

UTAH DEPARTMENT OF TRANSPORTATION

Management Letter
For the Year Ended June 30, 2013

Report No. 13-19



OFFICE OF THE
UTAH STATE AUDITOR

UTAH DEPARTMENT OF TRANSPORTATION

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AUDIT TEAM:

Van Christensen, CPA, Audit Director
Jennifer Roth, CPA, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

MANAGEMENT LETTER NO. 13-19

October 30, 2013

To the Transportation Commission, Audit Committee,
and
Carlos Braceras, Executive Director
Utah Department of Transportation

This management letter is issued as a result of our audit of the basic financial statements of the State of Utah as of and for the year ended June 30, 2013 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report thereon, dated October 23, 2013, is issued under separate cover. This management letter is also issued as a result of the Utah Department of Transportation's (UDOT's) portion of the statewide federal compliance audit for the year ended June 30, 2013. Our report on the statewide federal compliance audit for the year ended June 30, 2013 is issued under separate cover. The federal program tested as a major program at UDOT was the Highway Planning and Construction program.

In planning and performing our audit of the financial statements of the State of Utah, we considered UDOT's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of UDOT's internal control over financial reporting. Additionally, in planning and performing our audit of the federal program listed above, we considered UDOT's compliance with the applicable types of compliance requirements as described in the OMB Circular A-133 Compliance Supplement for the year ended June 30, 2013. We also considered UDOT's internal control over compliance with the requirements previously described that could have a direct and material effect on the federal programs in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UDOT's internal control over financial reporting or compliance.

Our consideration of internal control over financial reporting or compliance was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting or compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting or compliance that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting or compliance exists when the design or operation of a control over financial reporting or compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct on a timely basis misstatements of the State's financial statements or noncompliance with a type of compliance requirement of a federal program. A material weakness over financial reporting or compliance is a deficiency, or a combination of deficiencies, in internal control over financial reporting or compliance, such that there is a reasonable possibility that a material misstatement of the State's financial statements or material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency in internal control over financial reporting or compliance is a deficiency, or a combination of deficiencies, in internal control over financial reporting or compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control that we consider to be significant deficiencies. These significant deficiencies are identified in the accompanying table of contents and are described in the accompanying schedule of findings and recommendations.

UDOT's written responses to the findings identified in our audit have not been subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering UDOT's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

We appreciate the courtesy and assistance extended to us by the personnel of UDOT during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Van Christensen, CPA
Audit Director
801-538-1394
vchristensen@utah.gov

cc: Shane Marshall, Deputy Director
Becky Bradshaw, Comptroller
Liz Olschewski, Finance Manager
Jim Holfeltz, Fiscal Audit Director
John Reidhead, Chief Financial Officer, State Division of Finance

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FOR THE YEAR ENDED JUNE 30, 2013

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<u>Finding Type:</u>		<u>Applicable To:</u>	
SD	Significant Deficiency of Internal Control	f	Federal Program
RN	Reportable Noncompliance or Illegal Acts	s	State Financial Statements

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

1. INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Utah Department of Transportation (UDOT) does not have adequate internal controls to ensure that all transactions are properly recorded in the State's general ledger and that the State's financial statements are properly prepared in accordance with generally accepted accounting principles. As a result, the following significant audit adjustments were required to properly present information pertaining to the Transportation Fund in the State's *Comprehensive Annual Financial Report (CAFR)*.

The adjustments proposed were:

- The Capital Assets balance was reduced by \$6,632,810 in order to properly reflect a land transaction between UDOT and the School and Institutional Trust Lands Administration. Per GASB S20.112, when accounting for the transfer of capital assets within the same financial reporting entity, the transferee should recognize the assets at the carrying value of the transferor.
- The Sale of Capital Assets balance was reduced by \$3,012,637 as well as the Transportation Expenditures in order to properly reduce the overstatement of revenues and expenditures associated with a transfer of land between two sub-funds that roll up into the Transportation Special Revenue Fund in the CAFR.
- The Transportation Special Revenue Fund in the CAFR was reduced by the Federal Aeronautics monies which flow through UDOT to local airports, including a reduction of revenues and expenditures in the amount of \$57,851,953 and a reduction of receivables and payables in the amount of \$7,962,756. It was determined that UDOT acts only as a cash conduit for these monies and as such, they should be treated as agency funds per GASB N50.128.

Management is responsible for the preparation and accuracy of the CAFR and for establishing internal controls to properly record transactions.

Recommendation:

We recommend that UDOT establish internal controls to ensure that transactions are properly recorded in the general ledger. We further recommend that UDOT work closely with the State Division of Finance when transactions arise which occur infrequently or are outside the normal course of business and may require unusual accounting.

Department's Response:

UDOT's Right of Way division is responsible for acquiring property needed for highway purposes. These transactions are neither infrequent nor outside the normal course of

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

business. However, the land purchase between UDOT and STILA should have been treated differently. We will implement more training to help our staff identify transactions between UDOT and other agencies within the same reporting entity.

We agree with the correction to reduce the overstatement of revenues and expenditures between Corridor Preservation Fund and the Transportation fund. We will continue to account for the sales of capital assets from fund 2830 to fund 2800 as we have in the past in order to track these transactions for our Transportation Commission. However, we will create an eliminating entry at year-end to adjust the overstatement in the Government-Wide Financial Statements.

Utah Code 72-10-302, authorizes UDOT to accept, channel, and disburse federal funds to local airports. The accounting procedures established to process these funds were approved by State Finance.

The GASB Codification states that these funds should be reported in an agency fund if the department serves only as a cash conduit without having administrative or direct financial involvement in the program.

Although, the Transportation Commission does approve the projects and our Aeronautics division coordinates with FAA on the prioritization of projects, we agree that these roles do not meet the definition of having administrative or direct financial involvement in the program.

Based on this current interpretation of GASB, we have asked State Finance to create an Agency Fund for this program.

UDOT will continue to work closely with the State Division of Finance to assure the proper recording of financial transactions.

Contact Person: Becky Bradshaw, Comptroller, (801) 965-4358

Anticipated Correction Date: December 1, 2013

2. UNTIMELY WEEKLY CERTIFIED PAYROLLS

Federal Agency: U.S. Department of Transportation, Federal Highway Administration

CFDA Number and Title: 20.205 Highway Planning and Construction

Federal Award Number: various

Questioned Costs: N/A

Pass-through Entity: N/A

UDOT does not have adequate procedures to ensure that contractors and subcontractors submit certified payrolls “within seven days after the regular payment date of the payroll

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

period,” as required by federal regulations (29 CFR 3.4(a)). The certified payrolls are comprised of a copy of the payroll and a statement of compliance with the Davis-Bacon Act. UDOT does not collect actual payroll payment date information from contractors and subcontractors. However, they assume that the payroll payment date is generally seven days after the payroll end date; thus, the certified payrolls would need to be submitted within 14 days from the payroll end date. We reviewed 41 certified payrolls for 40 construction projects and, based on the payment date assumption noted above, we determined that 34 of the 41 (83%) certified payrolls were received on time and 7 (17%) were received late.

The timely submission of weekly certified payrolls is necessary for UDOT to monitor compliance with Davis-Bacon Act requirements.

Recommendation:

We recommend that UDOT strengthen their efforts to enforce the timely submitting of certified payrolls.

Department's Response:

While we agree with the results of the audit, 83% of the sample payrolls were submitted on time, we disagree with the unreasonable expectation that 100% of the payrolls will be submitted on time. UDOT has contracts with over 700 prime and subcontractors with new ones added continuously. It is unreasonable to assume that all of them will always submit their payrolls on time every week.

Nevertheless, UDOT will strive to have adequate procedures implemented to assist in improving compliance of the required certified payroll entries within seven days after the regular payment date, as defined in 29 CFR 3.4(a).

As indicated in the 2012 audit findings for certified payroll compliance, UDOT has now fully implemented the import feature. With this new feature, the contractor can utilize their existing payroll program and export directly into the UDOT Certified Payroll Program instead of manual entry. This should significantly decrease the number of late payrolls. However, only a handful of UDOT contractors have been willing to utilize it. UDOT will continue to encourage and train UDOT contractors about the import feature and the benefits of utilizing it.

UDOT is working on a new web-based certified payroll program. Currently, UDOT contractors access the UDOT Certified Payroll Program through a CITRIX CLIENT which requires a program license, download of the program, and assigned IDs and passwords. With the development of the new web-based program, the UDOT contractors will be able to access directly the UDOT Certified Payroll Program without the CITRIX CLIENT requirements. This web-based program will enable the UDOT contractors to use the UDOT Certified Payroll Program more efficiently and accurately.

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FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

*Contact Person: Stacy Frandsen, UDOT Contract Compliance & Certification Manager,
(801) 965-4344*

Anticipated Correction Date: Ongoing

3. FAILURE TO PERFORM TIMELY REVIEWS OF SUBRECIPIENT A-133 AUDIT REPORT SUBMISSIONS AND TO PROVIDE REQUIRED FEDERAL AWARD INFORMATION TO SUBRECIPIENTS

Federal Agency: **U.S. Department of Transportation, Federal Highway Administration**

CFDA Number and Title: **20.205 Highway Planning and Construction**

Federal Award Number: **various**

Questioned Costs: **N/A**

Pass-through Entity: **N/A**

While testing subrecipient monitoring for the Highway Planning & Construction grant at UDOT, we selected a sample of 7 contracts issued to 4 different subrecipients and noted the following:

- a. For 3 of the 4 subrecipients reviewed, UDOT did not perform a review of the A-133 audit report within 6 months after receipt of the subrecipients' audit reports, as required by OMB Circular A-133. Failure to perform reviews in a timely manner may delay the issuance of any necessary management decisions on audit findings and any subsequent corrective action pertaining to those findings.
- b. For 6 of the 7 contracts reviewed, subrecipients were not provided with all required federal award information. OMB Circular A-133 requires that pass-through entities provide subrecipients with the CFDA title and number, the award name and number, the award year, whether the award is for research and development, and the name of the federal awarding agency. This error appears to be the result of UDOT not using their standard contract template which includes required federal award information. Without necessary federal award information, subrecipients may inaccurately report their federal expenditures and may be unaware of grant requirements.

Recommendation:

We recommend that UDOT develop internal controls in order to comply with OMB Circular A-133 as follows:

- a. **Ensure that subrecipient A-133 audit reports are reviewed and management decisions on findings are issued within the required timeframe.**
- b. **Provide all subrecipients with the required federal award information.**

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Department's Response:

- a. *We will review subrecipients twice a year to ensure compliance. UDOT reviews reports from cities, counties, school districts, regional councils, and others. The sub-recipient has nine months to file their single audit if one is required. For at least the past eight years, UDOT has not seen any reports that would result in a finding where funds need to be returned to UDOT.*
- b. *We agree with the finding relating to federal-aid agreements on the Consolidated Planning Program with Metropolitan Planning Organizations. Agreements do need to include complete required federal award information.*

However, at fiscal year-end, UDOT did notify all subrecipients of award amounts by CFDA to ensure sub-recipients reported within their federal expenditures.

*Contact Person: Jimmy Holfeltz, Director of Fiscal Audit, (801) 965-4819
Anticipated Correction Date: January 1, 2014*

4. INADEQUATE INTERNAL CONTROL OVER THE TIMELINESS AND ACCURACY OF DATES REPORTED UNDER THE TRANSPARENCY ACT

Federal Agency: **U.S. Department of Transportation, Federal Highway Administration**
CFDA Number and Title: **20.205 Highway Planning and Construction**
Federal Award Number: **various**
Questioned Costs: N/A
Pass-through Entity: N/A

Per the Federal Funding Accountability and Transparency Act (FFATA), UDOT is required to report in the FFATA subaward reporting system information regarding any subaward obligations of \$25,000 or more in federal funds. For a sample of 5 UDOT subaward obligations subject to the FFATA reporting requirements, we reviewed the contract information, including dates, amounts, and subaward numbers, and noted the following weaknesses:

- a. For 4 of the 5 subaward obligations reviewed, the obligation/action dates reported were not supported by source documentation. These errors occurred because of confusion regarding whether the appropriate obligation/action date to be reported is the contract date or the date approved by the Federal Highway Administration.
- b. For 3 of the 5 subaward obligations reviewed, the necessary information was not reported by the last day of the month following the month in which UDOT awarded the subcontract, as indicated by the obligation/action dates reported. This error may have occurred, in part, because UDOT cannot enter the necessary information until the obligation has been uploaded by the Federal Highway Administration.

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Recommendation:

We recommend that UDOT implement controls in order to:

- a. Ensure that the subaward obligation/action dates reported are supported by source documentation.**
- b. Either report the necessary information by the required deadline or maintain documentation of their good faith efforts to submit the information.**

Department's Response:

UDOT has a process to accurately report the monthly subaward amounts required under the Federal Funding Accountability and Transparency Act (FFATA). UDOT's primary reporting date within FFATA has been the contract or FINET encumbrance date. The reporting, however, can be delayed by the monthly Federal Highway Administration Federal Management System (FMIS) interfacing into FFATA for current obligations. A contract execution date may be a month prior to obligation interface update between federal FMIS and FFATA systems.

In addition, some subawardees have incomplete information within the federal "SAM.gov profile," which delays this process. Successful submittal of FFATA reports must pass required edits, which depends on accurate subaward information within SAM.

In the future, UDOT will utilize the later of the contract date or the FHWA authorization date as the required reporting date. Also, UDOT will keep copies of the subawardee's "incomplete documentation" that prevents us from reporting by the required deadline.

*Contact Person: Kelly Garner, Financial Manager, (801) 965-4006
Anticipated Correction Date: Implemented*