Utah Transit Authority

Audit Committee

REGULAR MEETING AGENDA

Monday, August 23, 2021   **3:00 PM**   **FrontLines Headquarters**

UTA Audit Committee will meet in person at UTA FrontLines headquarters (FLHQ) 669 W. 200 S. Salt Lake City, UT. 84101

- All members of the Audit Committee and meeting presenters will participate in person, however committee members may join electronically as needed.
- Meeting proceedings may be viewed remotely by following the instructions and link on the UTA Board Meetings page - https://www.rideuta.com/Board-of-Trustees/Meetings.
- Public Comment will not be taken at this meeting, but general comment may be given online through www.rideuta.com. Comments may also be sent via e-mail to boardoftrustees@rideuta.com.
- Special Accommodation: Information related to this meeting is available in alternate format upon request by contacting calldredge@rideuta.com or (801) 287-3536. Request for accommodations should be made at least two business days in advance of the scheduled meeting.

1.	**Call to Order & Opening Remarks**	Chair Carlton Christensen
2.	**Pledge of Allegiance**	Chair Carlton Christensen
3.	**Safety First Minute**	Sheldon Shaw
4.	**Consent**	Chair Carlton Christensen
	a. Approval of June 21, 2021 Audit Committee Meeting Minutes	
5.	**Reports**	
	a. Changes to the Final Version of the Comprehensive Annual Financial Report (ACFR) from the June 21, 2021 Audit Committee Approval	Troy Bingham
	b. Internal Audit Update	Mike Hurst
6.	**Internal Audit Report Review**	
	a. Procurement Contract Audit (R-20-01)	Lena Shelton
	b. Bus Operations and Safety Preliminary Assessment Report (R-21-04)	Mike Hurst

7.   **Other Business**   Chair Carlton Christensen

    a.   Next Meeting: Monday, November 15th, 2021 at
        3:00 p.m.

8.   **Adjourn**   Chair Carlton Christensen

Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 8/23/2021

TO: Audit Committee
THROUGH: Jana Ostler, Board Manager
FROM: Jana Ostler, Board Manager

TITLE:

Approval of June 21, 2021 Audit Committee Meeting Minutes

AGENDA ITEM TYPE:	Minutes
RECOMMENDATION:	Approve the minutes of the June 21, 2021 Audit Committee meeting
BACKGROUND:	A regular meeting of the UTA Audit Committee was held electronically and broadcast live through the UTA meetings website on Monday, June 21, 2021 at 2:00 p.m. Minutes from the meeting document the actions of the committee and summarize the discussion that took place in the meeting. A full audio recording of the meeting is available on the Utah Public Notice Website <https://www.utah.gov/pmn/sitemap/notice/684935.html> and video feed is available through the UTA Meetings website at https://rideuta.com/Board-of-Trustees/Meetings
ATTACHMENTS:	1) 2021-06-21_AUDIT_Minutes_unapproved

Utah Transit Authority
Audit Committee
MEETING MINUTES - Draft

| **Monday, June 21, 2021** | **3:00 PM** | **Frontlines Headquarters** |

This meeting was held remotely via phone or video conference and broadcast live for the public via the link and instructions on the UTA Board Meetings page https://rideuta.com/Board-of-Trustees/Meetings.

Present: Chair Carlton Christensen, Beth Holbrook, Jeff Acerson, Karen Cronin and Clint Smith

Also participating were members of UTA staff.

1. Call to Order & Opening Remarks

Chair Christensen welcomed attendees and called the meeting to order at 3:02 p.m. The Utah Transit Authority Electronic Board Meeting Determination Statement was read by Jana Ostler, UTA Board Manager. The full text of the statement is appended to these minutes.

2. Safety First Minute

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

3. Consent

a. Approval of April 19, 2021 Audit Committee Meeting Minutes

A motion was made that the consent agenda be approved. The motion carried by a unanimous vote.

4. 2020 UTA Financial Audit

a. 2020 UTA Financial Audit Report (ACFR) and National Transit Database (NTD) Agreed Upon Procedure Report

Troy Bingham, UTA Comptroller, introduced the ACFR and turned the time over to Brad Schelle of Crowe, LLP. Mr. Schelle presented the audit process and scope of work. The audit methodology and approach define the purpose of the financial statement and compliance audit; define the audit committee role of ensuring quality, internal controls, and compliance; outline the concepts of audit risk and materiality; define the role of internal controls and tone at the top of the business; and define the role of monthly financial reporting. Financial statement and compliance audits give audit highlights as well as include management's discussion and analysis and the comprehensive annual financial report. Mr. Schelle noted that new accounting

standards have been implemented.

The audit approach and plan include management interviews, planning and risk assessment, internal controls, single audit testing, audit procedures on year-end balances and fiscal year activity, single audit testing to completion, and NTD testing. Current reporting consists of reviewing financial statements prepared by management, preparing and reviewing of compliance reports and reporting to the audit committee.

Mr. Schelle noted that Audit deliverables include:

- Independent Auditor's Report
- SAS 114 Letter
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance
- Independent Auditor's Report on Compliance and Report on Internal Control Over Compliance as Required by the State Compliance Audit Guide
- "In relation to" opinion on the Schedule of Expenditures of Federal Awards
- Agreed Upon Procedures report on National Transit Database Federal Funding Allocation Statistics Form
- Crowe's electronic certification of the Data Collection Form through Federal Clearinghouse

Three management recommendations and findings were reported as follows:

2020-001 (Information Technology Controls over Change Management):

- Segregation of duties does not exist between individuals with access to the general ledger source code and individuals responsible for implementing changes to the source code into the production environment.
- It's recommended that the Authority modify its policies and procedures to ensure that source code changes are initiated with appropriate authorization and management oversight and approval is obtained prior to implementing the changes into the production environment. If access to development and production cannot be restricted, a compensating monitoring control should be implemented wherein an independent individual reviews source code changes for propriety.

2020-002 (Internal Controls over Utility Disbursements):

- Utility-related expenses are not reviewed and authorized for payment for prior to disbursement. Eight of the 60 randomly selected expenditures for the Federal Transit Cluster program related to utilities, and all lacked evidence of review and approval.
- It's recommended that the Authority implement a formal process requiring utility invoices to be reviewed prior to payment.

2020-003 (Financial Reporting Controls over Pension Trust):

- Related to our testing of the pension trust, we noted that contributions related to 2020 that were received by the trust in 2021 were not properly accrued. Contributions for one special payroll in 2020 were not included in the accounting records of the trust as they were not remitted by the Authority. Lastly, general journal entries to the trust financial statements are not formally reviewed and approved.
- It's recommended the Authority's management increase oversight of all third-parties involved in the administration of the pension trust by designing and implementing controls over the reconciliation of pension trust activity reported in the financial statements. Specifically, management should ensure that transactions and balances, including investment activity, contributions, benefit payments, and other general journal entries reported in the trust financial statements reconcile to the underlying detail maintained by the Authority, the custodian, and any other third-party administrators.

Emerging issues were noted.

The council asked questions about working with internal audit, accounting, findings, formal processes, the trust, and baselines. Mr. Schelle and Mr. Bingham responded. Discussion ensued.

A motion was made by Council Member Cronin, and seconded by Council Member Acerson, that the 2020 UTA Finacial Audit Report be recommended to the Board of Trustees for approval. The motion carried unanimously

5.   Internal Audit Update

a.   Internal Audit Update

Ron Ellis, UTA Director of Internal Audit, presented the internal audit plan status, noting five assessments are completed with three of those five being in the presenting stage, two assessments are in progress, and seven assessments are scheduled throughout the remaining part of 2021. There are seven outstanding issues that are past due, with ten coming due in the next 30 days, and four coming due in the next 60 days. Procurement Contracting, Data Access Findings, Payroll and Data Access findings,

and TOD have requested an extension on their finding's due date.

Chair Christensen asked a question about policies. Mr. Ellis responded.

6.   **Internal Audit Report Review**

a.   **Internal Audit Report Review - Utilities Preliminary Assessment**

Lena Shelton, UTA Senior Internal Auditor, reported that internal audit reviewed all utility accounts, evaluated UTA's process to determine if UTA was obtaining the lowest eligible utility rates, reviewed the process to ensure that only UTA utility accounts are being paid, and reviewed invoices to verify that they were properly approved and posted to the correct account. Findings from this assessment are that the contract with the third-party company for utility audit service, which provided a net savings of $1,908,188, has expired without new course of action and that UTA does not provide guidance on restrictions or ownership of utilities.

Eddy Cumins, UTA Chief Operating Officer, expressed his agreement with the assessment and turned the time over to Kevin Anderson, UTA . Mr. Anderson reported on the results of consulting with a third-party auditor. Recommendations for this assessment are for management to establish a process to ensure UTA is not overpaying for utility services by either: contracting a new third-party utility audit service or hiring dedicated staff of one or two FTEs knowledgeable in utilities management. Mr. Anderson also noted UTA could improve controls over account validity by revising the "Spending Authority" policy, and providing utility providers with an authorized persons list.

Member Holbrook asked a question about the "spending authority" policy. Ms. Shelton responded. Discussion ensued.

b.   **Internal Audit Report Review - Maintenance of Way (MOW) Systems Preliminary Assessment**

Mike Hurst, UTA Senior Internal Auditor, reported that internal audit evaluated the design effectiveness of existing controls, reviewed federal regulations to determine requirements and management's progress in achieving compliance, and analyzed management's plans to reorganize the training and classifications of technicians. Findings from this assessment are that the MOW - Systems is developing an apprenticeship program that will reorganize the training and classification of technicians, with it being estimated that it will take approximately 54,000 labor hours to develop the needed training components. At current resource levels it will take approximately 10 years to complete the Apprenticeship program. Recommendations for this assessment are to develop a project plan to include realistic timelines and necessary resources to implement the program timely, to identify "off the shelf" training materials and videos that can be purchased to reduce the development time, to incorporate training classes that may be already developed and available through other sources such as other transit agencies, system manufacturers, and commercial rail carriers, and to budget for and add sufficient resources to develop the

apprenticeship program.

Discussion ensued with Mr. Cumins.

Chair Christensen asked a question about timing. Mr. Cumins and Kim Shanklin, UTA Chief People Officer, responded. Discussion ensued.

c.   **Internal Audit Report Review - Payroll Management Audit Follow Up**

Ms. Shelton reported that internal audit reviewed all available SOPs and policies related to the payroll and timekeeping process, evaluated the process for managing pay codes, and determined if management's audit action plans have been implemented. Findings from this assessment are that there is substantial risk in the segregation of duties (SOD) relating to preparing, reviewing, and approving timekeeping as well as interim checks, and a lack of oversight and monitoring regarding changes to employee master files and pay and accrual codes. Internal audit closed seven of the seven findings outstanding from the audit report. Two of the seven findings were re-issued to focus on the outstanding part of the original finding. Recommendations for this assessment are that one SOP be designed for company-wide use in processing payroll on the business side to include: each type of payroll processing, a chart of how to segregate duties effectively, and key controls to address risk identified. Ms. Shelton also recommended monitoring controls over critical HR master data fields, providing that payroll be responsible to review changes for accuracy, and that pay code modifications be subjected to a review and approval process through Laserfiche.

Discussion ensued with Mr. Bingham and Ms. Shanklin.

Chair Christensen asked a question about OWATS. Ms. Shelton responded.

7.   **Other Business**

a.   Next Meeting: Monday, August 23rd, 2021 at 3:00 p.m.

8.   **Closed Session**

a.   **Discussion regarding deployment of security personnel, devices, or systems**

A motion was made by Council Member Holbrook, and seconded by Council Member Cronin, that this meeting move to closed session. The motion carried by a unanimous vote at 4:28 p.m.

9.   **Open Session**

A motion was made by Council Member Smith, and seconded by Council Member Acerson, that this meeting return to open session. The motion carried by a unanimous vote at 4:56 p.m.

10.   **Adjourn**

A motion was made by Council Member Acerson, and seconded by Council Member Smith, that this meeting be adjourned at 4:56 p.m. The meeting adjourned by unanimous vote.

Transcribed by Stephanie Withers
Executive Assistant to the Board

This document is not intended to serve as a full transcript as additional discussion may have taken place; please refer to the meeting materials, audio, or video located at https://www.utah.gov/pmn/sitemap/notice/684935.html entire content.

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

Approved Date:

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Carlton J. Christensen
Chair, Board of Trustees

Appendix A

UTAH TRANSIT AUTHORITY
ELECTRONIC BOARD MEETING DETERMINATION

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

Due to the ongoing COVID -19 pandemic, conducting Board and Board Committee meetings with an anchor location presents a substantial risk to the health and safety of those who may be present at the anchor location.

This written determination takes effect on June 21, 2021, and is effective until midnight on July 20, 2021 and may be re-issued by future written determinations as deemed appropriate.

Dated this 14th day of June 2021.

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Carlton J. Christensen, Chair of the Board of Trustees

Utah Transit Authority

MEETING MEMO

Audit Committee | **Date:** 8/23/2021

TO:	Audit Committee
THROUGH:	Mary DeLoretto, Interim Executive Director
FROM:	William Green, Chief Financial Officer
PRESENTER(S):	Troy Bingham, Comptroller

TITLE:

Changes to the Final Version of the Comprehensive Annual Financial Report (ACFR) from the June 21, 2021 Audit Committee Approval

AGENDA ITEM TYPE:

Report

RECOMMENDATION:

Review the additional audit finding 2020-004 Accounting for Capital Assets (Significant Deficiency)

BACKGROUND:

At the June 21, 2021 Audit Committee meeting the partner from Crowe LLP, Brad Schelle, discussed the first three findings in the 2020 ACFR and eluded to an additional fourth finding on revenue vehicles change in accounting estimate involving depreciation that might require an additional finding. The fourth finding was included in the final version of the ACFR presented for board approval on July 28, 2021. It is being presented to the Audit Committee for review because it was not included in the June 21, 2021 Audit Committee discussion.

DISCUSSION:

Criteria:

Accounting processes and systems should be in place to accurately track capital asset balances and activities, including the cost basis, accumulated depreciation, current period depreciation, and net book value for each asset. Additionally, management is required to estimate the useful lives of capital assets at the time they are obtained and update the useful lives of the capital assets in a timely manner, as needed.

Condition/Context:

11

During our testing over capital assets we noted that the capital assets module does not provide a report that presents the depreciation expense for a requested period of time. Additionally, we noted that initially when the estimated useful lives for certain revenue vehicles was updated in the current year, the adjustment was made retrospectively, rather than prospectively, resulting in current year depreciation expense being understated.

Effect:

Reconciling the capital assets per the financial statements to the capital assets module within the financial system requires the use of a manual schedule that is prepared by management, which reduces the effectiveness of the controls the system has in place. Additionally, an audit adjustment was posted to correct the net book value of capital assets, which was overstated by approximately $56.1 million and current year depreciation expense, which was understated by the same amount, due to the improper recording of the change in the useful lives.

Cause:

The capital assets module of the accounting system does not provide the proper reporting required to easily agree capital assets or depreciation expense per the module to the financial statements. In addition, management determined that the estimated useful lives for revenue vehicles needed to be extended, however, they adjusted the value of the revenue vehicles retrospectively rather than prospectively as required by the accounting standards and also added back a portion of net book value to assets that were already fully depreciated.

Recommendation:

We recommend that the Authority work with their software company (Oracle/JD Edwards) to ensure that they can get accurate reporting of their capital assets listing and activity from the system. Further, we recommend that when there is a change in accounting estimate related to the useful lives of capital assets, that the impact is recorded prospectively as required by the accounting standards.

Management's Response:

Management agrees with the finding and has corrected the 2020 financial statements by the $56.1 million in additional accumulated depreciation for revenue vehicles and depreciation expense. Accounting will work on system generated reports in Oracle/JD Edwards to provide accurate information on assets for set time periods for the fiscal 2021 audit. Accounting will continue to maintain a separate excel spreadsheet for revenue vehicles based on the prospective accounting guidance from this finding. The Authority will leave Oracle/JD Edwards at the retrospective calculation for revenue vehicles for federal reporting purposes for future Federal Transit Administration interactions. An accounting entry will be done for financial statement purposes each year to reconcile Oracle/JD Edwards to the correct prospective change in accounting estimate tracked by spreadsheet until the two amounts match in subsequent years.

ALTERNATIVES:
Disagree with the external auditor's finding or management's response to the finding and recommend further

deliberation of the finding. This will delay the publishing of the 2020 ACFR.

FISCAL IMPACT:
None

ATTACHMENTS:
Link to the final ACFR on UTA website: https://rideuta.com/-/media/Files/About-UTA/Reports/2021/2020_CAFR_V20_Printedx.ashx?la=en

Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 8/23/2021

TO: Audit Committee
FROM: Mike Hurst, Acting Director of Internal Audit
PRESENTER(S):   Mike Hurst, Acting Director of Internal Audit

TITLE:

Internal Audit Update

AGENDA ITEM TYPE:

Report

RECOMMENDATION:

Informational report for discussion.

BACKGROUND:

Internal Audit provides periodic updates to the Audit Committee on work completed and progress made.

DISCUSSION:

A report will be given of Internal Audit progress since the last Audit Committee meeting held June 21, 2021.

ALTERNATIVES:

Not applicable

FISCAL IMPACT:

Not applicable

ATTACHMENTS:

None

Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 8/23/2021

TO: Audit Committee
FROM: Mike Hurst, Acting Director of Internal Audit
PRESENTER(S):   Lena Shelton, Senior Internal Auditor

TITLE:

Procurement Contract Audit (R-20-01)

AGENDA ITEM TYPE:
Report

RECOMMENDATION:
Informational report for discussion.

BACKGROUND:
Internal Audit completed an audit of the Procurement Contract process in accordance with the 2021 audit plan.

DISCUSSION:
Lena Shelton will report on Internal Audit's findings and recommendations from the Procurement Contract Audit.

ALTERNATIVES:
Not applicable

FISCAL IMPACT:
Not Applicable

ATTACHMENTS:

15

INTERNAL AUDIT

Procurement Contract Audit

R-20-01

July 15, 2021

Table of Contents

Rating Matrix

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.

Distribution List

Title	For Action[1]	For Information	Reviewed prior to release
Executive Director		*	*
Chief Financial Officer	*		
Chief Enterprise Strategy Officer		*	
Director of Supply Chain		*	
Procurement Manager	*		
Records Manager		*	

[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.

Executive Summary

Introduction

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

IA was directed by the Audit Committee to perform an audit to determine if controls over Procurement Contracts are designed adequately and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives.

Background and Overview

The UTA Procurement department is a steward of public funds and is responsible to ensure the Agency is compliant with State of Utah procurement code and the Federal Transit Administration's (FTA) procurement circular and super-circular regulations, as well as any other applicable laws and regulations.

The Procurement department is responsible to conduct all procurements of goods or services over the micro-purchase limit of $3,500. The department is staffed with one manager and 11 employees. In 2019, the department added a new position, and had a substantial turnover in the department, which resulted in five of the departments' 11 staff positions requiring training during 2019. The team also navigated a significant change in contract approval process to the Board of Trustees, as well as new legal counsel from the Utah Attorney General's office.

The Procurement department buyers are responsible to solicit, negotiate, execute, and maintain records of all procurement contracts made on behalf of the Agency. The agency is subject to both State and Federal audits of procurement contracts and records. Every three years the FTA performs a Triennial Review, which includes evaluation of UTA's compliance with best procurement practices. There were no findings regarding procurement in the 2013, 2016, and 2019 Triennial Reviews.

Objectives and Scope

The period of the preliminary assessment was February 12, 2020, through April 22, 2020, with the Preliminary Assessment report issued on May 18, 2020. The audit fieldwork commenced on May 12, 2021 and concluded on July 8, 2021.

The primary areas of focus were:
- Governance
- Identifying the need for a contract
- Vendor selection
- Contract review and approval
- Contract documentation and retention
- Contract database
- Contract amendments

IA reviewed internal policies and procedures, interviewed department managers and staff, and conducted a thorough review of procurement files to understand the processes and internal controls relevant to the procurement process and management.

Summary

IA determined that the Procurement process has improved since the Preliminary Assessment to ensure procurements are supported and documented. We noted the following three areas that still require improvement:

- Vendor responsibility check, due diligence or System for Award Management (SAM) review of vendors is not always conducted or documented.
- Laserfiche contract numbers are used to identify the contracts and amendments to contracts, however this is not possible due to empty contract folders.
- The required procurement history documents lack event dates. Additionally, in 39% of the sample, the history was not complete.

Additionally, the preliminary assessment identified that the department's standard operating procedure (SOP) was not always followed, and it did not provide enough direction in some areas. The department is in the process of implementing a revised SOP. During the audit phase, Internal Audit conducted testing on the documented requirements of the draft SOPs and found no issues. The approval of the SOP is awaiting the revised Procurement Contracting Policy and Contract Authority Policy prior to be presented to the Board of Trustees for approval. Once those policies are approved, the SOPs can be formally adopted.

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

Finding R-20-01-01 Procurement Documentation	**Risk Level: High**

Criteria:

FTA C 4220.1F VII and FTA Best Practices Procurement & Lessons Learned Manual includes the following guidance:

- 3.a.2. states: FTA expects the recipient to include adequate documentation in its project files of the facts, events, negotiations, applicable laws, and a legal evaluation of the likelihood of success in any potential litigation involving the dispute as may be needed to justify FTA's concurrence in any compromise or settlement, should FTA concurrence become necessary.
- 4.9 FTA expects each recipient to have appropriate written protest procedures, as part of its requirement to maintain or acquire adequate technical capacity to implement the project.
- Recommends using checklist to ensure required documents and process have been followed.

Preliminary Assessment Condition Summary:

Contract files

- IA reviewed six renewed contracts and six contracts executed during the audit period. The review concluded five of the six contract files did not contain all required documents.
- Practices did not ensure the contract or supporting documents were available in Laserfiche.

Protests

Protests were not logged, nor a management report available to monitor protests received, which created the risk that not all protests were identified and/or satisfactorily addressed.

Contract management

- The Procurement Department was unable to reconcile contract data on the shared drive with the contract data in Laserfiche.
- Electronic amendments to contracts were not stored together, nor did the original contract file document an amendment to the contract.

Audit Condition Details:

Contract File Deficiencies:

Internal Audit reviewed documentation for 23 procurements. The result of the review identified one high risk finding and one low risk finding:

- High Risk: four of the 23 procurement files did not contain evidence of a due diligence review of the vendor. Documentation of the System for Award Management (SAM) check, Responsibility review, or vendor references was not available.
- Low Risk: The required Procurement History document lacked dates of events, and in many instances the history was not complete. Specifically, nine of the 23 procurement files did not include the procurement history document or the document was not complete. However, all relevant procurement supporting documents were available.

Protest Procedures – Remediated

The Procurement department implemented a new Protest process. The process directs all protest to a monitored email address. The email account is monitored by Attorney General's Office and the Procurement Department. All emails are archived and managed by IT department.

Contract Management

Management utilizes reports generated by Laserfiche. Laserfiche contract numbers are used to identify the contracts and amendments to contracts. However, the process is not efficient nor effective. Due to process design, and redesign, Laserfiche houses empty contract folders and mis-labeled amendment folders making navigation and location of a specific contract difficult despite a search engine within the Laserfiche desktop client. Internal audit viewed 41 amendment Laserfiche folders, of which 6 folders were empty, 9 folders had one or more folders with same contract number, and 2 folders had a different numbered amendment document.

Inherent Risk:
- In the event of a protest, inquiries, audits, or legal issues, proper documentation may not be readily available, including the final executed contract signed by both parties.
- UTA may have difficulty demonstrating it followed its own procedures with incomplete, unlocatable or missing files.
- Protests may not be addressed in a consistent manner, allowing for perceived favoritism.
- Management information may not be reliable if data is not complete on Laserfiche.
- If executed contracts have unknown amendments, transactions may not be executed in accordance with the contract or amendments.

Recommendations:

IA recommends:
- Management train procurement staff on the importance of a due diligence review of awarded vendors and the effective way to document the events of a procurement.
- Due diligence information, including ownership of a vendor or contractor, should be made available to the Board Office when submitting a contract to the Board of Trustees for approval, to strengthen the process to verify no Conflicts of Interest exist.
- Vendors should be made aware of the UTA ethics policy and ethics hotline where they can report violations of our ethics policy for investigation.
- Management (1) conducts a purge of empty Laserfiche contract files and (2) rename mis-labeled contract files to align with current contract naming convention.

Management Response and Action Plan:

Management's Response:

1) Management will add language to SOP that requires P&C Specialist to add supporting documentation in procurement files that will demonstrate Vendor is responsible. In addition, Staff will be trained to add notes to the Pre-award Responsibility Determination Checklist that will explain how a vendor was determined to be responsible. For local vendors, Staff will check the States website https://secure.utah.gov/bes/ to determine if vendor is registered and in good standing. If needed/requested, Staff may print out registered principles list.

2) Procurement Manager will research the Laserfiche contract folders to identify duplicate or empty contract folders and clean them up. The process for obtaining contract numbers has been updated and these issues should not happen moving forward.

3) Procurement Manager will train staff to add dates to the applicable procurement checklist items and update the Procurement History on an ongoing basis. In addition, random peer spot audits will be conducted on the procurement history of files that have recently been closed out.

Target Completion Date: January 1, 2022

Audit Finding R-20-01-02 Department Standard Operating Procedure	Risk Level: Medium

Criteria:
- *The Committee of Sponsoring Organizations (COSO)* defines that control activities should be deployed through policies that establish what is expected and in procedures that put policies in action.

- *Board Policy 2.1.II(G)(1):*
  G. Internal and External Controls

  1. The Authority will maintain a system of internal controls to safeguard its assets against loss, check the accuracy and reliability of its accounting data, and promote operational efficiency.

- *Board Policy 2.2.III(A)(1) & (2):*
  1. The Board of Trustees designates the Chief Financial Officer as the Authority's Chief Procurement Officer.

  2. The Chief Procurement Officer will establish policies and procedures to ensure the Authority's procurements are carried out in compliance with applicable state and federal laws and the Authority's policies.

- *UTA Ethics Policy 1.1.11* defines conflicts of interest as "a personal or economic interest, outside employment, outside interest or other circumstance or relationship that impairs an employee's ability to discharge his or her duties in a legal and ethical manner consistent with the best interests of UTA."

Preliminary Assessment Condition Summary:
- The preliminary assessment found that adequate controls were not defined in the SOP.
- The Procurement SOP did not state the procurement threshold that should result in a contract.
- The SOP did not include the process for monitoring expiring contracts.
- Processes for emergency event procurements were vague.
- The UTA contact restrictions were not included in the Request for Proposals to vendors.
- The conflict-of-interest declaration did not include a reference to non-financial conflicts of interest.

Audit Condition Detail:
The Procurement department is in the process of implementing a revised SOP. During the audit phase, Internal Audit conducted testing on the draft SOPs documented requirements and found no issues. Noting the SOP has not been finalized as of the writing of this report.

Inherent Risk:

Procurement process may not have been executed as designed, which increases the risk of non-compliance with laws, regulations, or policies and procedures. The approval of the SOP is awaiting the revised Procurement Contracting Policy and Contract Authority Policy prior to be presented to the Board of Trustees for approval. Once those policies are approved, the SOPs can be formally adopted.

Recommendations:

Management should approve and implement a department draft SOP timely.

Audit Finding R-20-01-03 Contract Approval

Criteria:

UTA Policy 3.1.6

–III.A.1 Contracting Authority: All Contracts must be signed by persons with authority equal to or greater than that identified in Table A or B as applicable.

–III.B.6 When the procurement process is complete and the terms of the contract have been negotiated, the Contracts Administrator shall circulate the contract for signature, along with a completed Contract Routing Form.

Preliminary Assessment Condition Summary:

All Laserfiche full users had the capability to approve a contract if it is assigned to them, irrespective of whether the user was authorized to approve that contract. Although policy dictated the appropriate authority level for contract value, there was not a control to prevent inappropriate approval of contracts in Laserfiche.

Audit Condition Detail - Remediated:

Laserfiche has been updated to only select appropriate UTA employee to review and approve contracts and documents routed through Laserfiche workflow.

Inherent Risk:

Unauthorized individuals could approve inappropriate contracts.

Recommendations:

Previously identified risk has been mitigated. No further action required.

Audit Finding R-20-01-04 Direction or Authorization to Proceed (DAP)

Criteria:

- *FTA C 4220.1F*: The FTA does not participate in the recipient's decisions involving change orders, constructive changes, or modifications, but reserves the right to review the recipient's supporting documentation as necessary to determine the extent of FTA assistance that may be used to support those costs.

- *The Committee of Sponsoring Organizations (COSO)* defines that control activities should be deployed through policies that establish what is expected and in procedures that put policies in action.

Preliminary Assessment Condition Summary:

The Direction or Authorization to Proceed process is not well defined for users, occurs outside of Procurement oversight, and may be dependent on the practices of the facilitator rather than a defined standard approved by management.

Audit Condition Detail - Remediated:

The Project Control User Manual has been updated to include the DAP process and ownership.

Inherent Risk:

UTA department managers are unaware of the proper process for approving DAPs, allowing for undocumented or inadequate documentation of DAPs.

Recommendations:

Previously identified risk has been mitigated. No further action required.

Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 8/23/2021

TO: Audit Committee
FROM: Mike Hurst, Acting Director of Internal Audit
PRESENTER(S):   Mike Hurst, Acting Director of Internal Audit

TITLE:

Bus Operations and Safety Preliminary Assessment Report (R-21-04)

AGENDA ITEM TYPE:

Report

RECOMMENDATION:

Informational report for discussion.

BACKGROUND:

Internal Audit completed a preliminary assessment of Bus Operations and Safety in accordance with the 2021 audit plan.

DISCUSSION:

Internal Audit will report on observations and recommendations from the preliminary assessment.

ALTERNATIVES:

Not applicable

FISCAL IMPACT:

Not applicable

ATTACHMENTS:

None