property. Governs the real property disposal process.</li> </ul> <p>Condition:</p> <ul style="list-style-type: none"> <li>Vehicle disposals followed a process outside of the Corporate SOP 2.1.2 and the Supply Chain Manager did not oversee the process.</li> <li>2 (of 7) asset disposals tested were listed in the JDE as having a Federal %, however they had not been reported to the FTA.</li> <li>Electronic Accounting disposal records for 2 real property disposals tested could not be agreed to supporting documentation, including evidence of approval.</li> </ul>	

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- Duties were not adequately segregated for disposal process as Vehicle Maintenance oversees physical custody and maintains record keeping.

## Root/Cause Analysis:

- Asset disposal records were not centralized nor were they reviewed for completeness.
- Overall ownership for asset disposals, outside of real property, is not sufficiently assigned or understood as there was no monitoring in place to ensure that the process was functioning appropriately.
- Standards of record keeping were not established to ensure that records were available and sufficient to support disposal activities.
- It is not clear what constitutes supporting documentation for an asset disposal. Records provided lacked sufficient detail or key document support such as a bill of sale and/or other evidence of purchase.

## Effect:

- Without appropriate oversight, monitoring, or support, disposals are at greater risk of being invalid or unauthorized.
- There is also an increased risk that assets with an FTA interest are not identified and communicated to the FTA.
- Non-compliance may place future UTA grant funding at risk.

## Recommendations

Management should perform a risk assessment for all disposals and create comprehensive policies and procedures to assign clearer oversight, design monitoring processes, and establish recordkeeping standards that address the risks identified in the assessment process.

Management Agreement	Owner	Target Completion Date
Yes	VP of Finance	December 31, 2018

Accounting, Supply Chain, Fleet Engineering, and other departments will develop and implement comprehensive policies and procedures for the oversight, documentation, and reporting required for asset dispositions. Supply Chain will lead this work.

Additional time over the customary three months is needed as the Accounting department is currently short two positions and needs additional time to bring new employees up to speed. Onboarding those new employees along with the amount of work needed for other projects related to Internal Audit recommendations, will require taking until the end of 2018 for addressing this issue.

## Audit Status

**Medium**

Audit procedures revealed that these prior recommendations have been implemented:

- Management performed a work flow analysis of the disposal process with key stakeholders to identify roles and responsibilities.
- Management rewrote the Asset Disposal SOP using the work flow analysis performed as a basis.
- The process included clearer oversight with asset disposal forms being made electronic and routed to the Comptroller for review and acceptance.
- The Asset Disposal SOP and relevant Accounting Manual section were found to be aligned.



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## Conditions:

- Although the system does route disposal forms to the Comptroller for approval the responsibility to retain forms in a centralized repository was not documented in the SOP. Additionally, how determinations of critical aspects such as auction fairness, fair market value, and proof of payment are to be achieved and evidenced were not documented.
- No monitoring process was identified to support that disposals are complete, valid, and accurate.
- It was noted that the Asset Disposal office has physical custody of disposal assets, ability to take payment, and periodically receives title to assets for further distribution which may represent inadequate segregation of duties.
- Audit testing identified the following exceptions:
  - For all 5 of the disposals tested, the disposals were determined to have been likely disposed of in prior periods but not removed from the fixed asset listing. They were all presumed to have been previously disposed of as they could not be identified through physical inspection and were written off by the Comptroller. This indicates an elevated risk that asset inventory includes invalid assets which were previously disposed of but not accounted for.
  - For 1 (out of 5) disposals tested no asset disposal form was on file.
- The 5 disposals tested were selected from a report listing of disposals for the period with FTA interest. None of the disposals with FTA interest identified in the report met the proceeds threshold of \$5,000 which would require additional reporting to the FTA. Therefore, IA was unable to test the process for conformance with the requirement. Due to the elevated risk previously identified regarding completeness, validity, and accuracy of asset listings, associated attribute information, and support of attribute information IA identified a risk that assets with a Federal interest may be disposed of without proper notification to the FTA.

## Recommendations:

- Management should implement a process to monitor and track disposals to assure that they were carried out in compliance with UTA procedures as well as FTA requirements, as applicable. An effective monitoring process overseen at the appropriate level of responsibility could mitigate the risk of inadequate segregation of duties.
- Disposal processes should be evaluated periodically to determine if they are adequately addressing the risks inherent in the process as well as whether controls designed to address those risks are operating effectively to do so.
- The capital asset physical inventory count should be carried out as planned and oversight should be in place to ensure that the process is adequately planned and resourced to assure it is successful in establishing a complete, accurate, and valid inventory of UTA's capital assets.
- The SOP should include what supporting documentation should support a disposal and the document retention requirements for the disposal process in a centralized repository.

Management Agreement	Owner	Target Completion Date
Yes	Chief Financial Officer	December 31, 2019

Accounting after meeting with Supply Chain and all the parties effected by the disposal process decided the ownership of the disposal process would better suited in the Capital Accounting area of Accounting instead of Supply Chain. The new disposal procedure was passed in late Fall 2018. The parties effected developed two unique process maps for vehicles and/or equipment and created a Laserfiche routing process online for disposal request and documentation storage.

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All disposals in the system are approved by the Comptroller, including those which were physically disposed of historically but were not captured in the system. Accounting is also responsible for retaining all disposal forms and that will also be added to the SOP at the next revision. Accounting will also implement a monitoring process of asset disposals which will include a periodic disposal report prepared by the fixed asset accountant and reviewed/signed off by the Comptroller or designee with random spot checks of disposals to determine that the process is carried out in line with UTA procedures and FTA requirements.

When the SOP comes up for annual review, Accounting will add the requirement to the SOP that every disposal following the standard process will need to be supported by a completed disposal request form. For items that have been identified as previously disposed of outside of the standard process due to non-compliance, it will be added to the SOP that the Comptroller will determine the support needed for each item subsequently disposed of in the system on a case by case basis.

The Asset Inventory has plans to start October 4, 2019 and go through December 31, 2019 and will encapsulate all records in JDE and by the end of the process the plan is to turnover ownership of all asset and future inventories to the individual departments for tracking and safeguarding of assets in accordance with the new Capital Asset policy passed in late Fall 2018.

If UTA continues to see missing assets during the biennial inventory process that can be attributed to gaps in the current disposal procedure, the policy will be revised to tighten controls in the current process to insure future cleaner inventories.

Additional time is needed to address these risks as it makes the most sense to update the SOP on an annual basis for all revisions needed rather than multiple times in one year.

Final Status	Implemented
<ul style="list-style-type: none"><li>• Audit procedures found that management took the following actions to implement the audit recommendations:<ul style="list-style-type: none"><li>○ Existing SOP were revised, as follows:<ul style="list-style-type: none"><li>▪ Asset disposal forms are required</li><li>▪ Asset disposal must be authorized by the Chief Officer or a Regional General Manager. The IT Director must approve technology disposals.</li><li>▪ Additional separation of duties were implemented, notably separate responsibility for asset recordkeeping and asset custody.</li><li>▪ A complete inventory of assets is required to be completed every two years.</li></ul></li><li>○ Accounting conducted a physical inventory of assets during the 4<sup>th</sup> quarter of 2019. The inventory identified 892 assets with a net book value of \$32.9M that were previously missing or disposed of without documentation. These assets were written off and marked in the asset recordkeeping software (JDE) as disposed. UTA documented the effect of the write-offs on the financial statements using a note in the 2019 CAFR.</li><li>○ Internal Audit reviewed a sample of 12 disposed assets to verify that the status of the asset was updated in JDE. No exceptions were noted.</li></ul></li></ul>	

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Management Agreement	Owner	Target Completion Date
Not applicable		

## 5. Formula Grants

Preliminary Finding R-18-2-5	Medium	
<p>Criteria:</p> <ul style="list-style-type: none"> <li>2 CFR Part 200 Subpart E—Cost Principles Electronic code of federal regulations which provides guidance on determining allowable costs</li> <li>Grants Management SOP states: <i>The Grants Management Team will work with the Vice President of Finance, the Capital Projects Director, and their staffs to best allocate those formula funds, within the identified parameters. This allocation will take into consideration the revenue streams identified in the Transit Development Plan, as well as which operating expenses and approved capital projects would be eligible for federal formula funds.</i></li> </ul> <p>Condition: The Assistant Comptroller follows a process that predates the Grants Management SOP without any requirement for input, review, or approval to identify allowable operating costs.</p> <p>Root/Cause Analysis: No documented policies or procedures for how allowable costs for operating expense formula grant funds are determined.</p> <p>Effect:</p> <ul style="list-style-type: none"> <li>There was an elevated risk that disallowed costs could be used against formula grants.</li> <li>Future UTA grant funding may be at risk.</li> <li>UTA may have to reimburse the FTA.</li> </ul>		
<p><b>Recommendation</b></p> <p>Management should document the process for identifying allowable costs for operating expense formula grants that aligns with 2 CFR Part 200 Subpart E—Cost Principles in an SOP.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Director of Capital Projects	October 31, 2018
The Grants team will prepare documentation identifying the allowable expenses that can be charged to the various formula grants that UTA receives.		
Audit Status	Implemented	
Audit procedures revealed that the prior recommendation that Management document the process for identifying allowable costs for operating expense formula grants in the Grants Management SOP had been implemented.		

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Management Agreement	Owner	Target Completion Date
Not Applicable		
Final Status		Implemented
Not applicable		
Management Agreement	Owner	Target Completion Date
Not applicable		

## 6. Procurement

Preliminary Finding R-18-2-6	Medium
<p>Criteria:</p> <ul style="list-style-type: none"> <li>FTA Grant Management Requirements Circular_5010-1E defines record keeping requirements for contracts of FTA grant recipient including the right of access of the FTA, DOT Inspector General, and US Comptroller to access any and all records that pertain to a grant award.</li> <li>Corporate SOP 1.2.2 Procurement Standard Operating Procedures indicates that a peer review of solicitation documents is required prior to advertising.</li> </ul> <p>Condition:</p> <ul style="list-style-type: none"> <li>Procurement does not track federal grant contracts or identify the federal grants they are related to.</li> <li>During testing of a sample of contracts the proposal/bid request posting related to 3 of the contracts was approved in the SciQuest system by the same Procurement Specialist who oversaw the procurement.</li> </ul> <p>Root/Cause Analysis:</p> <p>System for the organization and retention of contracts is inadequate to support identification of specific grants that a contract is related to.</p> <p>Effect:</p> <ul style="list-style-type: none"> <li>Without identification of contracts to their related grants, UTA records may be insufficient to support FTA record keeping requirements.</li> <li>Without peer review there was an increased risk that federal clauses required by the FTA for grant related contracts were not included.</li> </ul>	
Recommendations	
<ul style="list-style-type: none"> <li>Management should consider implementing system controls, where practical, to ensure that contracts are appropriately identified with related grant(s) and that peer review requirements for solicitation documents cannot be overridden.</li> <li>Additionally, management should consider implementing a review of contract activity to monitor for an independent peer review.</li> </ul>	

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<ul style="list-style-type: none"> <li>For areas of non-compliance management should retrain users in standard operating procedures.</li> </ul>		
Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	October 31, 2018
<p>Procurement has conducted a retraining of all Contract Buyers and Procurement and Contracts Specialists. This training covered the peer review process for contract completeness and accuracy, and emphasized that employees are not to self-approve their own contracts. Procurement has arranged an onsite training with State of Utah employees on additional functionality of SciQuest and will inquire at the time the possibility of creating a monthly report to monitor peer-reviews and approvals.</p>		

Audit Status	<b>Low</b>	
<p>Audit procedures revealed that the prior recommendation that management retrain users for areas of non-compliance in standard operating procedures had been implemented.</p> <p><b>Conditions:</b></p> <ul style="list-style-type: none"> <li>Management retrained employees in the requirement of an independent peer review to mitigate the risk that required federal clauses were not included for grant related contracts. To support this requirement, Management researched the possibility of a system control to require an independent review of procurement documentation and determined that the system did not have that capability. However, Management did not implement a monitoring control in the absence of a system control.</li> <li>Audit procedures revealed the risk that contract numbers from the contract numbering system may be incorrectly entered into the procurement tracking system due to the manual nature of the process. Furthermore, incorrectly entered contract numbers cannot be corrected once entered. This creates difficulty to monitor contracts for completeness and validity.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>Management should institute a monitoring process of system activity logs to determine whether users are following the process as designed and obtaining the independent peer review of procurement documentation as required.</li> <li>Management should assess the risk of manually entering contract numbers from one system to another to determine how significant the risk is. If deemed significant Management should design controls to mitigate that risk such as adding the review requirement to determine that the contract number is correct in the system to the peer review process.</li> </ul>		
Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	September 30, 2020
<p>Procurement has reached out to the system administrator of SciQuest and found that there is no capability to monitor peer review logs. Since there is no automated way of monitoring peer reviews in SciQuest, Procurement manager will log into SciQuest on a monthly basis to confirm peer reviews are being administered appropriately and provide a print out of the data collected.</p> <p>Since contract numbers are entered into SCiQuest manually, it is important to ensure the numbers are being entered correctly. The risk of a number being entered incorrectly into SciQuest is minimal</p>		

# APPENDIX 1

but could cause some confusion. As part of the peer review process, we will instruct procurement staff to ensure contract numbers are entered correctly.

Final Status		Implemented
<ul style="list-style-type: none"> <li>• Management performed the following actions to implement the audit recommendations:                             <ul style="list-style-type: none"> <li>○ Procurement instituted a monthly review of solicitations to verify that a peer review was completed by a different individual than the preparer. Any issues are investigated. Internal Audit reviewed the process and the reports produced by it and found that management has adequately addressed the risk of a peer review not being performed on new contracts.</li> <li>○ The second reported issue, related to manually entering contract numbers, was closed by Internal Audit without testing. The risk of a clerical error is low and the impact should it occur would be minor.</li> </ul> </li> </ul>		
Management Agreement	Owner	Target Completion Date
Not applicable		

## 7. Accounting

Preliminary Finding R-18-2-7	Medium
<p>Criteria:</p> <ul style="list-style-type: none"> <li>• The Accounting department instituted the practice of segregating the entry and posting of journal entries to facilitate supervisory review and posting of journal entries.</li> <li>• Grants Management SOP outlines the grant invoice approval process, including reviews by the Project Manager and Procurement Representative.</li> </ul> <p>Condition:</p> <ul style="list-style-type: none"> <li>• 1 of 4 manual journal entries tested was entered and posted by the same staff member, which is out of compliance with the current control design.</li> <li>• Although IA did not note any exceptions to invoice approvals with regard to spending authority, the following exceptions were noted to the additional approval requirement by the Grants Management SOP:                             <ul style="list-style-type: none"> <li>○ 3 (out of 25) grant related invoices tested did not meet the criteria for Project Manager and Procurement approval-                                     <ul style="list-style-type: none"> <li>▪ 2 invoices were missing evidence of Procurement approval</li> <li>▪ 1 invoice did not have evidence of the Project Manager approval</li> </ul> </li> </ul> </li> <li>• Support for drawdown requests was on file for 6 drawdowns sampled by IA. However, for one of the drawdowns was not clear how backup was applicable to the drawn down amount without additional explanation from the Assistant Comptroller. In addition, reports of journal voucher and system expenditures were not always clearly titled, dated and labeled.</li> </ul>	

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**Root/Cause Analysis:**

Non-compliance with existing SOPs.

- The manual nature of the grant invoice approval process increases the likelihood of non-compliance.
- The lack of a system control or monitoring control to require separate entry and posting of journal entries increases the likelihood that the control will be overridden.

**Effect:**

- There was an increased risk that disallowed expenses or incorrectly coded items were accounted for against a grant.
- Future grant funding may be at risk.
- UTA may be required to re-pay disallowed expenses.
- UTA may not be able to demonstrate the accuracy of federal drawdowns due to passage of time or change in personnel.

**Recommendations**

- Management should consider implementing system controls where practical to ensure that journal entry and posting is segregated and grant invoices are approved appropriately.
- For areas of non-compliance management should retrain users in standard operating procedures.
- Supporting documentation should be adequate in nature to provide a clear understanding of amounts drawn down, without further inquiry necessary.

Management Agreement	Owner	Target Completion Date
Yes	Comptroller	September 30, 2018

Accounting will commit to explore the system functionality of requiring Journal Entry submission and approval to be segregated, but initial test have failed, so accounting is not guaranteeing a final resolution. A majority of the problem is placed on initial implementation decisions on batch differentiation in an ERP environment that could require major development and implementation to correct after the fact. If a system is not possible then a process of detecting exceptions and following up will be implemented.

Accounting has developed a clear drawdown process and the one sample by IA was a singular event on a new grant, by interim staff.

<b>Audit Status</b>	<b>Medium</b>
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Implemented

Audit procedures revealed that the prior recommendation to implement a system control where practical to ensure that journal entry and posting is segregated and grant invoices are approved appropriately had been implemented. As this is a system control, no further training was required for users not posting their own journal entry.

**Condition:**

For the 2 drawdowns selected for testing both were lacking sufficient supporting documentation to provide a clear understanding of amounts drawn down. Additional explanation from the originating

# APPENDIX 1

department, but not supporting documentation, was obtained for one of the drawdowns which identified possible explanations as to why documentation did not clearly match drawdowns.

**Recommendation:**

- Accounting personnel should be trained not to perform a drawdown without adequate supporting documentation, including a clear identification of the items and amounts being drawn down which are understandable and agreed to relevant journal entries, approved invoices, or other appropriate documentation to assure that drawdowns are limited to eligible costs to implement the award as required by Circular FTA C 5010.E Award Management Requirements.
- Management should work with responsible parties to define the minimum level of documentation needed to support drawdown amounts particularly for complicated processes such as when multiple funding sources and tracking accounts may be used.

Management Agreement	Owner	Target Completion Date
Yes	Comptroller	March 15, 2019
Accounting personnel will receive ongoing training on adequate backup needed to process a drawdown. We will work with other departments, where applicable, to define what documentation they need to provide as a minimum standard to be able to request a drawdown.		
<b>Final Status</b>		<b>Implemented</b>
<ul style="list-style-type: none"> <li>• Internal Audit reviewed a sample of drawdown documentation selected from the period of 12/1/2019 – 8/21/2020. A total of 80 drawdowns were completed during that period, and Internal Audit reviewed 8, or 10%.               <ul style="list-style-type: none"> <li>○ Accounting was able to provide satisfactory documentation for all drawdowns sampled. The recommendation was consequently closed as implemented.</li> </ul> </li> </ul>		
Management Agreement	Owner	Target Completion Date
Not applicable		

## 8. Civil Rights

Final Status	Medium
<p>Criteria:</p> <ul style="list-style-type: none"> <li>• CFR Title 49, Subtitle A, Part 26.83(j) states, “If you are a DBE, you must provide to the recipient, every year on the anniversary of the date of your certification, an affidavit sworn to by the firm's owners before a person who is authorized by State law to administer oaths or an unsworn declaration executed under penalty of perjury of the laws of the United States. This affidavit must affirm that there have been no changes in the firm's circumstances affecting its ability to meet size, disadvantaged status, ownership, or control requirements of this part or any material changes in the information provided in its application form, except for changes about which you have notified the recipient under paragraph (i) of this section. The affidavit shall specifically affirm that your firm continues to meet SBA business size criteria and the overall gross receipts cap of this part,</li> </ul>	



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documenting this affirmation with supporting documentation of your firm's size and gross receipts (e.g., submission of Federal tax returns). If you fail to provide this affidavit in a timely manner, you will be deemed to have failed to cooperate under §26.109(c)."

- UTA Corporate Policy No. 1.1.20, "Disadvantaged Business Enterprise Policy", section II.B states, "The DBE Liaison Officer is responsible for implementing all aspects of the DBE program. Implementation of the DBE program is accorded the same priority as compliance with all other legal obligations incurred by UTA in its financial assistance agreements with the DOT."

**Condition:**

During the course of the Grants Management follow-up audit, we reviewed for compliance with disadvantaged business entity (DBE) contract award requirements. We concluded the agency has an appropriate process to certify new DBEs, identify opportunities to hire DBE subcontractors, and award contracts to DBEs. However, agency personnel acknowledged delinquency in the annual re-certification of DBEs, dating back 15 years.

**Root/Cause Analysis:**

The Civil Rights department lacked the time and manpower to complete this task. This was rectified by the 2020 hiring of a new employee.

**Effect:**

- Contract awards could go to listed DBEs that no longer qualify as a DBE, resulting in non-compliance with grant requirements and falling below our stated DBE award goals.
- Future UTA grant funding may be at risk.
- UTA may have to reimburse the FTA.

**Recommendation**

Internal Audit has no formal recommendation. Civil Rights hired an individual who was tasked with updating the DBE list and verifying current eligibility. As of October 2020, Civil Rights has resolved 128/131 DBE, for a compliance rate of 98%.

Management Agreement	Owner	Target Completion Date
Not applicable.		

# APPENDIX 2

## REPORT RATING MATRICES

### OVERALL REPORT RATING

The overall report ratings are defined as follows, applicable to the audit scope as defined

Descriptor	Guide
Fully effective	Controls are as good as realistically possible, both well-designed and operating as well as they can be.
Substantially effective	Controls are generally well designed and operating well but some improvement is possible in their design or operation.
Partially effective	Controls are well designed but are not operating that well. OR While the operation is diligent, it is clear that better controls could be devised.
Largely ineffective	There are significant gaps in the design or in the effective operation of controls – more could be done.
Totally ineffective	Virtually no credible controls relative to what could be done.

### DETAILED FINDING PRIORITY RATING

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.
Implemented	Management action has been taken to address the risk(s) noted in the preliminary assessment finding.

# APPENDIX 3

DISTRIBUTION LIST			
Name	For Action <sup>1</sup>	For Information	Reviewed prior to release
Executive Director		*	
Acting Chief Service Development Officer		*	
Chief Operating Officer		*	
Chief Financial Officer		*	
Comptroller		*	
Senior Supply Chain Manager		*	
Special Services General Manager		*	
Director of Asset Management		*	
Coordinated Mobility Manager		*	
Program Manager- Environmental, Grants, Project Controls		*	

<sup>1</sup>For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.



## MEETING MEMO

**TO:** Utah Transit Authority Audit Committee  
**FROM:** Ron Ellis, Director Internal Audit  
**PRESENTER(S):** Ron Ellis, Director Internal Audit  
Eddy Cumins, Chief Operating Officer  
Dan Hofer, Manager State of Good Repair

**AUDIT COMMITTEE MEETING DATE: February 1, 2021**

<b>SUBJECT:</b>	<b>Internal Audit Report Review – State of Good Repair</b>
<b>AGENDA ITEM TYPE:</b>	<b>Audit Report</b>
<b>RECOMMENDATION:</b>	Informational report for discussion
<b>BACKGROUND:</b>	The Audit Committee engages in a dialogue with the Internal Audit department and Management on audit reports issued by the Internal Audit department to understand the risks identified and management actions planned or already taken.
<b>DISCUSSION:</b>	The Audit Committee will receive information on: <ul style="list-style-type: none"><li>• State of Good Repair Audit Report</li></ul>
<b>ATTACHMENTS:</b>	1) State of Good Repair Audit Report



**INTERNAL AUDIT**

**State of Good Repair Audit**

**R-19-01**

**December 21, 2020**

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## Rating Matrix

Descriptor	Guide
<b>High</b>	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
<b>Medium</b>	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
<b>Low</b>	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

## Distribution List

Title	For Action <sup>1</sup>	For Information	Reviewed prior to release
Chief Executive Director		*	*
Chief Operating Officer	*		
Chief Financial Officer	*		
Comptroller		*	
Director of Asset Management		*	
State of Good Repair Manager		*	

<sup>1</sup>For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.

# Executive Summary

## Introduction

---

In conjunction with the Board of Trustees' Audit Committee, Internal Audit (IA) developed a risk-based annual audit plan. This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute for Internal Auditors (IIA).

IA was directed by the Board of Trustees to perform an audit to determine if controls over State of Good Repair (SGR) were designed and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures, as well as to support the achievement of management objectives as part of the 2019 Audit Plan. The preliminary assessment stage of the audit was concluded in March 2019 and the final audit was completed in December 2020.

## Background and Functional Overview

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The SGR group resides in the Asset Management Department since an organizational re-alignment that took place during October 2018.

The SGR group's responsibilities include the Transit Asset Management (TAM) Plan, the Bridge Inspection Program, administration of UTA's Geographical Information System (GIS) program and has a role in the overall Continuing Control effort relating to federally funded assets in accordance with the Grants Management program.

The Transit Asset Management Rule from the Federal Transit Administration (FTA) imposed a deadline for the creation of an agency TAM Plan by October 1, 2018. UTA signed its TAM Plan in late September 2018, preventing a full cycle to be completed before the audit preliminary assessment period.

The original TAM Plan addressed the most basic requirements of the TAM rule with the expectation the TAM Plan would be updated in 2019 and would be more aligned with agency goals, priorities, and strategies after the new Executive team was formed. As of December 2020, the updated TAM plan is in draft form.

The SGR and the Accounting departments migrated asset data from the previous inventory system to JD Edwards (JDE). As part of the process, a physical inventory of all assets was performed. Accounting is still updating and testing data, however JDE is now the asset recordkeeping application that management places reliance.

## Objectives and Scope

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The period of the preliminary assessment was January 1, 2019 through March 8, 2019 with the completion of the audit work focusing on January 1, 2020 through October 31, 2020.

The primary areas of focus for the State of Good Repair audit were:

- Governance
- Asset Management Software and related Information Technology General Controls
- Transit Asset Management Plan
- Asset information completeness, accuracy, and validity
- Data consolidation and reporting
- Continuing control related to SGR

Internal audit excluded from the scope of this audit areas such as:

- Asset replacement costs
- Management decisions regarding TAM Plan recommendations
- ERP System Asset Records (Accounting Capital Asset Sub ledger)
- Asset Management Application Asset Records

IA notes that the 2018 TAM Plan was finalized and approved in September of 2018 and had not been fully executed during the scope of the Preliminary Assessment, and the current TAM plan is still in draft. Therefore, our review was limited to comparison of the 2018 TAM Plan to the CFR requirements, as understood by IA, and controls over capital asset inventories and assumptions used in capital funding needs projections.

### **Audit Conclusion Summary**

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1. IA's evaluation of the asset inventory data migration determined the data was materially accurate and complete.
2. The controls to identify and investigate data anomalies are properly designed and currently operating effectively.
3. The controls over the physical inventory of assets were not sufficient to ensure the capital asset existence was verified and supported with conclusive evidence.
4. UTA met the FTA's requirement that transit agencies develop a TAM Plan by October 1, 2018. During the design of the 2018 TAM Plan changes to UTA's governance structure were implemented by the Utah State Legislature. The governance changes added to the complexity of preparing the TAM Plan. Apart from the development and approval of the TAM Plan, additional governance over asset management and SGR was put into place through Corporate Policy 2.1.16, "Transit Asset Management and State of Good Repair". The preliminary assessment found that to better align with FTA requirements and to implement and carry out a meaningful TAM Plan, additional governance was needed. The preliminary assessment found SGR risk was not limited to the SGR team's activities, but was spread across other departments such as Operations, Accounting and Asset Management.

### **Audit Conclusion Recommendations**

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IA recommends the Accounting and SGR departments revise the quality assurance audit of revenue vehicles conducted at each Change Day to include non-revenue vehicles, equipment, and other non-infrastructure assets, and to require evidence of asset existence, such as a photograph and location that can be verified. This added process will address concerns reported in the FY 2019 Triennial Review regarding continuing control of assets.

Revisions to UTA policy 2.1.16 "Transit Asset Management & State of Good Repair" address the risks identified in the Preliminary Assessment phase of the audit, but the revisions were still not approved at the time the audit phase was concluded. IA recommends expediting the formal adoption of Policy 2.1.16 "Transit Asset Management & State of Good Repair" since it addressed the risks identified in the Preliminary Assessment phase.

This report details the results of the audit based on limited sample testing the responsibility for the maintenance of an effective system of internal control and the prevention and detection of irregularities and fraud rests with management.

Internal Audit would like to thank management and staff for their cooperation and assistance during the audit.



**Audit Finding R-19-01-01 Asset Verification** **Risk Level: High**

**Criteria:**

- Accounting Department’s document, Capital Assets Inventory Procedures:  
Attributes verified and reconciled to the asset record include (at a minimum):
- UTA asset tag number, facilities tag number, vehicle number, assigned JDE number
  - Description
  - Manufacturer
  - Model Number
  - Vehicle Identification number, serial number, license plate
  - Responsible Business Unit
  - Location
  - Use Status
  - Picture with GPS location

**Condition:**

Evidence was not always available to verify an assets existence.  
IA requested available supporting documents and reviewed JD Edwards support for 47 SGR assets. IA identified 13 of 47 SGR assets did not have evidence that the asset was verified, that the asset existed, or did not have documentation supporting the asset. Testing resulted a 27% error rate.

Specifically:

- 3 Maintenance equipment assets did not have supporting documentation, or photo available. Assets lacked evidence of verification or existence.
- 2 Non-Revenue vehicle assets were supported with the registration on file, however there was not a photo to document the physical asset.

IA categorized infrastructure items with characteristics hindering the likelihood of theft low-risk. The following low-risk items lacked evidence of verification or existence:  
8 of the 13 assets are related to infrastructure:

- 4 assets were related to train control
- 1 asset is Cable Transmission cable
- 1 asset is Bus Wash
- 1 asset is Bridge Crane
- 1 asset is Fencing

**Root/Cause Analysis:**

There was a lack of communication between the Accounting and SGR departments regarding the requirements needed to verify assets.

**Possible Risk:**

- Asset inventories and records may not be complete, valid, or accurate.
- Missing assets or fraudulent activities may not be identified in a timely manner.

**Recommendations:**

IA recommends the Accounting and SGR departments revise the Change Day Quality Assurance Audit of revenue vehicles to include non-revenue vehicles, equipment, and other non-infrastructure assets and to require evidence of asset existence, such as a photograph and location that can be verified. This added process will address concerns reported in the FY 2019 Triennial Review regarding continuing control of assets.

**Management Response and Action Plan:**

Accounting and SGR will develop a plan to expand the Change Day Quality Assurance Audit (QAA) of revenue vehicles to include non-revenue vehicles, equipment, and other non-infrastructure assets and require evidence of asset existence.

Currently, the QAA requires a 10% audit of revenue vehicles except for Commuter Rail vehicles for a total of approximately 140 vehicles. The modified QAA will still require the 10% audit of all revenue vehicles but will be expanded to include other asset categories and will place a cap at 200 items per change day cycle. This QAA would not cover the following asset types:

- No assets unless they are over \$5,000 (excludes “zero-cost” assets)
- o Mainly covers minor facility assets, bus engines, and bus transmissions
- No building or building improvements
- No land or land improvements

The high-level plan for these QAA's will be as follows:

The focus of the QAA is intended to be the data associated with the assets which should lead to a successful location of the asset being reviewed. The QAA will be structured to place the focus on the data. If the asset is not located quickly, within one or two attempts, the asset will be marked as not found and recommendations for the data modification will be provided to the Responsible Business Units (RBU(s)) for correction. Accounting and the SGR teams will provide the personnel for these QAA efforts.

The DSI application was found to be mostly incompatible with JD Edwards with respect to the photo captures and association of the photos to the assets upon reconciliation. JDE was unable to accept the photos due to data incompatibilities between it and the DSI application. The audit would probably still have had errors, but this issue is a contributing factor to the high error rate identified above. IT is working still to attach the photos to the assets in JDE but it is a slow and manual process. Unfortunately, this does not look like an issue that can be resolved via technology and requires a large amount of manual effort on the back end for photo association.

For a temporary solution, until a more permanent option is found for JD Edwards, the ESRI GIS Collector Platform will be utilized to perform these checks and capture the photos along with comments the SGR/Accounting team may have for the item being reviewed. Management acknowledges this solution requires the use of another system outside of JDE, however, given the severity classification of this finding, an existing and functioning system with a high-level of user-configurability is required. Prior to

each check, a download will be taken from JDE, the required assets selected for the audit, and then those, with the required data fields, will be uploaded to ESRI for the relevant QAA. The SGR team will provide the necessary training to Accounting for using this platform.

**Target Completion Date:** June 01, 2021

**Criteria:**

The FTA “Transit Asset Management Guide, FTA Report No. 0098” states, “Establishing an asset management policy and strategy helps to focus management and business processes on the agency’s business objectives, which are usually the outcomes of most importance to customers.”

FTA Guidance states that, “Primarily, asset management plans have two major components:

- Enterprise-wide implementation actions that provide enabling support and direction for asset management across all asset classes and services
- Direction and expectations for asset class owners and department managers regarding lifecycle management planning and processes—with a focus on the lifecycle management plans...”

*Source: [www.transit.dot.gov/TAM/gettingstarted/FAQsArchive](http://www.transit.dot.gov/TAM/gettingstarted/FAQsArchive)*

49 CFR Section 625.33 states that, “Investment prioritization. (a) A TAM plan must include an investment prioritization that identifies a provider’s programs and projects to improve or manage over the TAM plan horizon period the state of good repair of capital assets for which the provider has direct capital responsibility. ... (f) When developing its investment prioritization, a provider must take into consideration requirements under 49 CFR 37.161 and 37.163 concerning maintenance of accessible features and the requirements under 49 CFR 37.43 concerning alteration of transportation facilities.”

**Condition:**

IA, as part of the Preliminary Assessment, compared both the Policy 2.1.16 “Transit Asset Management & State of Good Repair” and the 2018 TAM Plan to the FTA requirements found in the TAM Rule and determined that the documents were not fully aligned with the requirements. Specifically the policy and plan had the following inadequacies:

- The TAM Plan has not been defined as a policy or procedure.
- There was no clear link between UTA’s business objectives and the objective set forth in the TAM Policy.
- Neither Policy 2.1.16 nor the TAM Plan adequately identified managers’ capital asset responsibilities
- Neither Policy 2.1.16 nor the TAM Plan assigns authority or responsibility for investment prioritization and project rankings process nor were there detailed procedures documenting the process.

**Root/Cause Analysis:**

- A risk assessment was not conducted prior to the development of the TAM Plan
- The TAM Plan addressed the most basic requirements of the TAM rule with the expectation the TAM Plan would be updated in 2019

**Possible Risk:**

- TAM Plan may not fully carry the weight or entity alignment that the FTA is seeking
- The Asset Management Plan may not align with UTA's strategic vision and objectives
- Strategic opportunities to minimize capital assets maintenance and operating costs over the asset's life cycle may not be realized
- Decision-makers may not have sufficient or accurate information to make budget and other financial decisions

**Preliminary Assessment Recommendations:**

- a) A risk assessment or gap analysis of asset management processes should be performed that includes consideration of CFR requirements and agency objectives
- b) Asset management goals and objectives should be clearly established, documented in a policy, and communicated throughout UTA
- c) The TAM Plan should be:
  - i. Modified where needed based on gaps identified from the risk assessment
  - ii. Aligned with strategies, goals and objectives established by UTA management and documented in policy
  - iii. Based on input and feedback from all responsible parties for transit assets
  - iv. Distributed to all stakeholders, including asset managers and the executive team
  - v. Supported by business level processes and related training
- d) Adequate authority should be established and assigned in a policy or SOP to direct individuals responsible for creating and maintaining asset information and to establish Agency wide objectives, goals and expected outcomes

**Audit Recommendations:**

Revisions to UTA policy 2.1.16 "Transit Asset Management & State of Good Repair" address the risks identified in the Preliminary Assessment phase of the audit, but the revisions were still not approved at the time the audit phrase was concluded. IA recommends expediting the formal adoption of Policy 2.1.16 "Transit Asset Management & State of Good Repair" since it addressed the risks identified in the Preliminary Assessment phase.

**Management Response and Action Plan:**

The Transit Asset Management & State of Good Repair policy has been reviewed by the Executive Team and is in the cue to go the Board of Trustees for approval. Due to the unique nature and complexity of this policy, it was important to take the necessary time to ensure the policy was complete and comprehensive. To get to the point where the policy update could be addressed most effectively, it was important to correct previously identified audit findings, and complete the physical inventory prior to finalizing the

policy. Once approved, the policy will provide the necessary foundation to update the TAM Plan accordingly.

Management anticipates having this policy on the Board Agenda no later than February 24, 2021 and completed by March 31, 2021

**Target Completion Date:**

March 31, 2021



## MEETING MEMO

**TO:** Utah Transit Authority Audit Committee  
**FROM:** Ron Ellis, Director Internal Audit  
**PRESENTER(S):** Ron Ellis, Director Internal Audit  
William Greene, Chief Financial Officer  
Brad Armstrong, Sr. Manager of Budget and Financial Analysis

**AUDIT COMMITTEE MEETING DATE: February 1, 2021**

<b>SUBJECT:</b>	<b>Internal Audit Report Review – Budget Preparation and Management</b>
<b>AGENDA ITEM TYPE:</b>	<b>Audit Report</b>
<b>RECOMMENDATION:</b>	Informational report for discussion
<b>BACKGROUND:</b>	The Audit Committee engages in a dialogue with the Internal Audit department and Management on audit reports issued by the Internal Audit department to understand the risks identified and management actions planned or already taken.
<b>DISCUSSION:</b>	The Audit Committee will receive information on: <ul style="list-style-type: none"><li>• Budget Preparation and Management Infrastructure Audit Report</li></ul>
<b>ATTACHMENTS:</b>	1) Budget Preparation and Management Audit Report



**INTERNAL AUDIT**

**Budget Management Process Audit**

**R-19-02**

**January 15, 2021**

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## Rating Matrix

Descriptor	Guide
<b>High</b>	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
<b>Medium</b>	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
<b>Low</b>	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

## Distribution List

Title	For Action <sup>1</sup>	For Information	Reviewed prior to release
Chief Executive Director		*	*
Chief Operating Officer		*	
Chief Financial Officer	*		
Senior Manager of Budget & Financial Analysis	*		

<sup>1</sup>For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.



# Executive Summary

## Introduction

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In conjunction with the Board of Trustees' Audit Committee, Internal Audit (IA) developed a risk-based annual audit plan. This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute for Internal Auditors (IIA).

IA was directed by the Board of Trustees to perform an audit to determine if controls over the Budgeting and Budget Management process are designed adequately and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives.

## Background and Functional Overview

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The Budgeting process is the responsibility of the Executive Director by statute. The Chief Financial Officer (CFO) and the Budgeting and Analysis Group (B&A) that works under the CFO guide the process for UTA, working with key Management personnel to develop strategies and goals to accomplish the overall organizational objective of delivering transit services to the commuters within the transit district.

In addition to driving the annual budgeting process, the B&A group provides other services to the Agency to include supporting the capital budget development process, administer and support the budgeting software solution to include training for executive and departmental leaders in budget preparation. The group also prepares or assists with the preparation of various monthly financial reports, updating actual results in the budgeting software and statistical key performance indicator (KPI) reports such as Headcount, TVM Data, and Investment Per Rider.

The B&A group provides project support and economic analysis support for other aspects of the operation as necessary.

## Objectives and Scope

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The period of the preliminary assessment was January 1 2018, through December 31, 2018. The period of the audit focused on January 1, 2019 – December 31, 2019.

The primary areas of focus for the budget management assessment were:

- Governance.
- Operating budget development.
- Capital budget development.
- Budget finalization.
- Select IT general controls (ITGCs) for the operating budget software.
- Monitoring and control.

Internal audit excluded from the scope of this assessment areas such as:

- UTA Employee Pension and Trust internal budget
- Assessment of overall Authority operating effectiveness due to budget decisions

## Audit Conclusion Summary

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1. Management has drafted standard operating procedures (SOP) to address governance issues noted in the preliminary assessment. As of 01/05/2021, the SOP has not been approved.
2. Management has implemented an organized approach to taking budget meeting minutes.
3. Management was able to provide support and rationale for budget assumptions.
4. An SOP was written to address approval requirements for new users of the budgeting software Magiq. The SOP does not, however, address retention of approval evidence.
5. IA performed re-testing and found there was no discrepancy between the board approved budget and the published budget.
6. IA recalculated budget reserves and debt service and found no discrepancies in budgeted amounts.
7. IA recalculated reserve fund amounts and found no discrepancy.
8. The draft Budget SOP does not address how to seek budget amendments/adjustments.
9. While evidence of budget reconciliations and accountability exists, it is not sufficiently formalized to be an effective control.

## Audit Recommendations

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- We recommend that the draft SOP be adopted.
- We recommend that Executive Leadership approve the revised budget SOP.
- We recommend that the Budget team update internal standard operating procedures to include retention requirements of software approvals.
- We recommend that the Finance department develop and document a formal process for seeking budget amendments.
- We recommend that the Finance department develop and document a formal process to reconcile actual expenditures to budget amounts.
- We recommend that the Finance department develop and document a formal process to monitor operating and capital budgets and to hold decision makers of those budgets accountable for their financial activities.

**Preliminary Assessment Status**

**Criteria:**

Enterprise governance is an overarching system, which seeks to align priorities, funding, and resources and elevates decision making responsibility, authority, and accountability to the appropriate levels. Governance principles include:

- Management establishes reporting lines, with board oversight, of the development and performance of internal control.
- Individually establishes accountability for internal control responsibilities in pursuit of entity objectives.

Sources:

COSO Enterprise Risk Management: Establishing Effective Governance, Risk, and Compliance (GRC) Processes, Robert R Moeller

COSO: How the COSO Frameworks Can Help, James DeLoach and Jeff Thomson

Utah Code

17B-1-702 Local districts to submit budgets. (excerpt)

(b) Within 30 days after it was approved by the board, and at least 30 days before the board adopts a final budget, the board of trustees of a large public transit district as defined in Section 17B-2a-802 shall send a copy of its tentative budget and notice of the time and place for its budget hearing to:

- (i) each of its constituent entities;
- (ii) each of its customer agencies that has in writing requested a copy;
- (iii) the governor; and
- (iv) the Legislature.

(c) The local district shall include with the tentative budget a signature sheet that includes:

- (i) language that the constituent entity or customer agency received the tentative budget and has no objection to it; and
- (ii) a place for the chairperson or other designee of the constituent entity or customer agency to sign.

UTA Board of Trustees Executive Limitations Policies, specifically:

- 1.2.6 Debt Service Reserve and Rate Fund.
- 2.1.8 Service Stabilization Fund.
- 2.3.2 Financial Conditions.
- 2.3.3 Budgeting.
- 3.1.2 Transit Development Plan – Financial Plan.

**Condition:**

- Although Board of Trustees Executive Limitations Policies were in place requiring the General Manager to budget funds necessary for operation, there were not objectives and measurable goals for budget management established, policies and procedures were not created to further assign ownership roles and responsibilities as well as guide users. The only clear requirement for the organization, identified from UTA governance documentation, is that a budget be produced annually containing certain reserve amounts.

- Even though a set of budget instructions were communicated by the Interim Executive Director for the 2019 budget creation process, it was not considered adequate to function as a policy or SOP for formal governance.
- Although evidence of ad hoc, undocumented, and otherwise informal reviews were identified, outside of the reviews and approvals of the budget performed by the Board of Trustees no formal process of review and approval of budget processes, documents, or reports was identified.
- Periodic budget variance reporting was performed for both operating budgets and capital projects as well as the overall budget in the Monthly Financial Reports to the Board. However, no standard of accountability was defined for over or under spending nor had budget performance measures been documented or followed up.
- Even though budget training was provided by Budget staff, they did not define whether training was required for all users and consequently, training participation was not compulsory.
- Inconsistency or uncertainty in the use of terms such as “Operating Expenses” and “Annual Budget” in the Budget Book and Executive Limitations Policies were noted.

**Root/Cause Analysis:**

- Goals and objectives for the budget process have not been clearly defined and communicated.
- No risk assessment had been performed to understand the critical risks that exist for a set of well-defined objectives of the budgeting process, including an assessment of critical budget duties being adequately segregated.
- No formalized policy or SOPs to establish governance or guide users through the critical steps in the budgeting process.

**Possible Risk:**

- No major breakdowns resulting from inadequately designed or ineffective controls was observed in assessment procedures. However, this was likely a result of the understanding and expertise of key employees assuming responsibility for risks rather than good governance. This reliance on individual employees over well designed systems and processes highlights the elevated risk of a loss of institutional knowledge should those key employees leave the organization without imparting that knowledge and expertise to those who follow.
- Budgets may not support UTA’s objectives and goals
- Parties who assumed critical roles, either due to a perceived understanding, informal delegation, or out of a sense of responsibility to the organization lacked authority and assigned responsibilities required for accountability.
- Although Executives were identified during the process as playing a key role in the development, creation, review, and approval of the budget the lack of formalized roles and responsibilities defined as part of good governance led to an increased risk of the following:
  - Not all Executives may have agreed with the final budget in full.
  - Not all Executives may have been aware of all aspects of the Final Budget to be able to agree to it in full.
  - Executives may have had differing understandings of how the final budget supported management objectives.
  - Executives may not have understood that they had a responsibility over the complete final budget and instead relied wholly on the Board’s review and approval as appropriate.
- Inadequate or informal policies or procedures could cause uncertainty or confusion.
- Audit trails were incomplete due to the lack of procedures defining the documentation critical to create and retain which would have supported control effectiveness.

**Recommendations:**

- To ensure stronger governance for the budgeting process the roles of the Board, the Executive team, other responsible management parties, and users should be clarified.
- Based on the budget goals and objectives developed, a risk assessment over the budget process should be undertaken at an appropriate level of oversight.
- The risk assessment should include an assessment of the entire budget management process and associated sub processes such as, but not limited to, capital budget, operating budget, debt service and extinguishment, budget relation to TFP, monitoring results, reporting, and adequate segregation of duties.
- After completing a risk assessment, a policy for the budget should be created that includes:
  - Assignment of ownership for critical budget responsibilities, including the responsibility for completion, review, approval of significant sub processes.
  - Alignment of budget activities with applicable laws and regulations.
  - Support for and communication of goals and objectives defined for the budgeting process.
- Development of budget related SOPs for critical processes should be overseen by the responsible parties identified in the policy and should include:
  - Identification of the critical steps in the process.
  - Key reviews and approvals needed, if any.
  - Interactions between departments, if any.
  - Process owner(s) identified.
  - How disagreements should be adjudicated.
  - Required documentation to be created and retained to support an audit trail

**Management Response and Action Plan:**

UTA currently uses a budget calendar to assign high-level responsibilities for each step of the annual budget process. We can develop a more detailed budget calendar for those below the Chief Officer level. We will include the budget process in the risk assessment work being undertaken. Once the risk assessment is completed, we will develop a policy to address any gaps. Along with the policy, we will develop budget SOPs and discuss appropriate documentation.

**Target Completion Date:**

March 31, 2020

**Audit Status****Status:**

In Progress

**Action Taken:**

- The Finance department wrote a standard operating procedure (SOP) to address governance issues from the preliminary assessment. As of 12/31/2020, the SOP has been drafted but not approved.

**Recommendation:**

- We recommend that the draft SOP be updated as appropriate and adopted with the additional recommendations herein.
- We recommend that Executive Leadership approve the revised budget SOP timely.

**Management Response and Action Plan:**

- New CFO, Bill Greene, would like additional time to review and refine SOP to reflect his direction of the budget process at UTA.

**Target Completion Date:**

June 30, 2021

**Audit Finding R-19-02-02 Operating Budget**

**Risk Level: Medium**

**Preliminary Assessment Status**

**Criteria:**

- UTA Corporate Policy 3.1.2 Transit Development Plan – Financial Plan (TFP)

This policy states that the June revision of the TFP will form the basis for the budgeting process.

- GFOA Budget Best Practices:

Recommended Budget Practices: A Framework for Improved State and Local Budgeting

National Advisory Council on State and Local Budgeting (pgs. 16-17, excerpt)

- The following issues to be taken into account in the tools and techniques that support budgetary practices:
  - Managing the budget process and changes to budget practices.
  - Adjusting for organizational structure and issues.
  - Addressing the organizational culture with regard to the budget process.
  - Desire to have change or to prevent change.
  - Level of resources available for programs.
  - Available level of technical system and support.
  - Dealing with high (or low) expectations.
  - Legal requirements.
  - The level of stakeholder understanding.
  - Accuracy of projections and assumptions.
  - Level of disclosure.

**Condition:**

- Users, including directors, regional general managers, and Executives, are able to review departmental budgets to the general ledger (GL) account level; however, there was no documented requirement for review or approval of the budgets as they are aggregated up from the Manager level. Although approvals may be thought to be implied by users responsible for operating budgets they were not sufficiently formalized to provide evidence of an audit trail.
- Executive budget planning and review was asserted throughout the budgeting process and supported by the Budget Calendar. However, the Chief Officers' meetings where the work was performed was not recorded. Areas which may have been addressed in VPC meetings or offline but not evidenced included:
  - Monitoring for changes in the operating environment.
  - Review and approval of assumptions used.
  - Review that assumption calculations within the budget software were accurate.
  - Review and approval of budget components.
  - Communication of the budget to all users.
  - Reserves and contingencies being accurately reflected in the budget.
- There are documents to support that a process exists to describe the changes in Executive's budgets, year over year, being supported by actions and measures intended to generate the cost savings needed. Nevertheless, the process was not sufficiently designed and evidenced to be able to test for the assessment.
- Although there was some evidence of reconciliations between related and supporting processes, they were not sufficiently formalized to be able test their effectiveness, including for:

- Budget assumptions being accurately recorded in budget software.
- Accounting ERP information being accurately recorded in budget software.
- The TFP and previous year's budget forming the basis for next year's budget in line with UTA Corporate Policy 3.1.2

**Root/Cause Analysis:**

- No formalized policy or SOPs to establish governance or guide users through the critical steps in the budgeting process.
- Although not determined by audit procedures, under-resourcing may be considered an underlying cause for the lack of documentation to support an audit trail in the Operating Budget process. As there were no SOPs in place to guide users, under resourcing was identified in relation to the gaps noted against best practices as determined by Internal Audit.

**Possible Risk:**

- Final budgets lacked a clear audit trail to support how amounts were determined and who took responsibility that final amounts were valid, correct, and accurate.
- Mistakes within or from the supporting processes and documents may not be identified.
- Users may not understand their responsibility or accountability in the budget process.

**Recommendations:**

A policy and SOPs should be designed to align with organizations goals and objectives and the risk assessment (refer to R-19-02-01) for the budgeting process and should include:

- Ownership of the operating budget process.
- Assignment of roles and responsibilities.
- Review and approval requirements.
- Guidance for users in following best practices.
- Defining the documentation required and method of retention to support an audit trail.
- Monitoring of projects for unintended or unanticipated ongoing operating costs.

**Management Response and Action Plan:**

UTA currently uses a budget calendar to assign high-level responsibilities for each step of the annual budget process. We can develop a more detailed budget calendar for those below the Chief Officer level. We will include the budget process in the risk assessment work being undertaken. Once the risk assessment is completed, we will develop a policy to address any gaps. Along with the policy, we will develop budget SOPs, budget guidance documents, and discuss appropriate documentation.

**Target Completion Date:**

March 31, 2020

**Audit Status**

**Status:**

Closed

**Action Taken:**

- Management has implemented a more organized approach to taking budget meeting minutes.
- The Budget and Analysis department was able to provide support and rationale for assumptions, such as fuel prices, that are used in the budget. These assumptions are regularly presented to the Board of Trustees throughout the budget and financial reporting process.

- The remaining issues noted in the preliminary assessment were closed by IA. Reasons for closing an issue can include: the issue is immaterial; new information or evidence was presented that refuted the issue; a change in circumstances made the issue irrelevant.

**Recommendation:**

- We have no recommendations in the area of operating budget.

**Audit Finding R-19-02-03 Capital Budget Risk Level: Medium**

**Preliminary Assessment Status**

**Criteria:**

- GFOA Budget Best Practices:

Recommended Budget Practices: A Framework for Improved State and Local Budgeting  
National Advisory Council on State and Local Budgeting (pgs. 16-17)

- The following issues to be taken into account in the tools and techniques that support budgetary practices (excerpted):
  - Managing the budget process and changes to budget practices.
  - Adjusting for organizational structure and issues.
  - Addressing the organizational culture with regard to the budget process.
  - Desire to have change or to prevent change.
  - Level of resources available for programs.
  - Available level of technical system and support.
  - Dealing with high (or low) expectations.
  - Legal requirements.
  - The level of stakeholder understanding.
  - Accuracy of projections and assumptions.
  - Level of disclosure.

**Condition:**

- There was evidence of a process during the capital budgeting project prioritization process to mitigate the risk of revenue incorrectly assigned to multiple projects but it was not sufficiently formalized or complete to be able to test the control design.
- Subsequent to the prioritization process, \$2M was added to a specific project budget; however, it was unclear whether the addition followed a formalized standard process.
- Carryover projects from the prior year budget were included in the final budget without consideration of reprioritization and their estimates were not reviewed or approved prior to inclusion in the Final Budget approved by the Board. This includes both projects that have been initiated as well as those that were approved but never started.
- Although project proposal forms submitted for budget consideration included 5 year budget horizons, the annual costs beyond the current year for the projects budgeted for were not necessarily reflected in the 5 year horizon of the TFP.
- It was not clear how the determination of funds allocated between operating and capital budgets was made and whether it was made by a representative committee assigned that responsibility.
- There was no review or independent estimate to support that capital project amounts requested or awarded were reasonable.
- Assessment procedures revealed the following:



- For 1 (of 14) items tested on the 2018 Carryover schedule the carryover amount appeared to be for the life of the project, including for budget periods beyond the carryover period, rather than the amount to be carried over from the current year.
- For 2 (of 14) items tested on the 2018 Carryover schedule there was no Capital Project Request Form on file which was attributed to one item being added by Management subsequent to the prioritization process and one item being carried over from 2016 with no proposal form kept on file.
- For 1 (of 14) items tested on the 2018 Carryover schedule the budget requested was less than the budget approved. Management did not have a documented process to update, revise, or otherwise adjust the budget request form to reflect the increased amount. Although management may have approved the increase during their budgeting sessions, the risk remains that amounts requested and needed may not be accurately reflected in the budget.
- For 1 (of 14) items tested the 2019 budgeted amount was more than the supporting documentation implied, which was traced to the 2018 capital project carryover schedule and 2019 prioritized project listing.
- For 1 (of 14) budgeted capital projects tested no proposal form was required because it represented an amount budgeted for discretionary use. IA noted that the awarding of discretionary funds did not follow a documented or formal process and also represented unique risks in the awarding and spending of those funds for which IA could not identify mitigating controls.
- A reconciliation process appears to have been performed for the finalized carryover amounts; however, it was informal and therefore did not meet the minimum standard of a control.
- Although a prioritized listing of capital projects was created by a team overseen by the Director of Capital Projects, it could not be agreed in whole to the capital project listing in the 2019 Final Budget Book, nor could support or approval of adjustments be obtained.
- Although a process was undertaken to review the TFP and reconcile it to the initial capital budget amount, the process was managed through emails and was not tracked or reviewed formally for validity, accuracy, or completeness.

**Root/Cause Analysis:**

- The capital project prioritization process, including any adjustments, was done offline without tracking user input or documentation of ownership, including oversight approval of the process or results.
- There were no SOPs or authoritative guidance to lead users through the capital budgeting process using best practices, including no formal:
  - Process that guides users in transferring budget between projects including:
    - Overall responsibility to oversee transfers.
    - How transfers are tracked.
    - How transfers should be agreed to.
  - Methodology for identifying or supporting when budgets are set below previous year actual expenditures.
  - Process or requirement to assess past capital budget activities and results for new learnings.

**Possible Risk:**

- Without adequate oversight and authority, as well as SOPs and supporting documentation, users may have had to rely on negotiation rather than on organizational goals and objectives as a means to establish budget amounts.
- Projects may have been pursued for reasons other than what was intended by the Board. Due to the ad hoc nature of the process of adding budget funds during the process there was an increased risk that they may not be sufficiently understood or approved.

- Amounts budgeted for specific projects may have been inadequate or overestimated due to a lack of supporting processes and oversight.
- Critical projects may have been passed on while projects approved were not initiated.

**Preliminary Assessment Recommendations:**

A policy and SOPs should be designed to align with organizations goals and objectives and the risk assessment (refer to R-19-02-01) for the budgeting process and should include:

- Ownership of the capital budgeting process.
- Assignment of roles and responsibilities.
- Review and approval requirements.
- Guidance for users in following best practices.
- Defining the documentation required and method of retention to support an audit trail.

**Management Response and Action Plan:**

UTA currently uses a budget calendar to assign high-level responsibilities for each step of the annual budget process. We can develop a more detailed budget calendar for those below the Chief Officer level. We will include the budget process in the risk assessment work being undertaken. Once the risk assessment is completed, we will develop a policy to address any gaps. Along with the policy, we will develop budget SOPs, budget guidance documents, and discuss appropriate documentation.

**Target Completion Date:**

March 31, 2020

**Audit Status**

**Status:**

Closed

**Action Taken:**

- Internal Audit began an audit of capital projects in 2020 that addresses the issues of independent project estimates not being completed and circumvention of the project proposal process.
- The remaining issues noted in the preliminary assessment were closed by IA. Reasons for closing an issue can include: the issue is immaterial; new information or evidence was presented that refuted the issue; a change in circumstances made the issue irrelevant.

**Recommendation:**

- We have no recommendations in the area of capital budget.

**Audit Finding R-19-02-04 Information Technology General Controls**

**Risk Level: Low**

**Preliminary Assessment Status**

**Criteria:**

Corporate Policy 1.1.23, Information Security Policy, Application Access Control states, “1. Access to UTA’s systems applications must be restricted to those individuals who have a business need to access those applications or systems in the performance of their job responsibilities and have approval from the IT Director, or designee and the business owner (Manager level or above).”

**Condition:**

- The budget software license and support agreement did not outline what constitutes ongoing application support.
- The budget software was not able to generate a report of activity, including timing and extent of users locked out of the system for budgetary control purposes, changes to master data, or tracking changes made to operating budgets other than the most recent.
- Changes to master data were not formally monitored, reviewed, or approved. Although the budget team does perform periodic reconciliations of information between the Accounting ERP system and the budgeting software, the reconciliations are not sufficiently documented or otherwise formalized to be able to test for effectiveness.
- Assessment procedures revealed that 7 (out of 13) budget software users selected for testing did not have access approval emails from Director level or above because they were original users and an approval control did not exist at the time their access was given.
- During the assessment it was also observed that all support for the budget software came from the vendor with no internal support from IT provided other than normal server backup. Additionally, it was understood by management that budget software would support workflow management but that functionality had not been pursued.
- It is unclear whether the original Software and License Agreement on file is current nor was any subsequent Software and License Agreement identified during assessment procedures.

**Root/Cause Analysis:**

- IT did not have a formal role in reviewing the original or subsequent license and support agreements.
- There were no SOPs in place regarding:
  - Administration of budget software.
  - User accounts.
  - Change management.
  - Data validation.
  - Change management procedures.

**Possible Risk:**

- Should the vendor be unwilling or unable to provide support for the budget software to UTA it is unclear what recourse may be available, including whether IT would be able to support the program internally.
- Although a limited audit trail exists, should disagreements arise as to accountability for budget amounts it is uncertain that the budget software could identify the user attributable.
- Amounts originating in the Accounting ERP and reported by the budgeting software may not be accurate, valid, or complete and errors may not be identified timely.
- The budget software may not be viewed as a source of truth and its role in the budgeting process may not be consistently understood.

**Preliminary Assessment Recommendations:**

- The budget software owner should work with IT to review the software agreement and request modifications, where appropriate, including
  - Provisions regarding backups of the application or database.
  - Performance metrics.
  - Provisions on software updates and build versions.
- SOPs for the administration of budget software should be developed, including user accounts, classification of data and required protections (if any), and change management.

**Management Response and Action Plan:**

Budget staff will work with IT to review the software agreement and seek modifications as well as develop SOPs for administration of the budget software.

**Target Completion Date:**

March 31, 2020

**Audit Status**

**Status:**

Closed

**Action Taken:**

- A new SOP was written to address approval requirements for new users, but does not address retention of approval evidence. This is a minor risk because user roles are limited within Magiq and access to any internal software is controlled by Active Directory and documented by IT as part of provisioning processes.
- The remaining issues noted in the preliminary assessment were closed by IA. Reasons for closing an issue can include: the issue is immaterial; new information or evidence was presented that refuted the issue; a change in circumstances made the issue irrelevant.

**Recommendation:**

- We have no recommendations in the area of Information Technology General Controls.

<b>Audit Finding R-19-02-05 Budget Finalization</b>	<b>Risk Level: High</b>
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**Preliminary Assessment Status**

**Criteria:**

- Executive Limitations Policy 2.3.3 Budgeting

This policy assigns ownership of the budgeting process to the General Manager and requires that a budget be performed annually.

- GFOA Budget Best Practices:

Recommended Budget Practices: A Framework for Improved State and Local Budgeting  
National Advisory Council on State and Local Budgeting (pgs. 16-17)

- The following issues to be taken into account in the tools and techniques that support budgetary practices (excerpted):
  - Managing the budget process and changes to budget practices.
  - Adjusting for organizational structure and issues.
  - Addressing the organizational culture with regard to the budget process.
  - Desire to have change or to prevent change.
  - Level of resources available for programs.
  - Available level of technical system and support.
  - Dealing with high (or low) expectations.
  - Legal requirements.
  - The level of stakeholder understanding.
  - Accuracy of projections and assumptions.
  - Level of disclosure.

**Condition:**

- Subsequent changes to the Final Budget, if any, do not go to the Board for approval.
- Due to the lack of formality in design and documentation IA was unable to test the following:
  - Reconciliations between the approved budget and;
    - budget software amounts,
    - capital budget prioritization,
    - final budget book, and
    - Transit Financial Plan (TFP)
  - Review of reserve funds included in the budget.
  - Review of debt service and capital repayment amounts included in the budget.

**Root/Cause Analysis:**

In the absence of organizational goals and objectives, policies, and procedures for the budgeting process, users were left to develop their own goals and processes.

**Possible Risk:**

Lack of standardized processes increased the risk that results were not appropriately monitored and that responses may not have been consistent with organizational goals.

**Preliminary Assessment Recommendations:**

- Based on the results of a risk assessment, the owner of the budget finalization process should oversee the development of SOPs to address the critical risks identified with adequate controls designed to mitigate those risks.
- Roles and responsibilities should be documented that align with controls designed and clearly outline what is expected of all participants in the process.

**Management Response and Action Plan:**

We will develop SOPs which outline roles and responsibilities throughout the budgeting process and provide controls designed to mitigate risks.

**Target Completion Date:**

March 31, 2020

**Audit Status****Status:**

Closed

**Action Taken:**

- IA observed public workshops that included Board Review of the final budgets and the final adoption of the Budget for Fiscal 2021 on 12/16/2020.
- IA performed re-testing and found there was no discrepancy between the board approved budget and the published budget.
- IA recalculated budget reserves and debt service and found no discrepancies in budgeted amounts.

**Recommendation:**

- We have no recommendations in the area of budget finalization.

**Preliminary Assessment Status****Criteria:**

- GFOA Budget Best Practices:

Recommended Budget Practices: A Framework for Improved State and Local Budgeting  
National Advisory Council on State and Local Budgeting (pgs. 16-17)

- The following issues to be taken into account in the tools and techniques that support budgetary practices (excerpted):
  - Managing the budget process and changes to budget practices.
  - Adjusting for organizational structure and issues.
  - Addressing the organizational culture with regard to the budget process.
  - Desire to have change or to prevent change.
  - Level of resources available for programs.
  - Available level of technical system and support.
  - Dealing with high (or low) expectations.
  - Legal requirements.
  - The level of stakeholder understanding.
  - Accuracy of projections and assumptions.
  - Level of disclosure.

**Condition:**

- Assessment procedures for budget monitoring and control revealed the following:
  - Operating budget variance analysis was performed at the department level and not at the GL account level as budgeted.
  - Although there is a process to monitor capitalized project labor allocations it is not sufficiently defined or formalized to mitigate the risk that all issues are identified and followed up on.
  - The tracking analytic for capitalized labor allocations was not reviewed or approved for validity, accuracy, or completeness.
  - The follow ups performed for capitalized labor allocations that did not match expectations were not documented.
  - Expectations for labor allocations were not included in the project labor allocation tracking file.
  - There was no formal process defined for making related budget adjustments. Adjustments, if they were done, were on an ad hoc basis.
- Due to a lack of formality of the procedures, IA was unable to test:
  - Whether reconciliations between the Final Budget and reported budgets were complete, accurate, and valid.
  - That reserve funds included in the final budget were reviewed for accuracy, validity, and completeness.
- For 1 (of 2) budget variance items tested, the identified cause of the variance was not in agreement with the general ledger detail.

**Root/Cause Analysis:**

- The gaps and ineffectiveness identified for monitoring and control of the budget process was ultimately attributable to the lack of goals and objectives defined for the process, an inadequate governance structure, which lacked a policy and related SOPs.
- There was no process to hold budget owners accountable for actual to budget expense variances.
- Reviews of variance and monitoring reports, as well as related variance explanations, for validity, accuracy, and completeness were not required or in evidence.

**Possible Risk:**

- Budgets may not have been monitored sufficiently or at the appropriate level of authority to identify issues.
- Changes to budgets, if any, may have been made without appropriate review and approval or further monitoring.

**Preliminary Assessment Recommendations:**

- Based on the results of a risk assessment, the owner of the budget process should oversee the development of monitoring processes and controls to mitigate those risks, as applicable.
- Roles and responsibilities should be documented that align with controls designed and clearly outline what is expected of all participants in the process.

**Management Response and Action Plan:**

We will develop SOPs relating to processes for monitoring and control of budgets and clearly indicate responsibilities and expectations.

**Target Completion Date:**

March 31, 2020

**Audit Status****Status:**

In Progress

**Action Taken:**

- The draft Budget SOP does not address how to seek budget amendments/adjustments.
- The issue of capital labor allocations will be addressed through the Capital Projects audit.
- While evidence of budget reconciliations and accountability exists, it is not sufficiently formalized to be an effective control.
- The remaining issue noted in the preliminary assessment was closed by Internal Audit. Reasons for closing an issue can include: the issue is immaterial; new information or evidence was presented that refuted the issue; a change in circumstances made the issue irrelevant.

**Recommendation:**

- We recommend that the Finance department develop and document a formal process for seeking budget amendments.
- We recommend that the Finance department develop and document a formal process to reconcile actual expenditures to budget amounts.
- We recommend that the Finance department develop and document a formal process to monitor operating and capital budgets and to hold decision makers of those budgets accountable for their financial activities.

**Management Response and Action Plan:**

1. As outlined in the Management Response for Audit Finding R-19-02-01, the new CFO, Bill Greene, is requesting additional time to review and refine SOP to reflect his direction of the budget process at UTA. Suggested target completion date is June 30, 2021.

As part of the SOP review and refinement process, Finance will develop and document a formal process

for seeking budget amendments in the revised SOP.

2. Finance is in the process of developing a revised operating reporting/reconciliation structure and process. Finance will develop a process to hold budget variance analysis meetings and improve monthly and quarterly operating budget reports for revenues, expenditures, and key finance function activity measures. Variances analysis will be documented at the Agency level with material variance drill-down to the office and department level. The first meeting is anticipated to be held at the end of the first quarter.

As part of the SOP review and refinement process, Finance will document this process in the revised SOP or create a new SOP.

3. This recommendation will be substantially satisfied through Management Response #2 above. Additionally, a new process is being developed in coordination with the Service Development Office, Asset Management Department, and the Capital Project community to improve capital monitoring, reporting and program delivery/accountability. This process will be focused on project/program delivery and accountability.

This new process involves the creation of more rigorous capital project and program monitoring reporting processes, more frequent and in-depth variance analysis and regularly scheduled Executive level review of project/program delivery. Like the Operating Program monitoring/reporting improvements discussed in Management Response #2 above, the first meeting is anticipated to be held at the end of the first quarter.

As part of the SOP review and refinement process, Finance will document this process in the revised SOP, or create a new SOP.

**Target Completion Date:**

June 30, 2021