UTA

INTERNAL AUDIT REPORT

Grants Management

R-19-06

November 25, 2019

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 2019 internal audit plan, IA was directed by the Audit Committee to perform an 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 final 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. Currently UTA has 24 active grants, totaling $117.8M 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 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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1. Grants Management Process Governance

Preliminary Finding R-18-2-1	High

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.
  - Individual accountability is in place for internal control responsibilities that support 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

- UTA Corporate Policy No. 3.1.7, "Grants Management," (Grants Management Policy) assigns the Grants Manager the responsibility for monitoring compliance with grant requirements.

- 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

Condition:
The following gaps in the grants management governance environment were identified:
- 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.
- Neither the Grants Management Policy or The Grants Development and Management SOP (Grants Management SOP) address record retention for documentation related to FTA grants.
- 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.
- The Grants Management SOP and the Continuing Control SOP were not available on the Intranet as required by UTA Corporate Policy 1.1.2.

Root/Cause Analysis:
- Grants Management Policy may be open to interpretation for the Grants Manager's role in monitoring compliance with grant requirements.
- No risk assessment had been performed for the Grants Management process.

Effect:
Increased risk of the following:
- Non-compliance with federal grant requirements.
- Inconsistent practices and activities diverge from SOPs.
- Responsible parties not following best practices.

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Recommendations
• 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. • 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. • 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. • Policies should be updated to include requirements for record retention. • Grant SOPs should be posted to the Intranet. • All grants management related SOPs should be approved and dated by an Executive.

Management Agreement	Owner	Target Completion Date
Yes	Director of Capital Projects	October 31, 2018

Action Plan:
1. The Grants Management Policy will be updated to clarify responsibilities for grant compliance.
2. 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.
3. The Grant Policy will be updated if needed to reflect the grant management compliance process once it is defined.
4. The Grant Management Procedures are currently being updated and will include requirements for records retention.
5. We will add the Grant Management Procedures to the Intranet after they have been updated and approved by the Executive Director.
6. We will advise that the Continuing Control SOP be approved and dated by the responsible Executive and then added to the Intranet.

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.

Final Status	**High**

• Audit procedures revealed that these prior recommendations have been implemented:
   o 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.
   o Policies were updated to include requirements for record retention.
   o Grant SOPs were posted to the Intranet.
   o The Grants Management SOP was approved and dated by an Executive.	

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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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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.

2. Asset Tracking

Preliminary Finding R-18-2-2	**High**

Criteria:
- 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
- FTA Circular 5010.1E Award Management Requirements, Chapter IV, Section (4) Maintenance and Warranty, Part b) Records and Oversight:
  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
- UTA Policy 2.1.10, "Continuing Control of Capital Assets," assigns responsibility for maintaining equipment records and conducting equipment inventories in the following manner:
  o The Asset Manager is responsible for all equipment with an acquisition value of $50,000 or more and all service vehicles.
  o The Comptroller is responsible for all federally funded equipment with an acquisition value over $5,000 but less than $50,000, except service vehicles.
- 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)

Condition:
- Federally funded asset records were not centralized, complete, or easily understood.
  o IA selected a sample of 5 asset records and found the following:
    ▪ 5 had no support for the grant number or federal percentage.
    ▪ 5 did not support the location.
    ▪ 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.

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- 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.
- 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.

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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 are 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.

Final Status	**High**

- 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.

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.

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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.

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<tr><td>Management Agreement</td><td>Owner</td><td>Target Completion Date</td></tr>
<tr><td>Yes</td><td>Chief Operating Officer</td><td>12/31/2020</td></tr>
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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.

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.

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3. Coordinated Mobility

Preliminary Finding R-18-2-3	Medium

Criteria:
- 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.
- 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.
- 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.

Condition:
- The tracking file used for monitoring sub-recipient capital assets was not reviewed for validity, accuracy, or completeness.
- 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.

Root/Cause Analysis:
- 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.
- Although the grant compliance requirements are the same as for larger grants, monitoring compliance of external parties increases the complexity of execution.

Effect:
- External and internal reporting may be inaccurate or incomplete.
- 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.

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

Coordinated Mobility is aware and currently has actions is 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.

Final Status	**Implemented**

- Audit procedures revealed that these prior recommendations have been implemented:
  - Management documented Coordinated Mobility monitoring compliance program procedures in an SOP.
  - SOPs identified the Legal and Procurement departments' involvement in the process, which were aligned with these departments' responsibilities.
  - A minimum period was established for updating reports and a review and approval process was instituted to ensure reports are timely, accurate, and complete.
  - A document retention system and the related standards were designed and implemented to enhance and facilitate oversight of the Coordinated Mobility Program.

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.

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Management Agreement	Owner	Target Completion Date
Not applicable		

4. Disposals

Preliminary Finding R-18-2-4	High

Criteria:
- 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).
- Corporate Policy 2.2.1 Real Property.
  Governs the real property disposal process.

Condition:
- Vehicle disposals followed a process outside of the Corporate SOP 2.1.2 and the Supply Chain Manager did not oversee the process.
- 2 (of 7) asset disposals tested were listed in the JDE as having a Federal %, however they had not been reported to the FTA.
- Electronic Accounting disposal records for 2 real property disposals tested could not be agreed to supporting documentation, including evidence of approval.
- 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.

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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.

Final 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.

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:
  o 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.
  o 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

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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.

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.

APPENDIX 1

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.

5. Formula Grants

Preliminary Finding R-18-2-5	**Medium**

Criteria:
- 2 CFR Part 200 Subpart E—Cost Principles
  Electronic code of federal regulations which provides guidance on determining allowable costs
- Grants Management SOP states:
  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.

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.

Root/Cause Analysis:
No documented policies or procedures for how allowable costs for operating expense formula grant funds are determined.

Effect:
- There was an elevated risk that disallowed costs could be used against formula grants.
- Future UTA grant funding may be at risk.
- UTA may have to reimburse the FTA.

Recommendation

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.

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.

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Final 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.	

Management Agreement	Owner	Target Completion Date
Not Applicable		

6. Procurement

Preliminary Finding R-18-2-6	Medium

Criteria:
- 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.
- Corporate SOP 1.2.2 Procurement Standard Operating Procedures indicates that a peer review of solicitation documents is required prior to advertising.

Condition:
- Procurement does not track federal grant contracts or identify the federal grants they are related to.
- 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.

Root/Cause Analysis:
System for the organization and retention of contracts is inadequate to support identification of specific grants that a contract is related to.

Effect:
- Without identification of contracts to their related grants, UTA records may be insufficient to support FTA record keeping requirements.
- Without peer review there was an increased risk that federal clauses required by the FTA for grant related contracts were not included.

Recommendations

- 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.
- Additionally, management should consider implementing a review of contract activity to monitor for an independent peer review.
- For areas of non-compliance management should retrain users in standard operating procedures.

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Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	October 31, 2018

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.

Final Status	**Low**

Audit procedures revealed that the prior recommendation that management retrain users for areas of non-compliance in standard operating procedures had been implemented.

Conditions:
- 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.
- 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.

Recommendations:
- 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.
- 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.

Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	September 30, 2020

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.

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

APPENDIX 1

7. Accounting

<table>
<tr><td>Preliminary Finding R-18-2-7</td><td>Medium</td></tr>
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Criteria:
- The Accounting department instituted the practice of segregating the entry and posting of journal entries to facilitate supervisory review and posting of journal entries.
- Grants Management SOP outlines the grant invoice approval process, including reviews by the Project Manager and Procurement Representative.

Condition:
- 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.
- 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:
  - 3 (out of 25) grant related invoices tested did not meet the criteria for Project Manager and Procurement approval-
    - 2 invoices were missing evidence of Procurement approval
    - 1 invoice did not have evidence of the Project Manager approval
- 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.

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.

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- 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.

Final Status	**Medium**

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 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.

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[1]**	**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	*		*

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