



# **INTERNAL AUDIT REPORT**

## **Treasury Management**

**R-18-05**

**September 11, 2018**

# 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 2018 audit plan, IA was directed by the Board of Trustees to perform an audit to determine if controls are designed and operating effectively to ensure that Treasury operations adhere to policies and applicable laws. The preliminary stage of the audit was concluded in June 2017 and the audit report was finalized in July 2018.

## Background and Function Overview

The Vice President of Finance for the Utah Transit Authority (UTA) provided a functional overview of the Treasury Management to provide context to this report. Please note that all of the statements made are assertions by the Vice President of Finance and were not assessed by IA.

The Treasury Function is responsible for cash management at UTA, including the following key areas:

- Bond Financing, Post Issuance Compliance, Rating Agency and Investor Relations
- Investment of Funds and Reporting
- Equipment Lease Financing
- Bank Relations and Account Administration

The treasury function is performed by the Treasurer and Deputy Treasurer. This function is critical to being able to carry out the mission and projects of UTA, by ensuring sufficient funds are available to keep both current daily and future business moving forward. UTA is audited every year by external auditors and no material Treasury findings have been reported. A more detailed summary of Treasury's key areas of responsibility, is found below.

Bond Financing:

- With a current outstanding bond portfolio of \$2.1 billion, Treasury has issued bonds to construct a variety of rail and bus projects, identified by civic leaders, the public, and UTA, to create a first class mass transit system for the Wasatch Front. This was done during a major recession, while maintaining an AAA Senior Rating by Standard & Poors, and allowing UTA to take advantage of significant construction cost savings.

- Additionally, refunding bonds were timely issued to create massive interest savings, creating \$108.9 million in refunding savings, and another \$58 million in interest expense savings through the prudent use of a variable rate demand note bond program.
- UTA maintains an effective post issuance compliance program, has always filed timely its required notices and Continuing Disclosure Memorandums. The IRS has reviewed two UTA bond issues for compliance with Federal Regulations and was found to be in compliance.

#### Investment of Funds:

Historically, UTA has invested all its funds in the Utah Public Treasurer's office, limiting the return earned on investments. Over the last several years, we have created an investment program, allowing us to earn interest at a rate greater than that paid by PTIF. Also, during that time we created \$2.9 million in additional investment returns in the form of "gain on sale" of investments. We have never experienced a "loss on sale" of investments.

We are in compliance with all State investment reporting requirements and report investment activity quarterly to a committee of the Board. Total funds on hand, at 6/30/18, was \$223.6 million. We also employ an investment manager to manage approx. \$25 million of our portfolio, in the 1-3 year maturity category.

#### Equipment Lease Financing:

Beginning in 2015, UTA began its first ever equipment lease financing program. Over the next three years, our leasing program has generated \$46,217,888, in funds for equipment acquisition, to purchase 55 buses on a 12 year term, 66 paratransit vehicles on a 5 year term, and 142 rideshare vans on a 4 year term, for a total of 263 vehicles. A request for proposal (RFP) is issued each year, allowing us to maintain a low cost financing program.

#### Bank Relations:

This part of the Treasurer's responsibilities ensures the daily management of bank checking, escrow, sweep and saving accounts, along with the accounts at PTIF, are maintained, properly reported on to the Utah Money Management Council, and that proper signature authority, policies and procedures are followed for safekeeping of UTA funds. Recently, Treasury conducted an RFP for banking services, with Zions Bank being the bank to win the banking contract.

There are many other smaller duties that fall our way, with the focus being safe, secure, low cost money management for the organization. Recently the Utah State Legislature passed SB 136, which has a significant impact on UTA in general, as well as how the Treasury function is handled. Treasury will be evaluating the impact of SB136 on the governance and control environment of Treasury and amendments will be made to support the newly introduced law.

#### **Objectives and Scope**

The period of the preliminary audit was from May 1, 2016, through April 30, 2017 with completion of the audit work focusing on the period of January 1, 2018 through May 31, 2018.

The primary areas of focus for the Treasury audit were:

- Governance
- Bank account administration
- Bonds

- Leases
- Investments
- ACH and wire payments
- Treasury related Contracts and other agreements

The internal audit excluded from the scope of this audit areas such as:

- Pension
- Cash collection
- Check run process
- General accounting processes
- Petty cash

IA did not perform substantive testing of balances and instead relied on the assessment of the external auditor of Treasury related financial statement elements for the financial audit. IA focused on internal controls within the context of a risk-based approach.

### Audit Conclusion

Audit Report Rating*	
<p>The audit revealed that a Treasury Management Corporate Policy as well as a set of standard operating procedures (SOP) have been created, which identify roles and responsibilities for all Treasury functions as well as expected performance, performance measures, and reporting requirements.</p> <p>While the implementation of the Policy and SOP support strong governance of the Treasury management process, non-performance of specific controls documented in the SOP negates the effectiveness of the control design. Management should consider more formal implementation of controls, as documented in the SOP. Additionally, a comprehensive risk assessment process for Treasury Management would better guide management in identifying, measuring, and addressing the most critical aspects.</p> <p>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.</p>	

\*Rating is defined in Appendix 2

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

**Table of Contents**

APPENDIX 1: INDEX OF FINDINGS ..... 5  
APPENDIX 2: REPORT TATING MATRICES ..... 22  
APPENDIX 3: DISTRIBUTION LIST ..... 23

# APPENDIX 1

Index of Findings	
1. Policies and Procedures .....	6
2. Bank Accounts.....	8
3. Bonds .....	11
4. Leases .....	14
5. Investments .....	16
6. Contracts and Agreements.....	19

# APPENDIX 1

## 1. Policies and Procedures

Preliminary Finding R-17-8-1	High
<p><b>Criteria:</b> UTA Corporate Policy No. 1.1.2, Creation, Revision, Retention, and Distribution of Policies and Procedures, Definitions section, states that corporate level policies are developed to “provide principles and guidelines that provide corporate-wide direction on the Authority’s decisions, strategies, and actions” and that standard operating procedures, “provide a step-by-step process to follow when carrying out a particular task or function.” Corporate policies and standard operating procedures align with and support Board Resolutions and Executive Limitations.</p> <p><b>Condition:</b> While UTA Corporate Policy No. 3.1.4, Investments, provided control activities and performance objectives for investing, there were no other corporate policies or standard operating procedures regarding Treasury functions, such as bonds, bank account administration, and leases.</p> <p>Board resolutions and Executive Limitations were used by Treasury Management as guidance in the absence of corporate policies. These documents also became the basis for testing performed by IA and included:</p> <ul style="list-style-type: none"><li>• Executive Limitations Policy 2.2.2 Property</li><li>• Executive Limitations Policy 2.3.2 Financial Conditions</li><li>• Executive Limitations Policy 2.3.3 Budgeting</li><li>• Executive Limitations Policy 2.4.6 Debt Reserve and Rate Stabilization Fund</li><li>• Resolution R2012-05-01 Handling of Funds</li></ul> <p>The lack of corporate level policies and standard operating procedures regarding Treasury functions contributed to findings that are detailed throughout the report.</p> <p><b>Root/Cause Analysis:</b> The small size of the Treasury Department coupled with the team’s knowledge and experience contributed to the emphasis being on the day to day operations rather than on documenting policies and procedures.</p> <p><b>Effect:</b></p> <ul style="list-style-type: none"><li>• The lack of corporate level policies and standard operating procedures resulted in:<ul style="list-style-type: none"><li>○ Increased risk that loss of key personnel would result in the inability of UTA to carry out critical Treasury processes appropriately or at all.</li><li>○ Unclear roles and responsibilities for critical Treasury functions that involve multiple departments as well as third parties.</li><li>○ A lack of performance measurement information provided to stakeholders on how certain functions were performing relative to expectations and industry standards.</li><li>○ Greater risk of non-compliance with best practices and legal standards, which may result in reputational, legal, and financial loss.</li><li>○ Potential for Treasury operations to become misaligned with corporate objectives.</li></ul></li></ul>	

# APPENDIX 1

- Increased risk of ad hoc practices and inconsistencies in the performance of Treasury functions.
- Increased difficulty in assessing the effectiveness of the Treasury control environment.
- Increased likelihood that regulatory and other industry changes could occur without detection and integration into UTA operating procedures. Changes may significantly impact UTA responsibilities and best practices for bonds, investments, and other critical Treasury responsibilities.
- In addition, UTA staff may not be aware of all Board policies and resolutions, nor is their application to UTA operations clearly understood, resulting in the risk that staff may make decisions that contradict those policies.

## Recommendations

Management should oversee the creation of a corporate level policy that identifies roles and responsibilities for all Treasury functions as well as expected performance, performance measurements, and reporting requirements.

Where responsibilities are shared with other departments or external parties, management should ensure that roles and responsibilities are documented and agreed upon. Documentation may include corporate policies, SOPs, contracts or agreements, as appropriate.

Management should develop written standard operating procedures that align with the corporate level policy and provide step by step guidance for all Treasury functions. SOPs developed should include a process for regularly monitoring for changes in regulations and in the industry that may impact Treasury. Management may consider including the use of calendars and checklists to track and ensure completeness of Treasury processes such as bond issuance and compliance monitoring.

Management should also introduce a risk management process to identify, assess, and manage critical risks.

Management Agreement	Owner	Target Completion Date
Agree	VP of Finance	December 31, 2017

A corporate policy and appropriate SOPs will be created to document current practices and address the recommendations.

Due to the additional resource constraints of onboarding a new Comptroller as well as the budgeting process, which is my busiest season, a reasonable target completion date is December 31, 2017.

## Final Status

**Medium**

Management has implemented a Treasury Policy and SOP, which incorporates roles and responsibilities, expected performance, performance measurements, and reporting requirements.

There appears to be an informal process for monitoring changes in the regulatory and operating environments, however, the process is not documented.

# APPENDIX 1

No risk assessment process was designed or documented for Treasury functions.

Management should consider the following recommendations:

- Utah State law SB-136 took effect on May 8, 2018, which is during the audit period, but IA did not consider its effects for purposes of the audit given that it would have allowed for limited coverage of less than a month. However, it is noted that management will need to consider the impact of the law on all aspects of the Treasury Policy and SOP and make changes accordingly.
- Design and implement a periodic risk assessment process for the Treasury function.

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

The treasurer will review SB 136 and implement the necessary steps to address the relevant parts of the new law. A periodic risk assessment process will be designed and implemented.

## 2. Bank Accounts

Preliminary Finding R-17-8-2	High
<p>Criteria:</p> <p>Board Policies and Resolutions: Resolution R2012-05-01 Handling of Funds states <i>“That the Chair, Vice Chair, Secretary, General Manager, General Counsel, Treasurer, Deputy Treasurer and Comptroller are authorized and empowered as officers of the Authority invest or reinvest funds of the Authority as authorized by law; establish accounts with one or more financial institutions as deemed necessary; and settle the Authority’s debts, obligations and liabilities consistent with management policy.”</i></p> <p>Condition:</p> <p>IA requested and reviewed the list of individuals authorized to access and/or conduct business on behalf of UTA at Zions Bank and Wells Fargo. IA noted that the former Comptroller had access to Zions online banking system and was on the list of individuals authorized to open or close bank accounts, make payments, and perform other banking functions on behalf of UTA at Wells Fargo, after her date of separation from UTA.</p> <p>From a population of 21 bank accounts, a monthly population of 12 bank reconciliations could be evidenced. Based on these 12 reconciliations tested the following observations were made:</p> <ul style="list-style-type: none"> <li>• For both Zions Bank and Wells Fargo accounts, reconciliations were completed and matched supporting documentation. However, one such reconciliation featured an outstanding reconciling item for almost a year. The former Comptroller reportedly reviewed bank reconciliations, but there was no evidence available to support that review.</li> <li>• In addition, while the Accountant stated that she verified the balance in two State Public Treasurers’ Investment Fund (PTIF) accounts, no evidence of the verification could be found.</li> </ul>	

# APPENDIX 1

- Finally, there was no evidence that escrow accounts for bonds and leases were being reconciled to account statements. The former Comptroller reportedly performed those reconciliations but no documentation was available to provide evidence of the control being performed.

Considering the anomalies identified for bank reconciliations, there was not sufficient evidence to conclude that all financial accounts were being reconciled or reviewed.

In addition, as part of IAs review of bank controls, procedures to initiate and approve ACH and Wire payments were reviewed. IA noted that all payments were approved prior to payment and separation of duties was in place. However, while evidence supporting ACH and Wire payments was reportedly reviewed prior to approval, there was no documentation supporting that and no clear standard of review had been established.

## Root/Cause Analysis:

Ownership for bank accounts had not been formally assigned and there were no corporate level policies or standard operating procedures. This resulted in bank account administration and ACH/Wire initiation and approval procedures occurring on an ad-hoc basis that was adapted over time without being documented or reviewed.

## Effect:

- Unauthorized user access and lack of standard review for ACH and Wire payments increases the risk of inappropriate and unauthorized transactions. It also increases the risk that proprietary or sensitive information may be exposed.
- Unreconciled bank accounts, and bank account reconciliations without independent review, increase the risk of inappropriate and unauthorized transactions occurring without detection. UTA may be subject to monetary losses and negative publicity.

## Recommendations

All bank account access for former employees should be revoked immediately and verified with the financial institution, and a review of account access should be undertaken periodically to confirm that all access to all accounts is appropriate.

All accounts, including investment and escrow accounts, should be reconciled to source documentation on a monthly basis and given that the reconciliation process is manual, it should be reviewed.

Reconciling items should be documented, researched and resolved on a timely basis.

As noted in finding 17-8-1, management should oversee the creation of a corporate level policy that identifies the areas of Treasury's responsibility for bank account administration. An SOP for Bank Account Administration should be created that includes, but is not limited to, the following:

- A routine procedure for identifying all bank accounts in UTA's name.
- Procedures for timely and appropriate provisioning and removal of user access.
- Periodic bank profile and account access review procedures.

# APPENDIX 1

Additionally, the Vice President of Finance should oversee the inclusion of standards for reconciliations and ACH and Wire payments in the Accounting Policy Manual, including but not necessarily limited to:

- Requirements for reconciliation of all bank accounts, including escrow accounts.
- Supporting documentation, review procedures, and required support.
- Minimum applicable materiality thresholds.
- Length of allowable time for reconciling items, including stale checks.
- Research procedures required.
- Guidance on when to elevate reconciling items to be addressed by management.
- Standard levels of review and required documentation, including correct routing information, for ACH and Wire approvals.

Management Agreement	Owner	Target Completion Date
Agree	VP of Finance	December 31, 2017

The Deputy Treasurer provided direction to the bank to remove the former Comptroller as an approver on her termination date. When the former Comptroller received a call from the bank to approve an item, she contacted us. The bank was contacted. The bank has made the necessary corrections to their records.

The VP Finance will work with the incoming Comptroller to document current practices and address the recommendations. Due to the additional resource constraints of onboarding a new Comptroller as well as the budgeting process, which is my busiest season, a reasonable target completion date is December 31, 2017.

Final Status	Medium
<p>The SOP was inspected as part of audit procedures and the following items were noted:</p> <ul style="list-style-type: none"> <li>• A routine procedure for identifying all bank accounts in UTA's name.</li> <li>• Procedures for timely and appropriate provisioning and removal of user access.</li> <li>• Periodic bank profile and account access review procedures.</li> <li>• Bank account reconciliation requirements for:                             <ul style="list-style-type: none"> <li>○ Accounts to be reconciled</li> <li>○ Review procedures</li> <li>○ Materiality thresholds</li> <li>○ Time allowed for reconciling items</li> </ul> </li> <li>• Standard levels of review and required documentation, including correct routing information, for ACH and Wire approvals.</li> </ul> <p>It was noted that the SOP did not include the documentation requirement for reconciliation support, however, audit testing found that Accounting was retaining copies of bank statements to support reconciliations as well as account balances where reconciliations had not been performed. A comprehensive bank reconciliation process has also been implemented, as evidenced by a cover sheet. The cover sheet included both quantitative and qualitative analysis as well as evidence of review and approval.</p>	

# APPENDIX 1

Substantive testing of bank reconciliations for the month of May 2018 revealed the following:

- 24 out of 35 accounts did not have a reconciliation
- 2 of the 11 accounts reconciled were not performed within 7 business days of month end
- 3 of the 11 accounts reconciled had reconciling items which were identified, however, none of the reconciling items had evidence of investigation or documented actions

A periodic review of signers and online access was not tested due to the stipulated timing of reviews in the SOP falling outside the audit period.

The newly created SOP includes a requirement that a current list of authorized signers by account must be maintained within UTA but evidence could not be found that supported this requirement.

The IA procedures found that the bank account access of the former employee has been revoked.

Management should consider the following recommendations:

- Design and implement a process to maintain a comprehensive listing of current authorized signers by bank account.
- Integrate the document support requirements for bank reconciliations into the SOP.

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

A process to maintain a comprehensive listing of current authorized signers by bank account will be in place this year, via the Treasury Management SOP, which requires an annual review with UTA financial institution, notice of changes in the Chair and Vice Chair positions of UTA, from the Director of Strategic Board Operations, etc.

Accounting will update its current SOP in the Account Procedure Manual for bank reconciliations to reflect the new form implemented at the beginning of 2018 and clearly state timelines on outstanding unreconciled entries for Accountants to correct the entries.

### 3. Bonds

Preliminary Finding R-17-8-3	High
<p>Criteria:</p> <p>Executive Limitations Policy No. 2.3.2 states:  <i>..the General Manager shall not:</i></p> <ul style="list-style-type: none"> <li>• <i>Incur debt for the Authority without prior Board approval...</i></li> <li>• <i>Violate laws, regulations, generally accepted accounting principles (GAAP), rulings or policies regarding financial conditions and activities.</i></li> </ul> <p>Condition:</p> <p>Although the Executive Limitations Policy 2.3.2 stipulated that the Board approve all debt, there were no corporate level policies or SOPs to guide management in the governance and operation of the</p>	

# APPENDIX 1

bond process. The following issues, identified by the audit procedures, should be addressed in a corporate policy and SOP:

- Although there was ample email evidence to demonstrate that an extensive review of bond documentation had occurred the process was not formalized to be able to test for accuracy and completeness.
- Management stated a reliance on Bond Counsel for compliance with State and Federal law. However, the Opinion of Bond Counsel letter cited reliance on UTA for compliance with applicable laws and IRS regulations.
- There was no formal agreement such as a contract or engagement letter that documented Bond Counsel duties to UTA.
- Although asserted as a control by management, there was an insufficient audit trail to support that the due diligence meeting provided adequate assurance that the bonds and supporting documentation complied with applicable state and federal laws as well as applicable regulations.
- Year-end bond reconciliation performed by Accounting lacked supporting documentation, such as an original digital copy of the Final Numbers Report or the Debt Service Schedule from the bond transcript, to agree the general ledger balance to.
- Post issuance debt monitoring processes were not documented, including:
  - Ensuring compliance with covenants and specific bond requirements, including continuing disclosures.
  - Confirming compliance with IRS regulations for tax free debt.
- Oversight of the Bond Tracking sheet maintained by the Manager of Property Administration was not assigned.

## Root/Cause Analysis:

The issuance of tax-free debt is highly regulated and Treasury relies on outside expertise to assist with and perform all aspects of the issuance process. Additionally, the small size of the Treasury Department coupled with the team's knowledge and experience contributed to the emphasis being on the day to day operations rather than on documenting policies and procedures.

In addition, Treasury relied on:

- Third party oversight where the contract or agreement does not guarantee it.
- Mutual interest of third parties for UTA compliance with laws and regulations.

## Effect:

The lack of a corporate level policy and an SOP may increase the risk of non-compliance with applicable laws and regulations.

## Recommendations

Appropriate oversight of the Property Administration's Bond Tracking process should be established.

As noted in finding 17-8-1, management should oversee the creation of a corporate level policy that identifies the areas of Treasury's responsibility as well as an SOP for bonds. The SOP should include, but not be limited to, the following:

- The procedures for monitoring UTA compliance with applicable laws and regulations pre- and post-issuance.

# APPENDIX 1

- The roles and responsibilities of other departments and third parties, including what reliance UTA should place on third party contracts or agreements.
- Steps included in bond documentation reviews, including how completion of the review process will be tracked and how evidence of review will be created and maintained.
- Inclusion of checklist templates to assist with the monitoring of processes and evidence of completion.
- Bond documents to be retained and their required retention length.
- Responsibility of Treasury to communicate the original debt service schedules, found in the bond transcript, to Accounting and to retain evidence thereof. Additionally, the SOP should indicate the requirement for Accounting to retain the original schedules to support the periodic bond liability general ledger account reconciliation.
- Identify appropriate oversight of the bond property administration and tracking, including assignment of overall governance for the process, determination of the extent and timing of the reporting and report review process, as well as how to assure report accuracy and completeness.
- Criteria to determine when an Arbitrage Report should be pursued.

Management Agreement	Owner	Target Completion Date
Agree	VP of Finance	December 31, 2017
<p>The Corporate policy and SOP will include sections to document current practices and address these recommendations.</p> <p>Due to the additional resource constraints of onboarding a new Comptroller as well as the budgeting process, which is my busiest season, a reasonable target completion date is December 31, 2017.</p>		

Final Status	Implemented
<p>The Corporate Policy and SOP assigned responsibilities for bonds and the bond tracking process.</p> <p>Additionally, the SOP documented the following:</p> <ul style="list-style-type: none"> <li>• Procedures for monitoring UTA compliance with applicable laws and regulations pre- and post-issuance.</li> <li>• Roles and responsibilities of other departments and third parties, including what reliance UTA should place on third party contracts or agreements.</li> <li>• Steps included in bond documentation reviews, including how completion of the review process will be tracked and how evidence of review will be created and maintained.</li> <li>• Checklist templates to assist with the monitoring of processes and evidence of completion.</li> <li>• Bond documents to be retained and their required retention length.</li> <li>• Responsibility of Treasury to communicate the original debt service schedules, found in the bond transcript, to Accounting and to retain evidence thereof.</li> <li>• Requirement for Accounting to retain the original schedules to support the periodic bond liability general ledger account reconciliation.</li> <li>• Appropriate oversight of the bond property administration and tracking, including assignment of overall governance for the process, determination of the extent and timing of the reporting and report review process, as well as how to assure report accuracy and completeness.</li> </ul>	

# APPENDIX 1

- Criteria to determine when an Arbitrage Report should be pursued.

Due to timing of the controls not coinciding with the audit period IA was not able to test the following requirements in the SOP:

- Year-end bond reconciliation.
- Ensuring compliance with continuing disclosure requirements.
- Ensuring and documenting compliance with bond covenants.

Management Agreement	Owner	Target Completion Date
<i>Not applicable</i>		

## 4. Leases

Preliminary Finding R-17-8-4	Medium
<p>Criteria:</p> <p>Executive Limitations Policy No. 2.2.2 Property states that:  <i>Acquisition, disposition or encumbrance of real property shall not deviate materially from the Board's Ends policies. In addition, the General Manager shall not:</i></p> <ol style="list-style-type: none"> <li><i>1. Fail to obtain Board approval prior to acquiring, disposing of or encumbering real property in excess of \$250,000...</i></li> <li><i>3. Fail to present to the Planning and Development Committee of the Board, and to the full Board, property acquisitions or dispositions or proposals that meet one or more of the following criteria sufficiently in advance of the proposed acquisition, disposition or proposal to allow the Board to review all relevant details, approve budgets as needed, and make an educated decision on the merits...</i> <ol style="list-style-type: none"> <li><i>e. The disposition of property which would interfere or be incompatible with the Authority's intended use of the property;</i></li> <li><i>f. The disposition of property which would interfere with the Authority's continuing control over the use of its property;</i></li> <li><i>g. The disposition of property which would interfere with the Authority's ability to carry out its transit operations.</i></li> </ol> </li> </ol> <p>Condition:</p> <p>Although leases were understood to require Board approval in accordance with Executive Limitations Policy No. 2.2.2, there were no corporate policies or departmental SOPs to provide oversight and guidance in the lease process.</p> <p>The lack of policies and procedures likely led to the following issues that were noted:</p> <ul style="list-style-type: none"> <li>• Leases were not accounted for in the correct general ledger (GL) accounts; payments for 2016 leases were accounted for under 2015 leases.</li> <li>• Lease accounts were not reconciled nor were supporting periodic lease balance statements retained for support of account balances.</li> </ul>	

# APPENDIX 1

- Leased assets were not tracked.

**Root/Cause Analysis:**

Sole reliance on Executive Limitations Policy No. 2.2.2 Property, and the lack of corporate level policies and department SOPs resulted in failure to perform necessary control activities.

**Effect:**

- Failure to reconcile lease activity increases the likelihood of incorrect accounting. Amounts owed on specific leases could be misstated resulting in poor management decisions.
- Failure to track leased property creates an increased risk of leased property being improperly disposed of, resulting in UTA's non-compliance with lease agreements.

### Recommendations

As noted in finding 17-8-1, management should oversee the creation of a corporate level policy that identifies the areas of Treasury's responsibility for leases.

Management should also create an SOP for leases. At a minimum, between the corporate level policy and SOP the following should be addressed:

- Responsibility to obtain and communicate current lease liability statements.
- The process to identify and communicate records regarding leased assets to all relevant parties throughout UTA to mitigate the risk that lease assets are sold or otherwise disposed of in a manner that is not allowed by the lease agreement.
- How to reclassify purchased assets when they are no longer under lease.
- The process for proper disposal of leased assets throughout UTA.

The VP of Finance should oversee the updating of the Accounting Policy Manual to include the requirement for reconciliation of lease accounts, independent reviews of account reconciliations, and retention of documentation, including lease statements from the lessor.

Management Agreement	Owner	Target Completion Date
Agree	VP of Finance	September 30, 2017

The Corporate policy and SOPs will document current practices and address the recommendations. The VP Finance will work with the incoming Comptroller to update the Accounting Policy Manual for leases.

### Final Status

**Medium**

The Treasury Policy and SOP identified the areas of Treasury's responsibilities for leases.

Additionally, the corporate level policy and SOP included all of the following:

- Responsibility to obtain and communicate current lease liability statements.
- The process to identify and communicate records regarding leased assets to all relevant parties throughout UTA to mitigate the risk that lease assets are sold or otherwise disposed of in a manner that is not allowed by the lease agreement.
- How to reclassify purchased assets when they are no longer under lease.

# APPENDIX 1

- The process for proper disposal of leased assets throughout UTA.

The Accounting Policy Manual did not include the requirement for reconciliation of lease accounts, independent reviews of account reconciliations, and retention of documentation. Additionally, audit inquiry revealed that the administration of leases was not operating as designed as to who took overall responsibility to identify and confirm leased assets.

Per management, no lease agreements were terminated nor were any assets disposed of during the period therefore IA could not test the effectiveness of related controls documented in the SOP.

Management should consider implementing the following recommendations:

- Document in the Accounting Policy Manual the process designed to administer leases.
- Align the lease administration process and the SOP to prevent misunderstandings.

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

Accounting will create in the Accounting Policy Manual and specific process for administering leases that addresses how lease assets are identified in JDE Asset Master, disposal of lease assets prior to end of the lease terms, updating JDE Asset Master at the end of lease, and yearly reconciliations of lease and lease assets.

## 5. Investments

Preliminary Finding R-17-8-5	High
<p>Criteria:</p> <p>UTA Corporate Policy 3.1.4 Investments (Investment Policy) contains the following provisions:</p> <ul style="list-style-type: none"> <li>• Section I. Purpose, <i>The purpose of this policy is to provide guidelines for the investment of UTA funds and to comply with the Utah State Money Management Act. The guidelines are intended to be broad enough to allow the investment officers to function within the parameters of responsibility and authority, yet specific enough to adequately safeguard investment assets, with the objective of preserving principal while maximizing income and maintaining liquidity to meet UTA's cash needs.</i></li> <li>• Section IV. E. Safekeeping and Custody. 2. Third Party Safekeeping, <i>The safekeeping institution shall annually provide a copy of its most recent report on internal controls – Service Organization Control Reports (SOC Report)...</i></li> <li>• Section IV. F. Internal Control, <i>The Investment Officers will review on an ongoing basis the established system of internal controls and implement any necessary changes to preserve the integrity of UTA's investment system.</i></li> <li>• Section IV. I. Performance. J. Reporting Disclosure, <i>The Investment Officers shall generate monthly reports, with sufficient detail, that demonstrate conformance with policy requirements, investment activity, and investment results.</i></li> <li>• In addition, the policy specifies investment diversification and age to maturity maximum and minimums. It also provides performance expectations.</li> </ul>	

# APPENDIX 1

## Condition:

Although investments were understood to be governed by the Investment Policy there were no departmental SOPs to provide oversight and guidance in the investment process. In addition, IA noted the following:

- The Treasurer had not received the third party safe keeping organization's annual report of internal controls, or SOC Report.
- Although management asserted that there was an ongoing, informal review of internal controls, the review was not formalized or documented.
- Investment Officers did not generate monthly investment reports with sufficient detail to demonstrate conformance with policy requirements, investment activity, and performance results, as required by the Investment Policy.
- Reliance was placed solely on Contango for ensuring compliance with the Investment Policy and Utah State Money Management Act (Money Management Act) for the portion of UTA's investment portfolio that Contango invests, which is inconsistent with the Investment Policy requirement that the Investment Officers oversee, ensure, and report on portfolio compliance with the policy.
- The manual spreadsheet used by the Treasurer to monitor UTA investment compliance did not include all the aspects required by the Investment Policy. For example:
  - Benchmarking of portfolio performance.
  - Comparison of investment maturity dates to ensure compliance.
  - Break down of the Contango managed portion of the portfolio into investment types.
- Software (Clearwater) relied on by the Deputy Treasurer to ensure investment portfolio compliance with policy and the Money Management Act was not an effective control, based on the following:
  - Compliance reports were not routinely generated from the software, reviewed and retained with evidence of that review.
  - It was not clear which UTA investment accounts the report included.
  - Maximum holding parameters for Certificates of Deposit, as they appeared on a compliance report provided to IA, did not match parameters per the Investment Policy.

## Root/Cause Analysis:

The Treasurer stated that the Investment Policy may have been developed by staff based on Investment policies at other organizations, but that it did not necessary reflect practices at UTA. In addition, existing Treasury staff consists of two staff members, with the knowledge and experience necessary to execute Treasury functions, and that operated without a great deal of oversight.

## Effect:

Due to noncompliance with these areas of the Investment Policy there is an increased risk of:

- Failure to detect when investment diversification is not in compliance with the Investment Policy, which may place UTA funds at greater risk.
- Inability to determine when portfolio performance is not achieving policy benchmarks, which may result in lower investment revenue.
- Being unaware of risks reported in the third party safekeeping institution's SOC report, which may impact UTA holdings, result in a loss of funds, and potential negative publicity.

# APPENDIX 1

Recommendations		
<p>Management should review the Investment Policy to identify areas of non-compliance. An assessment should be made for areas identified on whether the Policy should be amended to reflect departmental procedures or departmental procedures should be amended to comply with the Investment Policy.</p> <p>As noted in finding 17-8-1, management should oversee the creation of an SOP for investments. The SOP should guide users in how to carry out critical investment processes and should align with the Investment Policy. The investment SOP should include, but not be limited to, the following:</p> <ul style="list-style-type: none"> <li>• The steps involved to monitor the entire portfolio for compliance with the Investment Policy.</li> <li>• The report format to evidence monitoring to the standard required by the Investment Policy.</li> <li>• Assignment of an independent review of the monitoring process, the standard of that review, and evidence thereof.</li> <li>• Document retention requirements, including third party support and department monitoring reports.</li> <li>• The objective and content requirements of the quarterly reports to the Board Finance and Operations Committee.</li> </ul>		
Management Agreement	Owner	Target Completion Date
Agree	VP of Finance	December 31, 2017
<p>The Corporate Policy and SOPs will document current practice and address the recommendations. Staff will also review the investment policy and make any needed modifications.</p> <p>Due to the additional resource constraints of onboarding a new Comptroller as well as the budgeting process, which is my busiest season, a reasonable target completion date is December 31, 2017.</p>		

Final Status	Medium
<p>The Treasury SOP incorporated the following aspects:</p> <ul style="list-style-type: none"> <li>• The steps to monitor the entire portfolio for compliance with the Investment Policy.</li> <li>• The report format to evidence monitoring to the standard required by the Investment Policy.</li> <li>• Assignment of an independent review of the monitoring process, the standard of that review, and evidence thereof.</li> <li>• Document retention requirements, including third party support and department monitoring reports.</li> <li>• The objective and content requirements of the quarterly reports to the Board Finance and Audit Committee.</li> </ul> <p>Audit procedures revealed that the monthly investment monitoring documented in the SOP was not implemented and therefore the control could not be tested. Additionally, for the first quarter investment reporting to the Finance and Audit Committee there was no evidence of a signed statement from the Treasurer and Deputy Treasurer stating that all investment activities were in compliance with the investment policy, as required by the SOP.</p>	

# APPENDIX 1

Management should consider implementing a process using checklists, calendar reminders, and/or other tools to determine whether investment controls are performed as designed and documented in the SOP.		
<b>Management Agreement</b>	<b>Owner</b>	<b>Target Completion Date</b>
Agree	VP of Finance	December 31, 2018
A process to use checklists, calendar reminders, and other tools, to determine that investment controls are performed as designed and documented in the SOP, will be completed by December 31, 2018.		

## 6. Contracts and Agreements

<b>Preliminary Finding R-17-8-6</b>	<b>Medium</b>
<p>Criteria:</p> <p>Best practices state that a central repository is part of an effective contract management program. An effective contract management program supports:</p> <ul style="list-style-type: none"> <li>• Ensuring performance.</li> <li>• Effective handling of disagreements.</li> <li>• Driving continuous improvement.</li> <li>• Monitoring for contract expiration dates.</li> </ul> <p>Condition:</p> <p>The audit work performed revealed the following:</p> <ul style="list-style-type: none"> <li>• No contract management system nor central repository was in place for Treasury-related contracts.</li> <li>• An engagement letter for Bond Counsel and Lease Counsel was not obtained or kept on file.</li> <li>• The agreement with Zions for banking services had expired.</li> <li>• Management identified third parties for oversight responsibility, which was not reflected in the contracts or agreements with those parties.</li> </ul> <p>Root/Cause Analysis:</p> <p>A lack of governance and oversight for contracts and agreements is likely the underlying cause for the above issue. Corporate policy does not assign responsibility for contract management. Additionally, the responsibility for obtaining and filing an engagement letter for Bond Counsel or Lease Counsel was not clearly established.</p> <p>Effect:</p> <p>Due to the lack of central repository, renewal, and performance tracking for Treasury contracts:</p> <ul style="list-style-type: none"> <li>• A population of contracts was not available.</li> <li>• Contracts are more likely to expire without detection if a monitoring control is not in place.</li> <li>• In the event of a legal dispute, it would be more challenging to successfully address the legal matter without a valid agreement in place.</li> </ul>	

# APPENDIX 1

- Contractors' failure to comply with the terms of agreement is less likely to be detected and addressed.

## Recommendations

Management should review existing contracts to clarify understanding of roles and responsibilities and to renew expired contracts.

Management should implement a contract management program for tracking Treasury contracts including a central repository and process for monitoring performance and renewal. Management may want to consider using the same contract management program as the Procurement Department.

Management should identify the third parties related to Treasury for which agreements would be expected or relied upon and determine whether those agreements are currently on file.

Management should establish contracts or SOPs where gaps in roles and responsibilities exist.

Finally, the responsibility for oversight of the various areas of Treasury contracts should be documented in an SOP or corporate level policy, by management, in consultation with the relevant departments such as Legal and Procurement.

Management Agreement	Owner	Target Completion Date
Agree	VP of Finance	December 31, 2017

The banking services agreement was bid earlier in 2017 and Zions Bank was selected. The new agreement will be in place soon.

The Corporate policy and SOPs will document current practice and address the recommendations.

Contract management resides with Supply Chain. The VP Finance will ensure Supply Chain includes treasury contracts in their contract monitoring work.

## Final Status

**Medium**

Audit procedures revealed that although some Treasury contract administration responsibilities had been assigned in the SOP, no process had been undertaken by Treasury to get comfort that all Treasury related contracts have been identified and are monitored for renewal. During testing it was noted that two contracts were identified as absent from the listing of Treasury related contracts provided by the Procurement Department.

No contracts or other agreements were identified by management as having been entered during the audit period and therefore, no testing of contract processes, as documented in the SOP, could be performed. Additionally, a Treasury contract performance monitoring system has not been defined in the SOP.

It is recommended that management consider the following:

# APPENDIX 1

- Design and implement a detailed process to identify and confirm Treasury contracts with all relevant departments and confirm departments' responsibilities for contract monitoring and performance.
- Design and implement a contract performance monitoring system including minimum periodic requirements, management review, and follow up when not performed.

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

- The banking services agreement has been put in place effective July 1, 2017 through June 30, 2024 with an option to extend for three (3) years. Supply Chain does have a copy of the agreement in their contract management system. The contract number is 17-2107TP.
- The Treasury Policy and SOP have been put in place by the VP of Finance.
- The following detailed treasury contracts process will be implemented:
  - Supply Chain and Deputy Treasurer will meet together to insure all Treasury contracts are accounted for and expiration dates have been identified and recorded. Deputy Treasurer will review and approve the list for completeness.
  - Supply Chain will insure that all Treasury contracts are inputted into the new document control system with the corresponding expiration dates once the new software is implemented.
  - Supply Chain will perform a triannual review of upcoming expiring contracts and notify Deputy Treasurer of any Treasury contracts that will be expiring within at least one year prior to the expiration date. The Treasurer will determine if a new contract is necessary.

# 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 audit finding.

# APPENDIX 3

<b>DISTRIBUTION LIST</b>			
<b>Name</b>	<b>For Action<sup>1</sup></b>	<b>For Information</b>	<b>Reviewed prior to release</b>
Interim Executive Director	*		*
Managing Attorney		*	
VP of Finance	*		*
Deputy Treasurer	*		*
Comptroller	*		

<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.