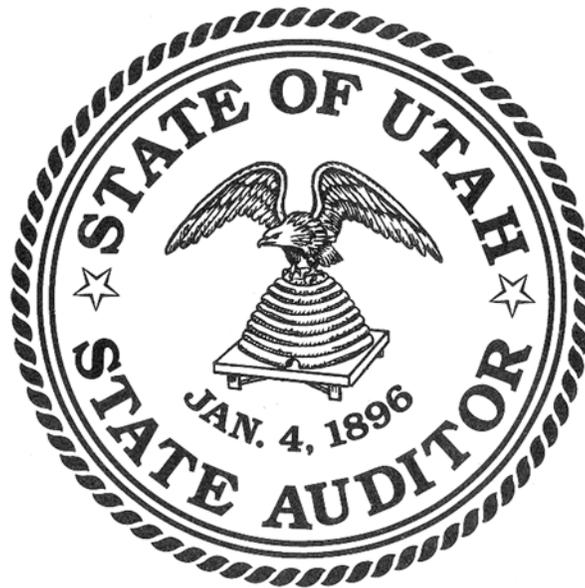


UTAH DEPARTMENT OF TRANSPORTATION

Single Audit Management Letter
For the Year Ended June 30, 2017

Report No. 17-05



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor

Jon Johnson, CPA, Audit Director

Jason Allen, CPA, CFE, Senior Audit Manager

UTAH DEPARTMENT OF TRANSPORTATION

**Single Audit Management Letter
FOR THE YEAR ENDED JUNE 30, 2017**

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Transactions Charged to Federal Program Prior to Authorized Period of Performance	Highway Planning & Construction	SD-f; RN-f	3

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



OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 17-05

October 6, 2017

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

This management letter is 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, 2017. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is issued under separate cover. We tested the Highway Planning & Construction (HPC) program as a major program at UDOT.

In planning and performing our compliance audit of the program listed above, we considered UDOT's compliance with the applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2017. We also considered UDOT's internal control over compliance with the types of requirements described above that could have a direct and material effect on the major program tested in order to determine the auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over 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 noncompliance with a type of compliance requirement of a federal program. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitation, we did not identify any deficiencies in UDOT's internal control that we consider to be material weaknesses. However, we consider the deficiency in internal control over compliance presented in the accompanying finding and recommendation to be a significant deficiency.

UDOT's written response to and Corrective Action Plan for the finding identified in our audit was not subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on it.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing. 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,



Jon Johnson, CPA
Audit Director
801-538-1359
jonjohnson@utah.gov

cc: Shane Marshall, Deputy Director
Becky Bradshaw, Finance Director
Kelly Garner, Finance Manager
Jim Holfeltz, Director of Fiscal Audit

FINDING AND RECOMMENDATION

TRANSACTIONS CHARGED TO FEDERAL PROGRAM PRIOR TO AUTHORIZED PERIOD OF PERFORMANCE

Federal Agency: **Federal Highway Administration**

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

Federal Award Number: **Various**

Questioned Costs: **\$0**

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

Prior Year Single Audit Report Finding Number: **N/A**

In our testing of transactions charged within 60 days of newly authorized projects, we identified 14 instances (transactions totaling \$1,733) where the Utah Department of Transportation (UDOT) charged expenditures to federal programs prior to the federal authorization date (beginning period of performance). The Federal Highway Administration (FHWA) authorizes UDOT to spend federal funds within the period of performance identified for each federally funded project. Although the invoice dates for the transactions were within the period of performance, project managers did not follow established policies and procedures in the UDOT Consultant Services Manual of Instruction to ensure that the underlying activities related to the invoices occurred within the allowed period of performance before approving the payments. The failure to detect the actual date of the underlying activities resulted in UDOT requesting FHWA reimbursement for these unallowable transactions. Following our identification of this issue, UDOT identified additional transactions totaling \$5,297 which were inappropriately charged to the federal program prior to the federal authorization date. UDOT subsequently reduced federal draws for these amounts and, therefore, we have not questioned the costs.

Recommendation:

We recommend UDOT improve its internal controls and follow established policies and procedures to ensure expenditures charged to the federal program occurred within the authorized period of performance.

UDOT's Response:

UDOT concurs with the audit finding. The recommended improvement in internal controls applies to a type of consultant contracts called on-call-exception contracts. On-call-exception contracts make up a small portion of the overall number of UDOT consultant contracts. When this recommended improvement was initially identified in June of 2017, UDOT implemented, by practice, controls to address the recommended improvement.

Corrective Action Taken:

Phase program activation status is now checked at the following key points in the on-call-exception contract request process:

1. *UDOT checks prior to assigning the contract administration to the Staff Augmentation Consultant (SAC);*
2. *The SAC checks prior to performing any work;*
3. *The SAC checks again prior to billing for work performed; and,*
4. *UDOT spot checks prior to monthly payment request approval.*

The above listed controls have been communicated by distribution of a guidance memo and will be incorporated in the UDOT Consultant Services Manual of Instructions at the next update.

Contact Person: Gaye Hettrick, Consultant Services Manager, (801) 965-4639

Status: Implemented – Corrective action taken.