

Meeting of the
Utah Transit Authority Audit Committee

Monday, April 29, 2019, 11:00 a.m.
Utah Transit Authority Headquarters
669 West 200 South, Salt Lake City, Utah
Golden Spike Conference Rooms



1. **Call to Order & Opening Remarks** **Chair Carlton Christensen**
2. **Safety First Minute** **Sheldon Shaw**
3. **Approval of February 13, 2019 Audit Committee Meeting Minutes** **Chair Carlton Christensen**
4. **Approval of 2019 Audit Committee Schedule** **Chair Carlton Christensen**
5. **Discussion Items**
 - a. Internal Audit Peer Review Riana de Villiers, Jim Holfeltz, UDOT
 - b. Audit Committee Charter Riana De Villiers
 - c. Internal Audit Charter Riana De Villiers
6. **Internal Audit Update** **Riana De Villiers**
7. **Internal Audit Report Review** **Riana De Villiers**
 - a. Vanpool Report
 - b. Inventory Management Report
 - c. Payroll Preliminary Report
8. **Other Business** **Chair Carlton Christensen**
 - a. Next meeting: June 10, 2019, 3:00 p.m.
9. **Closed Session** **Chair Carlton Christensen**

Discussion regarding deployment of security personnel, devices or systems
10. **Adjourn** **Chair Carlton Christensen**

Public Comment: Members of the public are invited to provide comment during the general comment period at UTA’s Board of Trustee meetings. Comment may be provided in person or online through www.rideuta.com. Additionally, public comment may be taken at committee meetings at the discretion of the committee chair. In order to be considerate of time and the agenda, comments are limited to 2 minutes per individual, or 5 minutes for a spokesperson designated to represent a group.

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.

**Don't let April Showers bring you hospital flowers.
Stay alert when driving in wet conditions.**





**Minutes of the Meeting
of the
Utah Transit Authority Audit Committee
held at UTA FrontLines Headquarters located at
669 West 200 South, Salt Lake City, Utah
February 13, 2019**

Audit Committee Members Present:

Carlton Christensen, Chair
Beth Holbrook
Kent Millington
Troy Walker (via telephone)

Audit Committee Members Excused/Not in Attendance: Jeff Acerson

Also attending were members of UTA staff.

Welcome and Call to Order. Chair Christensen welcomed attendees and called the meeting to order at 3:05 p.m. with three committee members present and one committee member joining via telephone. Following Chair Christensen's opening remarks, the board and meeting attendees recited the Pledge of Allegiance.

Safety Minute. Chair Christensen yielded the floor to Sheldon Shaw, UTA Manager of Safety, for a brief safety message.

2019 Audit Plan. Riana de Villiers, UTA Chief Internal Auditor, spoke about the risk assessment process, the top ten identified risks, and the draft internal audit plan. Discussion ensued. Questions on comparing the executive risk assessment to the internal audit risk assessment, the definition of "access" as it is used in the assessment, leadership as a risk, whether the proposed payroll audit will assess the effectiveness of the new payroll software, which business units have the highest risks in human capital, the mix of human capital risk, operator turnover rates, factors contributing to operator turnover, how a payroll audit will impact human capital risks, what depth of leadership exists in the organization, how knowledge capital is retained, what knowledge capital entails, existing standards for retention of knowledge capital, how the

federal monitor is looking at compliance risks, how the internal audits on liquidity/cash flow differ from external financial audits, what procedures are in place to protect sensitive information, what protections are in place against outside intrusion on trains, data center management and audits, number of software license agreements, looking at issues that are unique to the agency outside of federal regulations, and how unique costs impact project life cycles were posed by the committee and answered by staff. Ms. de Villiers was joined by Eddy Cumins, UTA Chief Operating Officer, Kim Ulibarri, UTA Chief People Officer, and Dan Harmuth, UTA IT Director, who participated in the conversation.

A motion to adopt the 2019 Audit Plan was made by Committee Member Millington and seconded by Committee Member Holbrook. The motion carried unanimously.

2018 Fourth Quarter Audit Report. Ms. de Villiers summarized the agency's compliance to internal audit recommendations.

Other Business.

Next Meeting. The next audit committee meeting is tentatively scheduled for June 10, 2019.

Adjournment. The meeting was adjourned at 4:08 p.m. by motion.

Transcribed by Cathie Griffiths
Executive Assistant to the Board Chair
Utah Transit Authority
cgriffiths@rideuta.com
801.237.1945

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/515005.html> for entire content.

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

2019 AUDIT COMMITTEE SCHEDULE

Audit Committee date	Agenda Item	2019 Internal Audit Reports	2019 Internal Audit Preliminary Reports	2018 Internal Audit Reports	2018 Internal Audit Preliminary Reports
April 29, 2019 11:00 a.m.	<ul style="list-style-type: none"> • Audit Committee Schedule • Internal Audit Charter • Audit Committee Charter • Peer Review • Internal Audit Update <ul style="list-style-type: none"> ○ Audit Plan status update ○ Audit Recommendations Compliance ○ Survey ○ Assurance Provider Framework • Audit Report discussion (3) 			<ul style="list-style-type: none"> • Inventory Management • Vanpool 	<ul style="list-style-type: none"> • Payroll
June 10, 2019 3:00 p.m.	<ul style="list-style-type: none"> • CAFR • Internal Audit Charter approval • Audit Committee Charter approval • Peer Review approval • Internal Audit Update <ul style="list-style-type: none"> ○ Audit Plan status update ○ Audit Recommendations Compliance • Audit Report discussion (3) 			<ul style="list-style-type: none"> • NTD Reporting • Treasury Management 	<ul style="list-style-type: none"> • Accounts Payable
Aug 12, 2019 3:00 p.m.	<ul style="list-style-type: none"> • Internal Audit Update <ul style="list-style-type: none"> ○ Audit Plan status update ○ Audit Recommendations Compliance ○ Survey Results • Audit Report discussion (3) 	<ul style="list-style-type: none"> • Cash Management 	<ul style="list-style-type: none"> • State of Good Repair 		<ul style="list-style-type: none"> • Grants Management

Oct 21, 2019 3:00 p.m.	<ul style="list-style-type: none"> • FTA Triennial Audit Review • Internal Audit Update <ul style="list-style-type: none"> ○ Audit Plan status update ○ Audit Recommendations Compliance ○ Peer Review Results • Audit Report discussion (2) 		<ul style="list-style-type: none"> • Budget Management 	<ul style="list-style-type: none"> • Operating & Ridership 	
Dec 9, 2019 3:00 p.m.	<ul style="list-style-type: none"> • 2020 Internal Audit Plan approval • Internal Audit Update <ul style="list-style-type: none"> ○ Audit Plan status update ○ Audit Recommendations Compliance • Audit Report discussion (3) 	<ul style="list-style-type: none"> • Grants Management 	<ul style="list-style-type: none"> • Data Access & Security • Maintenance of Way 		
Feb 2020	<ul style="list-style-type: none"> • Internal Audit Update <ul style="list-style-type: none"> ○ Audit Plan status update ○ Audit Recommendations Compliance • Audit Report discussion (2) 	<ul style="list-style-type: none"> • Payroll • Accounts Payable 			

AUDIT COMMITTEE CHARTER

FOR THE UTAH TRANSIT AUTHORITY

Pursuant to the Utah Transit Authority's ("UTA") Bylaws, the Board of Trustees ("Board") has established an Audit Committee to provide oversight of both the internal and external audit functions.

The components of this Audit Committee Charter include:

- Mission Statement
- Composition and Requisite Skills
- Duties and Responsibilities
- Membership
- Meetings and notification
- Decision-Making Process
- Reporting Requirements
- Charter Review

MISSION STATEMENT

The Audit Committee is established to assist the Board in fulfilling its responsibilities for overseeing UTA's accounting and financial reporting processes, the integrity of their financial statements, and responsibilities related to systems of internal controls.

COMPOSITION AND REQUISITE SKILLS

As set forth in UTA's Bylaws, the Audit Committee is comprised of the Board of Trustees and the Chair and Vice-Chair of the Advisory Council.

The Committee will review accounting, auditing, and financial reports and evaluate UTA's financial statements, the external audit, and internal audit activities. Accordingly, the Audit Committee has a collective responsibility to insure they:

- 1) Possess the requisite knowledge necessary to understand technical and complex financial reporting issues.
- 2) Have the ability to communicate with auditors, public finance officers and governing officials.
- 3) Are informed about internal controls, financial statement audits and management/operational audits.

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Audit Committee include the following:

- 1) External Audit Focus
 - a. Provide recommendations regarding the selection of the external auditor.
 - b. Meet with the external auditor prior to commencement of the audit to, among other things, review the engagement letter.
 - c. Review and discuss with the external auditor any risk assessment of the entity's fiscal operations developed as part of the auditor's responsibilities under governmental auditing standards for a financial statement audit and federal single audit standards, if applicable.
 - d. Receive and review the draft annual audit report and accompanying draft management letter, including the external auditor's assessment of the entity's system of internal controls.

- e. Make a recommendation to the Board of Trustees on accepting the annual audit report.
 - f. Review corrective action plans developed by UTA's management.
- 2) Internal Audit Focus
- a. Assist in the oversight of the internal audit function, including reviewing the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested, and reviewing the results of internal audit activities.
 - b. Review significant recommendations and findings of the Internal Auditor.
 - c. Receive updates on management's implementation of the Internal Auditor's recommendations.
 - d. Participate in the evaluation of the performance of the Internal Audit function.
- 3) Administrative Matters
- a. Hold regularly scheduled meetings.
 - b. Review and revise the Audit Committee Charter, as necessary

MEMBERSHIP

The membership duties of the Audit Committee include the following:

- 1) Good Faith – Members of the Audit Committee shall perform their duties in good faith, in a manner they reasonably believe to be in the best interests of the Committee and UTA with such care as a generally prudent person in a similar position would use under similar circumstances.
- 2) Independence – An individual may not serve on the Audit Committee if he or she:
 - a. Is employed by the entity (other than governing board members).
 - b. Currently provides, or within the prior two years, has provided, goods or services to the entity.
 - c. Is a family member of an employee or officer.
 - d. Is the owner of or has a direct and material interest in a company providing goods or services to the entity.

MEETINGS AND NOTIFICATIONS

The Audit Committee shall meet a minimum of four times each year. An agenda of each meeting should be clearly determined in advance and the Audit Committee should receive supporting documents in advance, for reasonable review and consideration.

The Audit Committee shall create meeting minutes which include the meeting:

- 1) Agenda
- 2) Time, date, and location
- 3) Attendance
- 4) Findings requiring further investigation
- 5) Items to report to the Board of Trustees

DECISION-MAKING PROCESS

All decisions shall be reached by vote of a simple majority of the total membership of the Committee. A quorum constitutes a simple majority of the total membership and meetings will not be conducted unless a quorum is present.

REPORTING REQUIREMENTS

The Audit Committee has the duty and responsibility to report its activities to the Board for their action as needed. The Audit Committee's reporting requirements are to:

- 1) Provide minutes or a summary of minutes of meetings which clearly record the actions and recommendations of the Committee.
- 2) Report on its review of UTA's draft annual audit report and accompanying management letter and its review of significant findings.
- 3) Report on suspected fraud, waste or abuse, or significant internal control findings and activities of the internal control function.
- 4) Report on indications of material or significant non-compliances with laws or UTA policies and procedures.
- 5) Report on any other matters that the Committee believes should be disclosed and referred to the Board for their action.

CHARTER REVIEW

The UTA Audit Committee shall assess the adequacy of this Charter no less than an annual basis or as necessary. Charter modifications, as recommended by the Audit Committee, should be presented to the Board in writing for their review and action.

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INTERNAL AUDIT CHARTER

FOR THE UTAH TRANSIT AUTHORITY

The Board of Trustees ("Board") has established the Internal Audit Department ("Internal Audit") as a key component of the Utah Transit Authority's ("UTA") governance framework.

This Internal Audit Charter serves as a framework for Internal Audit in the performance of its duties and is intended to provide a basis for the Board to evaluate the Internal Audit function.

The components of this Internal Audit Charter include:

- Mission Statement
- Scope of Work
- Responsibilities
- Audit Plan
- Reporting
- Independence and Authority
- Standards of Audit Practice

MISSION STATEMENT

The mission of Internal Audit is to improve UTA's operations and systems of internal controls and add value through independent, objective assurance, and consultative support. Internal Audit helps UTA accomplish its objectives through a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance activities and processes.

SCOPE OF WORK

The scope of audit coverage is agency-wide including all departments and business units of UTA.

In order to fulfill its mission, Internal Audit assesses whether UTA's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in areas such as:

- Risk identification and management
- Operational control
- Accurate, reliable, and timely financial, managerial and operating information
- Compliance with policies, standards and procedures
- Adherence to applicable laws and regulations
- Management's achievement of goals and objectives
- Economic acquisition, efficient use, and adequate protection of resources
- Support of management in their interaction with the various internal organizations and external regulatory authorities as needed.

RESPONSIBILITIES

The Chief Internal Auditor and the Internal Audit staff have responsibility to:

- Facilitate UTA's annual risk assessment
- Develop an annual Audit Plan using appropriate risk-based methodology (including risks or control concerns identified by management, the Audit Committee and external audits) and submit that plan to the Audit Committee for review and approval
- Perform a preliminary assessment of the key processes and related internal controls supporting operations and financial reporting as part of the audit process
- Communicate preliminary assessment results and recommendations to management and the Audit Committee as part of the audit process
- Complete internal audits to assess the key processes and related internal controls by testing the adequacy of design and operational effectiveness of the key controls supporting operations and financial reporting
- Communicate audit findings, recommendations and management action plans to management, the Audit Committee, and any other relevant parties through an audit report at the finalization of each audit
- Follow-up with management to assess whether action plans are completed by management within the mutually agreed timeframe to address the risks and deficiencies identified
- Prepare and present reports to the Audit Committee summarizing the status of Internal Audit's work at least quarterly but could be more frequently as directed by the Audit Committee
- Design and roll-out programs and practices around ethics, with support from the Compliance Officer
- Assist in the investigations of suspected misconduct or fraudulent activities within the organization and notify management and, in the event of significant ethical violations, the Audit Committee of the results
- Support UTA management in their interaction with the external financial auditors
- Assist UTA management to facilitate other external compliance audits generally managed through other departments within UTA
- Assist UTA in identifying the characteristics of adequate systems of control
- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certification to meet the requirements of this Charter
- Keep the Audit Committee informed of emerging trends and best practices in internal auditing
- Assist the Audit Committee in any other way in connection with the discharge of its duties and responsibilities

AUDIT PLAN

The annual Audit Plan is developed each year based upon input from UTA leadership and the Audit Committee.

The annual Audit Plan may include a combination of the following:

- Assessments of compliance with UTA's policies and procedures
- Reviews of internal controls related to significant processes and IT systems to determine whether or not they are properly designed and functioning as intended
- Reviews of financial and operating information

- Assessing whether corporate assets are properly safeguarded
- Reviews of computer-based systems focusing on data security, disaster recovery, and effective use of resources
- Reviews of internal controls designed to ensure compliance with external laws and regulations, including accounting rules and applicable regulations
- Operational audits focusing on improving efficiencies or effectiveness with a goal of contributing to cost reduction efforts
- Strategic audits, such as reviews of due diligence activities and the execution of UTA's strategic objectives

To develop the annual Audit Plan, an overall risk-based approach is used to ensure that the Internal Audit function provides the greatest possible benefit to UTA. On an ongoing basis, matters considered in developing the annual Audit Plan include the following:

- Strategic and operational plans of UTA;
- Risk for potential loss to UTA;
- Opportunities to achieve operating benefits;
- Existence of known errors, irregularities or control weaknesses;
- Results of previous audits;
- Changes in operations, systems or controls;
- Changes in regulatory or other requirements; and
- Requests from management, Audit Committee and External Auditor.

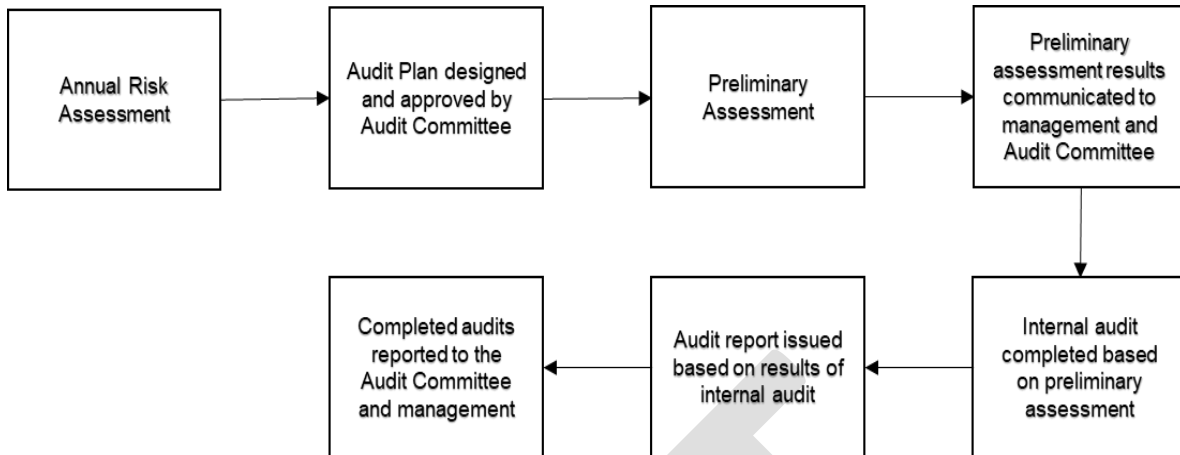
Each year, Internal Audit will work with UTA's leadership to perform risk assessment activities designed to identify and prioritize UTA's key risks. This information will be used to identify priorities to be addressed by the annual Audit Plan.

Based on the risk assessment performed, the Chief Internal Auditor will present a proposed annual Audit Plan to the Audit Committee for approval. Any significant deviation from the formally approved Audit Plan will be communicated to the Audit Committee.

The Internal Audit Plan will be developed in a manner that allows for the coverage of UTA's highest risk areas in a 3 year period. The Chief Internal Auditor, in consultation with the Audit Committee, will determine when certain critical risks and controls require more frequent coverage.

BACKGROUND INFORMATION ON AUDIT PROCESS

The following process flow depicts the audit process at a high-level:



REPORTING

- A preliminary assessment report will be prepared by the Chief Internal Auditor following the assessment of a process or department to provide an initial view on the governance and control environment as part of the audit process. The preliminary assessment will be discussed with the Audit Committee.
- A final written report will be prepared and issued by the Chief Internal Auditor following the finalization of each audit and will be distributed as appropriate. The report will include findings and recommendations along with the audited business unit or department's action plans. The audit report will be discussed with the Audit Committee.

INDEPENDENCE AND AUTHORITY

To provide for Internal Audit's independence, the Chief Internal Auditor reports directly to the Board of Trustees. All Internal Audit personnel will report to the Chief Internal Auditor. The Chief Internal Auditor will meet at least once every quarter but more frequently, if necessary, with the Audit Committee. The Audit Committee may choose to meet with the Chief Internal Auditor in private and apart from UTA management, if the meeting satisfies the criteria for a closed session under Utah's Open and Public Meeting Act.

To maintain its independence, Internal Audit will have no direct operational responsibility or authority over any of the activities under scope of its review. Accordingly, Internal Audit will not be responsible to develop or install systems or procedures, prepare records, or engage in any other activity that would normally be audited but may perform a consulting role without any decision making authority.

Internal Audit is authorized to have unrestricted access to all company activities, records, property and personnel. Restriction to these accesses imposed by any employee or management of UTA, which prevents Internal Audit from performing its duties, will be reported immediately to the Executive Director, Board Chair, or directly to the Audit Committee, based on circumstances as determined by the Chief Internal Auditor.

STANDARDS OF AUDIT PRACTICE

The Internal Audit will adhere to the Code of Ethics and International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors in the execution of its duties.

The Internal Audit Department is planning to send out this survey to employees that participated in internal audits during the last 2 years to assess the Internal Audit Department's professionalism, audit process and effectiveness. Any input or comments you may have would be welcome.

Internal Audit Survey Questions 2019

Section 1: People

1. Please rate your understanding of Internal Audit's role at UTA
 - a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (Please Specify)

2. Please rate the objectivity of the internal auditors
 - a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (Please Specify)

3. Please rate the professionalism of the internal auditors to form judgements independently without bias or influence from personal interests.
 - a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (Please Specify)

4. Please rate the quality of relationship and rapport of Internal Audit as a trusted advisor for your department.
 - a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (Please Specify)

5. Please rate the degree to which you believe this statement is true. The internal audit department invites an atmosphere of mutual trust and open communication
 - a. Strongly agree
 - b. Agree

- c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)
6. Internal Audit's goal is to become a business partner to UTA as opposed to the historical policing function. How well do you think Internal Audit is achieving this goal?
- a. Achieving the goal
 - b. Moving towards the goal
 - c. Seeing some change
 - d. No change have been noticed (please specify)
 - e. Don't Know
7. How clear are you on the difference between Internal Audit's purpose in auditing and External Audit's purpose? (FTA, FRA, ISO, etc)
- a. Extremely clear
 - b. Very clear
 - c. Somewhat clear
 - d. Not so clear
 - e. Not at all clear (please specify)
8. Internal audit department staff displays adequate knowledge of the business processes, including critical success factors.
- a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)
9. The internal audit department staff is viewed as a viable source of talented individuals who can successfully transfer to other parts of our organization.
- a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)
10. Internal audit department staff keeps up to date with changes in our business, our industry, and the relevant regulatory issues.
- a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)

Section 2: Audit Process

1. Please rate the selection of important areas or topics for the audit
 - a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (Please Specify)

2. Please rate whether you received appropriate communication of the audit purpose and scope prior to the audit starting.
 - a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (Please Specify)

3. How clear was the communication from Internal Audit on documentation required to complete the audit?
 - a. Extremely clear
 - b. Very clear
 - c. Somewhat clear
 - d. Not so clear
 - e. Not at all clear (please specify)

4. If the communication was clear, based on the previous question, how forthcoming were you with supplying the information and/or records?
 - a. Extremely forthcoming
 - b. Very forthcoming
 - c. Somewhat forthcoming
 - d. Not so forthcoming
 - e. Not at all forthcoming (please specify)

5. How well were you informed about the findings during the audit?
 - a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (Please Specify)

6. Rate your level of comfort to raise a different view point or to challenge Internal Audit's assessment of risk.
 - a. Extremely comfortable
 - b. Very comfortable

- c. Somewhat comfortable
- d. Not so comfortable
- e. Not at all comfortable (please specify)

Section 3: Audit Management and Governance

1. Internal audit department management keeps up to date with changes in our business, our industry, and the relevant regulatory issues.
 - a. Strongly agree
 - b. Agree
 - c. Neither Agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)
2. Internal audit department staff respects the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
 - a. Strongly agree
 - b. Agree
 - c. Neither Agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)
3. Organizational placement of the internal audit department ensures its independence and ability to fulfill its responsibilities.
 - a. Strongly agree
 - b. Agree
 - c. Neither Agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)
4. Internal audit department staff has free and unrestricted access to records, information, locations, and employees during the performance of their engagements.
 - a. Strongly agree
 - b. Agree
 - c. Neither Agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)
5. The internal audit department management effectively promotes appropriate ethics and values within our organization.
 - a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree

- d. Disagree
 - e. Strongly disagree (Please specify)
6. The internal audit department management establishes annual audit plans to assess areas or topics that are significant to our organization and consistent with our organizational goals.
- a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)
7. The internal audit department management competently assesses the adequacy and effectiveness of our organization's system of internal controls.
- a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)

Section 4: Overall Effectiveness

1. The goal of the audit is to be conducted efficiently and effectively with minimal impact to your day-to-day work. Please rate the level of impact you felt during the audit process.
- a. No impact
 - b. Minimal impact
 - c. Some impact
 - d. Significant impact
 - e. Severe impact (please Specify)
2. Rate the timeliness of the audit report
- a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (please Specify)
3. How well did the audit report reflect the risks identified and information shared by you?
- a. Very well
 - b. Somewhat well
 - c. Don't know
 - d. Seldom well
 - e. Never (please specify)

4. The audit report findings reflected your team's comments and corrective actions
 - a. Very well
 - b. Sometimes well
 - c. Don't know
 - d. Seldom well
 - e. Never (please specify)

5. How clear was the content of the audit report?
 - a. Extremely clear
 - b. Very clear
 - c. Somewhat clear
 - d. Not so clear
 - e. Not at all clear (please specify)

6. How useful was the audit in improving business process and controls?
 - a. Extremely useful
 - b. Very useful
 - c. Somewhat useful
 - d. Not so useful
 - e. Not at all useful (please specify)

7. How effective was the audit in identifying risks that management was not aware of?
 - a. Excellent
 - b. Good
 - c. Don't Know
 - d. Fair
 - e. Poor (Please Specify)

8. The internal audit department demonstrates sufficient knowledge of key information technology risks and controls in performing its audit engagements.
 - a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)

9. The internal audit staff demonstrates sufficient knowledge of fraud to identify "red flags," indicating possible fraud when performing their audits.
 - a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree (Please specify)

10. Internal audit department management demonstrates effective conflict-resolution and negotiating skills.

- a. Strongly agree
- b. Agree
- c. Neither agree nor disagree
- d. Disagree
- e. Strongly disagree (Please specify)

11. Please list anything you especially liked about the internal audit.

- a. Text box for free response

12. Please list anything you especially disliked about the internal audit.

- a. Text box for free response

13. Please list any additional comments or feedback on how to improve the audit process or make it more helpful to you.

- a. Text box for free response

DRAFT



INTERNAL AUDIT REPORT

Vanpool Operations

R-18-08

January 8, 2019

Executive Summary

Introduction

In conjunction with the Board of Trustees' Audit Committee, Internal Audit (IA) developed a risk-based annual audit plan. All of the audits on the audit plan are conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute for Internal Auditors (IIA), and provide several benefits:

- Management's continuous improvement efforts are enhanced
- Compliance is verified and shortfalls are identified so that they can be corrected
- Board of Trustee oversight of governance, control and risk management is strengthened
-

All of these benefits contribute toward the Board of Trustees' strategic plan focus areas of:

- Customer Service – Improve products, services, accessibility, and mobility
- Leadership and Advocacy – Address current and future transportation challenges
- Access to Opportunity – Enrich transit access and quality of life
- Strategic Funding – Be wise stewards of public resources
- Workplace of the Future – Foster dynamic, diverse, and engaged employees

As part of the 2018 audit plan, IA was directed by the Board of Trustees to perform an audit to determine if controls over Vanpool Operations are designed and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives. The preliminary stage of the audit was concluded in June 2017 and the final audit was completed in November 2018.

Background and Functional Overview

UTA's Rideshare Department assists businesses, schools and individuals in finding and using alternate modes of transportation. The program offers a variety of Ridesharing services such as carpool, vanpool and bicycling services. Through community educational efforts the program promotes and offers ridesharing matching services, alternative work hours and telecommuting options. All Rideshare services are measures intended to reduce single occupancy vehicles from Utah's congested highways, improve Utah's air quality and reduce energy consumption.

Vanpool is UTA's most successful and measurable ridesharing service. Vanpool has grown from 93 active groups to 389 active vanpool groups today. Vanpool carries over 14 million passengers a year and UTA vans can be seen traveling up and down the Wasatch Front daily. The Rideshare Department in partnership with many internal and external partners is focused on increasing the number of vanpools operating in the region. The department is also focused on developing and implementing strategies and services which complement and support UTA's transit services and first and last mile strategies.

All aspects of the Rideshare Program are managed in-house with 9 full-time employees (FTE) with the exception of vehicle maintenance. Vehicle maintenance is contracted out to select vendors located throughout UTA's service area. The operations of the program is managed and supported by the Special Services Program Manager and 3 Vanpool Support Specialists (VSS). VSS are tasked with managing customer accounts, day-to-day issues and other program requirements such as the start of, or ending of a vanpool. VSSs also add and remove participants from vanpool rosters, address and resolve customer complaints, ensure driver requirements are met, manage driver training and prepare monthly billing.

Vanpool vehicle maintenance is supported by the Special Services Maintenance Manager who oversees all vanpool maintenance and maintenance staff. Maintenance staff include 2 Vanpool Fleet Supervisors who ensure all maintenance is performed on the vanpool fleet. There are 2 Vanpool Maintenance Specialist who coordinate work with maintenance vendors and assist vanpool groups with vehicle maintenance and vehicle trade outs. There is 1 Vanpool Maintenance Office Specialist who handles all maintenance billing, tracking and other administrative requirements.

The Rideshare program is supported and subsidized by the Wasatch Front Regional Council (WFRC) and the Mountainland Association of Governments (MAG). Through these Metropolitan Planning Organizations UTA receives and uses Congestion Mitigation and Air Quality (CMAQ) funds to support the administration of the program and uses funds to purchase expansion vehicles. CMAQ funds are intended to fund transportation projects that improve air quality, a benefit which has long been associated with the Rideshare and vanpooling programs.

Today's operating level of 389 active vanpool groups have made significant contributions to the Wasatch Front region by reducing single occupancy vehicles on Utah's congested highways and by improving air quality.

Objectives and Scope

The period of the preliminary audit was September 1, 2016, through August 31, 2017 with the completion of the audit work focusing on April 1, 2018 through August 31, 2018.

The primary areas of focus for the Vanpool audit were:

- Accounting and Accounts Receivable Management
- Management Reporting
- Gas Card Administration
- Contracting
- Driver Screening, Training and Monitoring
- Vehicle Management
- Insurance
- Grants Management

Internal audit excluded from the scope of this audit areas such as:

- IT Security
- Gas Card Transaction Analysis

Audit Conclusion

Audit Report Rating*

Stronger governance has been designed and implemented for Vanpool Operations with the creation and adoption of Standard Operating Procedures (SOPs) regarding accounts receivable, driver training and monitoring, maintenance and tracking of vehicles, and grants management. Development of some SOPs has been put on hold pending implementation of new systems.

Vanpool Management has instituted greater oversight of the monthly customer billing process to help mitigate the risk of inaccuracies, and also allocated resources to perform accounting-related functions such as customer billing. Driver Motor Vehicle records were being monitored more efficiently through the State's online system, which automatically emails any changes to monitored individual's driving records on a monthly basis.

Vanpool Management has acquired new maintenance tracking and monitoring software with installation pending IT support, and had implemented a new driver training program. Additional initiatives included new customer billing software, a new fuel card system, and an application planned to combine information from Vanpool-related complaints, accidents, driver's license records, and driver training records for better driver tracking and monitoring. A request for proposal for vendor maintenance contracts had also been issued.

IA recognizes Vanpool staff's significant progress toward achieving stronger governance and controls while balancing the need for continuous delivery of services with limited resources. IA anticipates that planned improvements will further mitigate Vanpool's inherently high level of risk, strengthen the control environment, and improve the efficiency of operations.

In the interim, risks remain in areas such as the manual billing of customers, driver monitoring, and fuel card monitoring. The overall risk level, as ranked in this report, is in part based on the diligence and knowledge of existing staff. Changes in personnel would increase the likelihood of risks noted in the report.

IA notes that the internal audit procedures did not identify major errors or misuse of Vanpool resources nor is IA aware of any impact of the findings on service provided to Vanpool customers.

While this report details the results of the audit based on limited sample testing, the responsibility for the maintenance of an effective system of internal control and the prevention and detection of irregularities and fraud rests with management.

*Rating is defined in Appendix 2

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

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APPENDIX 1

1. Vehicle Maintenance

Preliminary Finding R-17-7-1		High
<p>Criteria: Preventative maintenance is performed according to schedule.</p> <p>Condition: Vanpool maintenance specialists executed reviews of vehicle preventative maintenance histories to ensure that maintenance was being performed according to schedule. However, IA noted the following issues:</p> <ul style="list-style-type: none"> • There was no documented process in place to ensure that all vans were reviewed. • Each Vanpool maintenance specialist performed reviews of vehicles assigned to them at different intervals. • The preventative maintenance history for 59 (15%) out of 385 vehicles had not been reviewed during the audit period. A sample of 10 out of the 59 revealed 2 (20%) vehicles that had not received the required preventative maintenance in the 8 months preceding the end of the audit period. • Reviews were performed through a manual process, using Excel spreadsheets. <p>Root/Cause Analysis: There were no standard operating procedures (SOP) that documented:</p> <ul style="list-style-type: none"> • Required frequency of vehicle maintenance history reviews. • Required follow-up for vans that have not received preventative maintenance on time. • Ensuring that maintenance history reviews are performed on all active vehicles. • Supervisory oversight and review of the maintenance history review process. <p>Effect: In the event that key staff leave the employment of UTA without processes being documented, vans may be poorly maintained. Riders may be subject to more frequent break downs and Vanpool may incur increased and unexpected repair costs. Accidents may also be more likely to occur.</p>		
Recommendations		
<ul style="list-style-type: none"> • Vanpool should research further automation and streamlining of the vehicle maintenance review process. • The maintenance history of all vehicles should be reviewed. • An SOP for Vanpool maintenance should be developed that includes the required frequency of vehicle maintenance and vehicle maintenance history reviews, procedures to ensure all vans are reviewed, and required past-due maintenance follow up. • Monitoring reports or other tracking mechanisms should be developed for management review and oversight of compliance with the standards developed. The management review should be documented and incorporated into the developed SOP. 		
Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager and Manager of Maintenance	April 30, 2018

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The Vanpool team will review the workflow process and develop a formal maintenance plan and/or SOP for the preventive maintenance of all Vanpool vehicles including management oversight of the process. The Vanpool team will also work with the IT department to identify opportunities to improve the existing Vanpool maintenance software to include automated features of the maintenance review processes. The team will also alternatively identify alternative opportunities to purchase maintenance modules for existing RidePRO software which may also be used to track and monitor vehicle maintenance.

Final Status		High
<p>Vanpool Management created and implemented SOP No. E.04.07.01-4.01S, "Scheduled PM Inspections and Repairs Vanpool" as well as SOP No. E.04.07.01-4.02S, "Maintain State of Good Repair Fleet." The SOPs provided guidance regarding performance of preventative maintenance and other repairs as well as vehicle history reviews. However, there were no requirements noted regarding:</p> <ul style="list-style-type: none"> • Procedures for ensuring all vans are reviewed • Required frequency of vehicle history reviews • Required follow-up on past due maintenance • Management reports or documented management review of controls over vehicle maintenance <p>Vanpool Management has acquired the maintenance module of the Vanpool software, RidePRO. The software included features such as, tracking and reporting on vehicle maintenance, an audit trail and access controls over removing vehicle records, and reminders for past due maintenance. However, pending implementation of the new software, Vehicle Maintenance history reviews continued to be performed manually using Excel files and related risks remain elevated, including the risk that the maintenance history for all vans may not be reviewed.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • SOPs should be reviewed and modified to include guidance regarding the areas listed above • Vanpool Management should continue efforts to automate and streamline vehicle maintenance monitoring and reporting • Controls should be designed and implemented to ensure that all van maintenance is reviewed and that there is management oversight of the process 		
Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager and Manager of Maintenance	January 31, 2019
<p>Maintenance response:</p> <p>Vanpool maintenance has updated the "Maintain State of Good Repair (SGR) of Fleet SOP". The SOP now states: "All vans will have vehicle histories performed at least twice a year to verify that maintenance is being performed properly. If any issues are discovered they will be addressed as soon as possible. All histories completed and issues found are reported to the Vanpool Maintenance Supervisor.</p> <p>We are ready to implement the new automated maintenance program with the assistance of IT. This system will mitigate the risk identified</p>		

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2. Maintenance Vendors

Preliminary Finding R-17-7-2		Medium
<p>Criteria: Preferred vendors are used for maintenance and the List of Preferred Vendors is communicated to relevant Vanpool users.</p> <p>Condition: The following issues were identified during the audit:</p> <ul style="list-style-type: none"> • Communication of the Preferred Vendors List with Vanpool users was not documented and the requirement to use preferred vendors was not included in the Vanpool Participation Agreement. • Even though management asserted preferred vendors would contact maintenance when costs exceed thresholds, the thresholds were not documented or communicated to preferred vendors in writing. In addition, approval of amounts over that threshold by Vanpool staff was not documented. • IA tested 25 vendor invoices and found 3 (12%) where a preferred vendor was not used. Vanpool maintenance staff stated UTA requirements were reviewed with vendors that were not on the Preferred Vendor List. However, there was no documentation of such agreements. • IA tested all maintenance invoices during the audit period for potential duplicates using the vendor name, van number and dollar amount of the transaction. One charge was detected as a potential duplicate that had not been followed up on by Vanpool staff. <p>Root/Cause Analysis: No SOP that documents how to engage vendors for Vanpool maintenance and repairs including:</p> <ul style="list-style-type: none"> • Agreements for best price • Cost thresholds requiring preauthorization • Minimum standards of service • Minimum standards of documentation <p>Effect: Should key Vanpool staff leave the employment of UTA, without established agreements in place for vendors, it is more difficult to ensure best prices and minimum levels of service. There is also an increased risk of unauthorized or overpriced repairs.</p>		
<p>Recommendations</p> <ul style="list-style-type: none"> • An SOP should be developed that documents how to engage vendors for Vanpool maintenance and repairs, including ensuring best pricing, minimum levels of service, required documentation, and cost thresholds for preauthorization requirements. • Monitoring reports or other tracking mechanisms should be implemented to ensure documented management review and oversight of compliance with the standards developed and that the oversight process be incorporated in the SOP developed. 		
Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager and Manager of Maintenance	April 30, 2018

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Given the large service area for Vanpool customers, it can sometime be difficult to find preferred vendors who agree to perform the service at discounted rates. In addition, some customers may not have access to the preferred vendors and will need to contact UTA about other possible vendors. In certain situations, maintenance vendor exceptions can save UTA money and provide a better experience for the customer.

The Vanpool department maintains an updated preferred vendor list on the Vanpool website for all customers to access. UTA's updated Vanpool operations manual (to be released in 2017) does require customers to use preferred maintenance vendors. Additional information regarding preferred maintenance vendor exceptions will be included in the Vanpool operations manual prior to release. The current and new Vanpool participant agreements require vanpools to be maintained in accordance with the Vanpool operations manual.

The Vanpool team will review the process for identifying and selecting preferred maintenance vendors and the use of non-preferred maintenance vendors. This will also including identifying opportunities for developing purchase orders or contacts with the maintenance vendors and the development of an SOP identifying tracking mechanisms and management oversight of the process.

Final Status	Medium
<p>Vanpool Management created and implemented SOP E.04.07.01, Vendor Selection/ Expectations. The policy includes guidance on minimum levels of service and requirements for preauthorization of services. IA noted that the SOP did not include guidance regarding the following:</p> <ul style="list-style-type: none">• Monitoring reports or other tracking mechanisms to ensure billing accuracy and policy compliance• How the monthly invoice review process should be documented <p>Vanpool Management also created and implemented a Vendor Guide for use by preferred maintenance vendors. The Vendor Guide instructs vendors to "follow contract pricing for all services." However, vendor contracts were not in place at the time of the audit although an RFP had been issued. The risk of not obtaining best pricing remains elevated.</p> <p>Vendors were instructed to obtain preauthorization for all unscheduled maintenance from UTA maintenance staff and to cite the name of the authorizing individual on the invoice submitted. However, the risk exists that the vendor could cite the employee's name without obtaining the authorization. Therefore the control design was not considered effective. In addition, no controls were in place to ensure vanpool participants used preferred vendors or obtained documented authorization for any exceptions.</p> <p>Recommendations:</p> <ul style="list-style-type: none">• SOPs should be reviewed and modified to include guidance regarding the areas listed above• Vanpool should continue to pursue contracts for vehicle maintenance providers• Responsible Vanpool staff should consider documenting their authorization to vendors or vanpool participants (as applicable) through an email or log entry at the time preauthorization is given• Vanpool staff responsible for processing invoices should compare what was authorized to what was invoiced	

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Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager and Manager of Maintenance	January 31, 2019
<p>Maintenance response:</p> <ul style="list-style-type: none"> We are going through the process of selecting vendors with purchasing, we are going through the RFP process. We will consider documenting authorization to vendors however at this time we will continue to follow our process as written in our Vendor Selection/Expectations SOP due to staffing constraints. Management will consider a practical control to address the risk. SOPs will be reviewed and modified to include governance regarding the following: <ul style="list-style-type: none"> Monitoring reports or other tracking mechanisms to ensure billing accuracy and policy compliance How the monthly invoice review process should be documented 		

3. Vehicle Inspections and Tracking

Preliminary Finding R-17-7-3	High
<p>Criteria: Executive Limitations Policy No. 2.2.1 “Asset Protection,” states, “Assets of the Utah Transit Authority shall not be unprotected, inadequately maintained, or unnecessarily risked.” Accordingly, the General Manager shall not:</p> <ol style="list-style-type: none"> Fail to protect against: <ol style="list-style-type: none"> Property and casualty losses; Public officials’ errors and omissions and fiduciary liability; Theft and fraud; Loss of value, appearance, and utility of assets; and Loss of or significant damage to intellectual property, systems, and records essential to the well-being of the Authority.” <p>Condition: UTA vehicles are owned by UTA but used by outside parties. In order to ensure vehicles remain in a good condition, UTA reserves the right to do site inspections. In the event that UTA has to retrieve the vehicles, another vehicle would be delivered to the driver. When vans need to be retired from Vanpool, they are transferred to the Bus Vehicle Maintenance Supervisor for use in another department, sale or disposal. The audit identified the following vehicle tracking issues:</p> <ul style="list-style-type: none"> The movement of vehicles into and out of inventory was not reconciled to ensure the accuracy and completeness of vans on record. Management maintained a record of all Vanpool vehicles using an Excel file. Due to the inherent limitations of Excel, vehicles were added, changed, and/or deleted without an audit trail of when the change was made or the person that performed it. Although some site visit inspections of vans did occur, there was no standard for when or how often they should be performed. Additionally, there was no monitoring to ensure inspections occurred. When vans were exchanged with drivers, no signature was required from the person receiving the UTA vehicle. IA identified 53 vans delivered to drivers during the audit period and randomly 	

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selected 6 for review. For 1 (17%) of the 6 vans, no disposition form was on file. For 2 (33%) of the 6 vans, there was no driver's signature on the disposition form.

- No signature was required for vans retired from Vanpool operations and transferred to the Bus Vehicle Maintenance Supervisor for use in another department, sale or disposal. IA found that:
 - According to the April Van Inventory Master List, 10 vehicles were removed from Vanpool that were reassigned to another UTA location during the audit period, of which 2 (20%) were not included on the Bus Vehicle Maintenance Supervisor's vehicle list.
 - There were 47 vehicles removed from Vanpool that were retired or totaled during the audit period, according to the April Van Inventory Master List. IA found 4 (9%) that were not included on the Bus Vehicle Maintenance Supervisor's vehicle list. In addition, no vehicle disposal form was on file to document the vehicle's transfer.
 - Finally, IA found one vehicle on the April Van Inventory Master List that was not updated to reflect its movement out of Vanpool operations.
- Responsibility for vans left at preferred vendor locations for use as loaner vehicles was not documented.
- Van disposals are not accounted for until the end of the year. With respect to the lack of a reconciliation of van inventory there is additional risk that a van disposed of is not completely and accurately accounted for within the financial system.
- For vans leased by UTA there is no process to identify when a leased van is disposed of and what actions need to be taken with respect to the lease agreement.

Considering the abovementioned anomalies, the requirements for tracking, inspecting, transferring and retiring vehicles were not consistently applied.

Root/Cause Analysis:

There was no SOP that guides responsible parties in requirements for vehicle inspections and tracking, including appropriate documentation and review to maintain an adequate audit trail. Not all vans are physically accessible for inspection, such as vans parked at secured locations. In addition, there was no SOP regarding required steps for issuing, retiring or transferring vehicles to another individual, department or location.

Effect:

When documentation of vehicle movement is not adequate, vans are more likely to become lost or stolen. In addition, vehicles are more likely to be stored, maintained or used inappropriately when they are not subject to inspections.

Recommendations

- Vanpool management should research further automation of vehicle tracking information that includes an audit trail whenever changes are made to vehicle records.
- Documentation should be maintained of all vehicle transfers into and out of Vanpool, including acknowledging signatures, whenever possible.
- A reconciliation of vehicle inventory should be performed at least annually that includes beginning inventory, purchases, disposals, and ending inventories and that an independent, documented review of the reconciliation and related documentation be performed.
- An SOP should be developed that documents required vehicle inspections, vehicle tracking, reconciliations, appropriate documentation and independent review.

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Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager and Manager of Maintenance	April 30, 2018
<p>The Vanpool team will review the existing process for the transferring/assignment of vehicles between customers, vendors and internal UTA departments. This includes improving processes and identifying other opportunities for the use of technology and possible automation of the process. The team will also develop an SOP which includes an annual reconciliation of vehicle inventory, independent review, and implementing and use of forms or other methods to document the transfer of vehicles and other department assets.</p>		

Final Status	Medium
<p>Vanpool Management created and implemented SOP No. E.04.07.01-4.03S, Vanpool Vehicle Asset Location Status. The policy requires that the location and status of vehicles be tracked in Vanpool software and that a vehicle disposition form accompany vehicle transfers to and from a vendor. However, the SOP did not include:</p> <ul style="list-style-type: none"> • Requirements for an annual reconciliation of vehicles • Individuals responsible for maintaining accurate vehicle locations • Requirements for onsite inspection of vehicles • Independent review and approval of vehicle inventories and onsite inspections <p>IA noted during the preliminary assessment that there were no SOPs regarding disposal procedures for leased vehicles. A draft revision of Corporate Policy 2.1.2, Asset Disposal, has been completed to include requirements that Accounting determine disposition requirements, such as a lien release for leased vehicles, prior to disposal. The draft policy was pending approval. Once approval is received, the Comptroller indicated that related Accounting Policies and Procedures will be revised.</p> <p>As mentioned in Finding 1, the maintenance module of the Vanpool software RidePRO, has been acquired but was not implemented during the audit period. The software includes features such as vehicle tracking and reporting. However, pending the software implementation, vehicle tracking was done manually using Excel and related risks remain. IA also noted that no reconciliation of vehicles was performed to help ensure the accuracy and completeness of the van fleet inventory.</p> <p>As described in SOP No. E.04.07.01-4.03S, Vanpool Vehicle Asset Location Status, Vanpool uses vehicle disposition forms to document transfers of vans. IA selected a haphazard sample of 8 vehicles that were transferred during the audit period and requested the related disposition form for review. No disposition form was on file for 2 of the 8 vans, which had been placed at maintenance vendor locations for use as loaner vehicles. For 4 of the remaining 6 vans, the disposition forms were not signed by the receiving or transferring individual.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • SOPs should be reviewed and modified to include guidance regarding the areas listed above • Once VPC approval for the new Asset Disposal Corporate policy has been received, Accounting should revise and update the related Accounting SOP to ensure consistency between the two documents and proper handling of leased asset disposal • Vanpool Management should continue with efforts to automate and streamline vehicle tracking and reporting and a reconciliation of vehicles should be performed on a periodic basis 	

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<ul style="list-style-type: none"> Vehicle disposition forms should be completed and signatures acknowledging the transfer of custody be obtained 		
Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager, Manager of Maintenance, and Comptroller	January 31, 2019
<p>Maintenance portion: Maintenance has updated the Vanpool Vehicle Asset Location/Status SOP, it now states: "The Vanpool Maintenance Supervisor will perform an audit of the vehicle list every change day, any updates to the fleet will be given to the Maintenance System ERP Admin who will update the ERP System. We are still in the process of implementing our new vehicle maintenance program.</p> <p>As for what our SOP does not include "Requirements for onsite inspection of vehicles", Vanpool does not have enough staff to perform an annual physical check of each vehicle, we rely heavily on our Vendors to be our "eyes and ears". Vanpool staff commits to physically check a minimum of 10% of the fleet until staffing levels increase to complete additional physical checks of the vehicles, at which time the inspection level will be modified. The requirement will be added to the SOP.</p> <p>We agree that all Disposition forms should be signed, we are enforcing this process with vendors and others within UTA that receive a vehicle from us.</p> <p>Accounting's Portion: The new disposal policy has been approved in November 2018, and accounting will be introducing a new capital asset policy in January 2019 that address lease tracking outside of the disposal policy's new requirements related to disposal of leased vehicles. The departmental SOP related to what our accountant looks at for lease and granted disposal will be updated by the end of December 2018.</p>		

4. Accounts Receivable Balances

Preliminary Finding R-17-7-4	High
<p>Criteria: Accounts Receivable legacy credit and debit balances are required to be monitored and resolved in a timely manner. Payments are required to be recorded to the correct account and, if applicable, amounts owed to customers refunded or transferred to the State Treasurer in accordance with State statute. Uncollectable balances are required to be written off. The abovementioned is required in accordance with the following standards:</p> <ul style="list-style-type: none"> Utah Unclaimed Property Act (Utah State Code Title 67 Chapter 4a) Generally Accepted Accounting Principles (GAAP) Executive Limitations Policy No. 2.3.2 (requiring adherence to GAAP) <p>Condition: The Vanpool "Non XPB Accounts Receivable" report was inspected, which showed 280 legacy accounts with outstanding credit and debit balances, with a cumulative credit balance of \$90,462.</p>	

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These accounts were not listed on the monthly aging report prepared by the Accounts Payable-Receiveable Coordinator (AP/AR Coordinator) and were not the subject of any ongoing collection or reconciliation efforts.

Root/Cause Analysis:

The majority of credit balances, by dollar amount, are Federal Government employees and may be the result of excess TRANServe Benefit funds paid to UTA. They may also be the result of accounting errors.

Effect:

UTA may be subject to fines and legal penalties and/or poor public perception when accounts are not handled appropriately.

Recommendations

- Vanpool management should work with accounting to research the source and proper resolution of stale Accounts Receivable credit and debit balances, and come to a final resolution.
- An SOP should be developed that documents requirements for accurate and timely handling of Vanpool debit and credit accounts receivable balances.

Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager and Acting Comptroller	April 30, 2018

This has been a long standing issue in the Vanpool department as the majority of customers use the Federal Transit Benefit to pay for their Vanpool fares. Former billing procedures have provided no ability to identify which individual accounts and who the overpaid funds belong to. The Vanpool and Accounting departments have worked with the federal sponsors of vanpools on many occasions to identify ways for returning long outstanding credits, however, none have said they have a process for UTA to return the money. Additionally UTA also has no corporate policy on how to handle such accounting procedures. Vanpool management will partner with the accounting and legal departments to research requirements and best practices for addressing these accounting issues and make recommendations to either implement a corporate policy or a Vanpool department SOP regarding customer credits and how any over payments will be resolved.

Final Status

Medium

Vanpool Management created and implemented the SOP E.04.07.01-01.02S Vanpool Customer Account Balances and E.04.07.01-01.01S Vanpool Customer Billing SOP. The policies include provisions regarding timely and accurate handling of credit and debit balances. Policies also indicated that Vanpool users should be removed from Vanpool after missing 2 consecutive payments or enter into a payment plan. However, no provisions were noted regarding:

- Monthly aging report review or sign off by management
- Procedures for when the individual or organization with a credit balance cannot be located
- Guidelines for how or when collection efforts for past due accounts should be made or the individuals responsible for identifying and following up on past due accounts

Using the September 2018 aging report, IA selected a sample of 4 accounts with 2 or more missed payments for review. 1 out of the 4 participants had been removed from the Vanpool but was not

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removed until missing at least 4 payments, in conflict with the new policy. 2 of the 4 participants had been billed in error. The remaining account had been granted a credit that was being used to offset current charges. However, no memo or other documentation was on file regarding the reason for the credit.

IA also reviewed a sample of 25 legacy accounts identified during the preliminary assessment. No documentation was found for 15 of the 25 accounts. The 10 remaining accounts had a memo regarding an action plan on file, however, for only 1 of the 10 accounts had the memo been signed off on by management.

Recommendations:

- SOPs should be reviewed and modified to include guidance regarding the areas listed above
- Resolution of credit and debit balances should be documented, approved by management, and entered into the Accounting system
- Remaining legacy account balances should be resolved in accordance with applicable laws and regulations

Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager	April 1, 2019

Vanpool Management has updated SOP E.04.07.01-01.02S Vanpool Customer Account Balances to include review and sign off of the monthly aging report, documentation of credit/debit adjustments, and the requirement to follow UTA Corporate Policy specific to debt collection. Vanpool Management will work with UTA Comptroller and Legal to create a debt collection SOP by the end of Q1, 2019.

Vanpool Management agrees that legacy account balances should be resolved in accordance with applicable laws and regulations and will work to resolve legacy account balances by the end of Q1, 2019.

5. Accounts Receivable Management

Preliminary Finding R-17-7-5	High
<p>Criteria: Utah Transit Authority Accounting Manual, "9. Accounts Receivable Accounting", states in section 9.1, "<i>The AP/AR Coordinator is responsible for the following: ... Invoicing monthly vanpools... Collections on accounts over 30 days</i>"</p> <p>Condition: The Utah Transit Authority Accounting Manual defined certain responsibilities of the AP/AR Coordinator with regards to Accounts Receivable (AR) but did not define procedures specific to the Vanpool program. IA noted the following issues:</p> <ul style="list-style-type: none"> • Use of manual billing processes that relied, in part, on spreadsheet formulas and cutting and pasting of data which increased the risk of billing errors and reduced efficiency of operations. • No routine procedure for collecting on past due accounts, such as letters, phone calls, late fees, etc. 	

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- No Vanpool Management oversight or review of the Vanpool aging report.
- An Xpress Billpay report was not generated for invoices sent or whether the customers had an account set up. The lack of reporting increases the risk that a customer may not be billed because the omission would not be detected by Accounting.
- No accounts receivable reconciliation was performed that included the amount of waivers or adjustments.
- The AP/AR Coordinator calculated the monthly charge, recorded the charge in AR, and sent the invoices or the charges to Xpress Billpay as needed without any independent review.
- No independent review of the RidePRO Report or the Express Billpay Z file (created in the ERP System) performed to determine whether the charges and invoices were accurate and complete.
- No independent review of waivers or adjustments granted by Vanpool support specialists.
- No follow-up on vanpools that failed to report mileage and ridership information and no standard documentation or supervisory review when corrections were made to suspected mileage reporting errors.
- In some cases an invoice may not be created for a Vanpool charge or a Vanpool payment is made ahead of billing and it is not clear how a payment without reference to an invoice number should be applied to Vanpool Accounts Receivable or otherwise accounted for.

Root/Cause Analysis:

The existing Accounting Policy Manual does not cover the entirety of the Vanpool invoicing and accounts receivable process including independent reviews of manual accounting processes, account collections and write-offs, and reconciliation of data between the various systems involved.

Effect:

When past due amounts are not followed up on in a timely manner, delinquent and uncollectable accounts are more likely to occur. When independent reviews and approvals are not performed of manual tasks, errors and omissions are more likely to occur. Use of manual billing processes increases those risks.

Recommendations

- Vanpool management should research further automation, streamlining and standardization of Vanpool billing and collections.
- An independent review and approval of the aging report should occur, including on amounts billed, waived and adjusted.
- An SOP should be developed that documents requirements for billing, collecting efforts, reconciling, approving and posting of Vanpool accounts receivable.

Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager and Acting Comptroller	December 31, 2017

In 2016 the Vanpool department implemented a new billing system which changed the majority of all Vanpool billing and collections procedures. Vanpool management in partnership with the Accounting department have implemented various new processes and procedures to manage this process. However, the Vanpool department is still in the transition process and finalizing various processes and procedures. This includes a new pricing model which would impact a variety of these processes and procedures. While many of the accounting processes are in place, there are no

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formal Vanpool accounting SOPs and others still need to be developed utilizing best accounting practices. In addition, the Vanpool department has recently hired a Customer Accounts Specialist who will partner with the Accounting department and Vanpool management regarding all customer billing and collection processes and procedures.

The Accounting and Vanpool departments will partner to identify opportunities to streamline or automate the customer billing process. Vanpool and Accounting will also research, develop and implement formal Vanpool accounting SOPs for identifying the billing, collections, reconciliation and posting of Vanpool accounts receivable procedures. This will also include an independent review and approval of the aging report and any customer bills which are waived or adjusted.

Final Status	High
<p>Vanpool Management created and implemented the SOP E.04.07.01-01.02S Vanpool Customer Account Balances and E.04.07.01-01.01S Vanpool Customer Billing SOP. However, no provisions were noted regarding:</p> <ul style="list-style-type: none"> • Preparation, review, and sign off of the monthly aging report • Reconciliation of Accounts Receivable and review thereof • Criteria, procedures, and required review waivers • Procedures for handling payments made prior to invoicing • Required follow up for vanpools that fail to report, or that report inaccurate mileage and ridership data • Procedures for making corrections to mileage reporting and required review and sign off <p>Pending implementation of new billing software, Vanpool billing continued to be done manually and relied, in part, on spreadsheets as well as cutting and pasting of data resulting in the elevated risk of billing errors. The Coordinated Mobility Manager did review monthly billing, including a sample of formulas and Vanpool group totals each month prior to the billing information being uploaded in the ERP System. The aging report was also reviewed by the Coordinated Mobility Manager.</p> <p>However, there was no independent review of what was entered into the ERP System and the software used for monthly invoicing did not produce any reports to allow an independent review of billing accuracy or completeness. Furthermore, no accounts receivable reconciliation was performed.</p> <p>Spreadsheets listing waivers and adjustments were also reviewed by the Coordinated Mobility Manager each month. IA selected a sample of 13 adjustments and 4 waivers for review of supporting documentation. In reviewing 1 of the 13 adjustments, where the company's charges were decreased to account for lower than expected mileage, IA noted that the company had not been charged for all 4 vans in use, an oversight of \$1,972. Another 1 of the 13 adjustments had no supporting documentation, such as an email from the Vanpool Support Specialist and/or vanpool participant. 2 other adjustments entered were initially requested as waivers. 1 of the 2 was reversed and entered as a waiver. IA noted that criteria for determining what constituted a waiver and what constituted an adjustment was not clear and waivers were not defined in policy.</p> <p>Vanpool Management recognized the risks involved with the current billing process and had completed a purchase order to obtain the billing module for RidePRO. Vanpool Management was also working to simplify the billing structure.</p>	

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<p>Recommendations:</p> <ul style="list-style-type: none"> • SOPs should be reviewed and modified to include guidance regarding the areas listed above • Vanpool should continue to pursue more automated and streamlined invoicing methods • Accounts Receivable reconciliation should be performed and reviewed by management and should include beginning balances, payments, charges, waivers, adjustments, and ending balances 		
Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager	July 1, 2019
<p>Vanpool Management has updated SOP E.04.07.01-01.02S Vanpool Customer Account Balances to include review and sign off of the monthly aging report, documentation of credit/debit adjustments, and the requirement to follow UTA Corporate Policy specific to debt collection.</p> <p>Vanpool Management will work with Accounting and the software program to determine an appropriate procedure for handling payments made prior to invoicing.</p> <p>Vanpool Management will continue to encourage participants to accurately report required information however believe the risk to a less than 100% accurate reporting of mileage and ridership is unattainable therefore accepts the risk of a less than 100% accurate reporting of this information. We will monitor data provided via the gas card program and create an SOP for data source comparisons that include thresholds to anomalies.</p> <p>Vanpool Management will analyze the effectiveness and purpose of the Waiver Program by July 1, 2019, and if continuation of a Waiver Program is recommended, will create processes and criteria applicable to any changes to the Waiver Program. Due to the complexity of the program, more time is required to perform the analysis.</p> <p>Vanpool Management agrees with recommendation from IA pertaining to automated and streamlined invoicing methods and in negotiations with Trapeze on the RidePRO billing software functionality.</p> <p>Vanpool Management agrees with IA regarding accounts receivable reconciliation and agrees to modify practices for oversight, balance, payments, etc. upon the full functionality of the RidePRO billing software. Once these changes are in place, the SOP will be modified where necessary.</p>		

6. Accounts Receivable Contract Management

Preliminary Finding R-17-7-6	High
<p>Criteria: Vanpool corporate contracts state, in section 2.1, <i>“Lease of Vehicle. UTA agrees to lease to Lessee, for the term of this Agreement, and subject to the conditions contained herein, the Vehicle described in Exhibit “A” ...”</i></p>	

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Condition:

The number of vehicles leased by organizations that subsidize or provide a Vanpool for use by their employees did not correspond with the number of vans being billed to that organization for 1 (20%) out of 5 contracts reviewed.

Root/Cause Analysis:

No centralized tracking or monitoring of Vanpool contracts, contract amendments, number of vehicles leased or contract expiration dates.

Effect:

Contracts may not be enforceable for additional vans used by the contractor but not included in the contract. Vans may be more likely to be used for unauthorized purposes and amounts past due may be more difficult to collect. Contracts may be more likely to expire without being detected.

Recommendations

- A centralized list of contracts should be maintained that includes a contract number, the number of vehicles leased, and the contract expiration dates. This centralized list should be maintained and monitored by Vanpool staff and management.
- Vanpool management should work with Grants and Contracts to determine if the existing UTA contract repository could be utilized for Vanpool contracts.
- An SOP should be developed with requirements for Vanpool contract administration, monitoring and enforcement.

Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager and Manager of Procurement Grants and Contracts	December 31, 2017

Vanpool management is aware that there is no centralized contract numbering system for Vanpool corporate contracts and this has been a previous goal for the Vanpool department to resolve. In addition, UTA corporate policy 3.1.6 Contracting Authority exempts Vanpool contracts from the corporate contract numbering system.

Vanpool management will work with the grants and contracts department to identify opportunities for contract numbering and corporate policy revisions. In addition, Vanpool management will develop a centralized corporate contract list/repository system with expiration dates and develop a department SOP for monitoring and enforcement.

Final Status

Medium

At the time of the audit, an SOP regarding contract management was not in place.

Contracts were being tracked and monitored for renewal using an Excel worksheet. IA compared the list of contracts to the Accounts Receivable Aging report and found that 1 out of 30 companies that contract with UTA was not on the contract list. The contract had expired and had not been detected by the responsible Vanpool Support Specialist.

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IA also selected 4 contracts that were on the list of contracts. Out of 4 contracts reviewed, 1 had expired. Another contract referenced vans leased per Exhibit A. However, the exhibit had not been completed and signed disposition forms were not on file for 2 out of 4 vehicles used by the company.

Recommendations:

- An SOP regarding contract management should be developed and implemented
- Vanpool should seek more automated and streamlined contract tracking and accountability for each van being used by the company. This should be established in the contract or through signed disposition forms, as most appropriate.

Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager	July 1, 2019

Vanpool management will work to identify opportunities for contract numbering, expiration of contracts, contract review. By Q2, 2019 Vanpool management will conduct a reconciliation audit between the Excel worksheet and the Accounts Receivable Aging report to identify discrepancies, and create a policy pertaining to reconciliation including contractual expirations.

7. Vanpool Financial Statements

Preliminary Finding R-17-7-7	Medium	
<p>Criteria: An effective internal control system requires timely and reliable financial reporting to enable informed management decisions.</p> <p>Condition: A statement of Vanpool financial performance has not been prepared or provided to Vanpool Management since mid-2016.</p> <p>Root/Cause Analysis: According the UTA Comptroller, preparing financial information that isolates Vanpool activities is a lengthy and manual process, and time constraints prevented more frequent reporting. She stated that isolating Vanpool in a separate fund would better facilitate financial reporting.</p> <p>Effect: Management may lack the necessary information to track budgets as well as financial performance. As a result, customers may be charged too much or too little for use of Vanpool and financial goals may not be achieved.</p>		
Recommendation		
Vanpool management should work with UTA Accounting and Information Services (as appropriate) to develop ongoing financial reports.		
Management Agreement	Owner	Target Completion Date
Yes	Acting Comptroller	December 31, 2017

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Vanpool management and the accounting department have been working to resolve this issue throughout the past year. Additional financial questions regarding the Vanpool program remain and Vanpool management, the operations and accounting departments will continue to work to resolve issues and concerns. In addition, other processes and procedures are in place (which require these financial statements) to determine the reasonability of amounts charged to Vanpool participants.

Final Status	Medium
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Vanpool Management and Accounting staff held a series of meetings during 2017 where ongoing financial reporting and other issues were discussed. However, financial reports were not being obtained or reviewed by Vanpool. The risk that Vanpool Management does not have adequate financial information or results upon which to make business decisions remains elevated.

Recommendations:

- Vanpool should continue to work with Accounting, or Information Services, to obtain or develop needed reports and analysis.
- Vanpool should work with Accounting to clarify and define roles and responsibilities for accounting-related functions

Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager and Comptroller	July 31, 2019

The Comptroller will work with the vanpool manager during the yearly Vanpool and Rideshare budget preparation to define a specific vanpool rate for operations, capital, and administration. The Comptroller will ensure that operations financial information in the ERP System and Magiq will be accurate and have the appropriate reporting capabilities for monitoring operation expenses. The Comptroller will provide a monthly report of actual revenue. The Comptroller will provide capital replacement report after deciding how long a Vanpool van should last with Vanpool's input. Based on the reports, the Vanpool manager will lead an evaluation of total program financing and make appropriate adjustments for the 2020 budget cycle Vanpool Revenue forecast.

8. Driver Monitoring

Preliminary Finding R-17-7-8	High
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Criteria:

UTA Vanpool Program Terms and Conditions, section D. Drivers, states:

4. Drivers shall exemplify safe driving habits and observe all traffic laws and regulations. Drivers are responsible for resolving any citations resulting from the operation and parking of a UTA van...

13. Drivers shall at all times operate vans in a manner complementary to the public nature of the Vanpool Program, drive in a courteous manner, and if asked, explain the unique character of the use of the van.

Condition:

One of the duties of Vanpool support specialists was to review and follow up on complaints regarding Vanpool drivers as well as Vanpool accidents. IA found that standard operating procedures did not

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exist for following up on accidents, or complaints regarding Vanpool drivers, and evidence of supervisory review was not always obtained. In addition, there was no centralized location where driver complaints, accidents, and driver's license records were tracked together.

The abovementioned is supported by the following issues identified during the audit:

- There were 59 reported accidents involving Vanpool during the audit period. In 13 the driver was considered at fault. IA selected 7 for review and found that 2 (29%) were not reviewed or followed up on by a Vanpool support specialist. In another case, review and follow up was performed but no updated driver's license record was obtained.
- 71 comments or complaints were made to UTA customer service regarding Vanpool during the audit period. 20 involved a safety issue, 6 of which were selected for review, along with 2 other non-safety related complaints. IA found that each was followed up on by a Vanpool support specialist. However, 1 (12%) complaint, submitted on January 31, 2017, was not reviewed and signed off on by the Special Services Program Manager as of April 27th.
- The Special Services Program Manager stated that the log of accidents and follow up performed by the Vanpool support specialists were reviewed. However, there was no evidence of the review performed and no standard timeframe for completing them.

Root/Cause Analysis:

Lack of standard operating procedures.

Effect:

In the event that accidents are not followed up and additional training and updated records are not obtained, the likelihood of unqualified drivers operating vans is increased. The risk of future accidents is also increased. Because driver accident records and complaints are maintained separately, patterns regarding certain drivers may be not be identified.

Recommendations

- An SOP should be developed for review and follow up of accidents and complaints and communicated to Vanpool staff.
- Supervisory review should occur of post-accident follow up and be documented. The requirement for supervisory review should be incorporated into the SOP developed.
- Accidents and complaints regarding individual drivers should be recorded and tracked in a centralized location.

Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager	April 30, 2018

The Vanpool department does have a customer complaint process requiring the timely investigation and close out of customer complaints which requires management review. However, there is no formal SOP as recommended. Regarding the one complaint dated January 31, 2017, an error in the customer complaint filtering process caused this complaint to be missed in the closeout process. However, the complaint was investigated and completed as required. This filtering issue has now been resolved.

The Vanpool department will review the existing UTA Business Unit SOP "BU7.1 Not at Fault/Verified Business Unit Customer Comments" to implement as part of these recommendations.

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If this SOP does not meet the Vanpool departments needs a new SOP will be created regarding Vanpool customer complaints review and follow up processes

In 2016, Vanpool management began requiring drivers who are in an at-fault accident to undergo a formal driver review of the incident including motor vehicle records. If the review determined the driver will be allowed to continue operating the vehicle, then a mandatory four hour defensive driver retraining course is required or else the driver is determined ineligible to operate a UTA vehicle. The Vanpool department will develop a formal Vanpool accident SOP including management review regarding this process as recommended.

Vanpool management is aware that no centralized database for driver data such as DMV records, customer complaints, accidents and other driver information currently exists for aggregating driver data to make data driven decisions. Limited resources have required various driver data and information to be stored in multiple locations utilizing different software programs. A capital request to implement a centralized database system to improve the process was approved in 2016 and monies have been allocated as part of the 2017 budget. The Vanpool team and IT are currently in the process of identifying cost effective solutions to resolve this issue which can be implemented as soon as possible.

Final Status

Medium

Vanpool Management created and implemented SOP No. E.04.07.01-3.03S, Vanpool Complaints. The policy included provisions for timely investigation and close out of complaints as well as documented management review. IA selected a random sample of 8 complaints and found that each had been investigated by a Vanpool support specialist and was reviewed and closed out by Vanpool management, in compliance with the new policy.

Vanpool Management also created and implemented SOP No. E.04.07.01-3.01S, Vanpool Incidents and Accidents. The policy included requirements for review of accidents by an accident committee, obtaining and reviewing motor vehicle records, criteria for when additional training was required, and criteria for revoking Vanpool driving privileges. However, no requirements for management to review the accident committee's follow up for validity, accuracy, and completeness were noted.

IA randomly selected 4 accidents involving Vanpool vans for review. IA found that 1 of the 4 accidents was not reviewed by the vehicle accident committee to determine appropriate follow up. In another case, the committee decision to require the driver to receive additional training was never communicated to the driver.

Vanpool accidents continue to be tracked in Excel. Complaints are tracked using a separate system. Vanpool Management requested Information Services to develop a Driver Monitoring Program. IA reviewed the scoping document for the project and found that Vanpool driver accident and complaint tracking were included. The objective of the new program is to facilitate more efficient and effective driver monitoring and tracking. Risks related to manual tracking remain elevated pending development and implementation of the new program.

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<p>Recommendations:</p> <ul style="list-style-type: none"> • Vanpool staff should receive additional training on the new Incidents and Accidents SOP and management oversight of compliance with the policy should be designed and implemented • IA recommends that Vanpool Management continue with efforts to automate and streamline Vanpool driver monitoring and tracking 		
Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager	December 20, 2018
<p>Vanpool management agrees with IA's recommendation regarding incident/accident. Staffing changes to Vanpool Maintenance in January 2019 will result in reeducation of the incident and accident SOP.</p> <p>Vanpool management agrees to continue efforts to automate and streamline vanpool driver monitoring and tracking, however does not have staffing resources at present to modify our current practices.</p>		

9. Maintaining Driver's License Records

Preliminary Finding R-17-7-9	High
<p>Criteria: UTA Vanpool Program Terms and Conditions, section C: Driver Selection describes requirements for operating a Vanpool, including: a current and unrestricted driver's license, no more than two moving violations and no at fault accidents in the past three years.</p> <p>Condition: One of the duties of Vanpool support specialists was to obtain a Driver's License Report for potential and existing Vanpool drivers. There were over 1,900 drivers on record as of March 2017. IA selected a random sample of 25 for review. The most recent driver's license record on file for 17 (68%) out of 25 was older than one year. In addition, for 2 (8%) of the 25, the participant's Driver's License expiration date, per the report on file, had passed.</p> <p>Root/Cause Analysis: There is no SOP for how often updated Driver's License Records should be obtained. In addition, there is no supervisory monitoring of the status of Driver's License Records overall.</p> <p>Effect: Failure to obtain updated driver's license records increases the likelihood that drivers that no longer meet UTA Vanpool requirements are able to continue operating a van.</p>	
Recommendations	
<ul style="list-style-type: none"> • Vanpool Management should develop an SOP that defines requirements for updating driver's license records. • Updated driver's license records should be obtained for all driver's whose licenses may have expired. 	

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- Vanpool management should monitor and review the status of driver's license records obtained to ensure ongoing compliance and the monitoring process should be incorporated into the SOP.

Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager	December 31, 2017

In 2016 Vanpool management revised the requirement from obtaining updated driver motor vehicle (DMV) records from biennially to annually. While there is no formal SOP established, this process has been established and the revised requirement began during the audit timeframe. Therefore, not all DMV records may have been updated during the audit period as the Vanpool department is still in the transition process. The Vanpool team is continuing to update all DMV records within an annual timeframe.

A new centralized database is being developed (included as part of the driver monitoring program) in partnership with IT to better obtain, review, store and monitor driving records. This will allow the Vanpool department to improve this process, tracking procedures and ensure all driving records are obtained annually. The Vanpool department will review the current DMV record processes and software systems as used by human resources to identify any best practices or if the software systems can be utilized with Vanpool drivers. The Vanpool department will also develop a formal SOP including management review as recommended for maintaining driver records.

Final Status	Low	
<p>Vanpool Management created and implemented SOP E.04.07.01-03.02S, Vanpool Driver Motor Vehicle Records, which included requirements for monthly updating of in-state driver's licenses and annual updating of out-of-state driver's licenses.</p> <p>In addition, Vanpool transitioned to the State's Motor Vehicle Record online database and reporting system, which automatically notifies Vanpool Support Specialists of moving violations, suspensions, revocations, disqualifications and other changes for Vanpool drivers entered into the State's system. Because notifications are automated, Vanpool staff has a greater ability to detect and react to changes in driver motor vehicle records in a timely manner. IA selected a random sample of 25 Vanpool drivers and back up drivers and found that all drivers with a Utah Driving License had been entered into the system and noted that one driver had been entered twice.</p> <p>IA also noted that the State's monitoring system does not offer reporting that would help detect participants that have not been entered or that were entered more than once. In addition, the risk exists that changes flagged in the State's system may not be followed up on by the Vanpool Support Specialists.</p> <p>Recommendation: Management should review risks related to the online system and work to develop compensating controls.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager	N/A

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Vanpool management follow the practices established by Human Resources specific to UTA driving records and believes this practice to be sufficient.

10. Driver Training

Preliminary Finding R-17-7-10	High	
<p>Criteria: Vanpool Manual, page 5, Section D: Drivers, states: <i>3. Drivers must complete the UTA Vanpool Driver Orientation prior to taking possession of or operating vans.</i></p> <p>Condition: One of the duties of Vanpool support specialists was to coordinate or provide the orientation training and administer a test in support of the Vanpool Manual requirement. IA reviewed documentation on file for 25 Vanpool drivers and found that 12 (48%) did not have a completed test on file. IA also noted that once a participant was part of Vanpool, there was no requirement for updated training, regardless of the amount of time passed since initially joining.</p> <p>Root/Cause Analysis: There is no SOP for driver training and testing. In addition, Vanpool support specialists stated that drivers of minivans were not required to receive training and testing in prior years. It is also noted that Vanpools for one location reportedly view a training DVD onsite. However, there is no monitoring of training and testing for those participants.</p> <p>Effect: When drivers are not properly trained, they may not be aware of requirements for participation in Vanpool. In addition, the safety of van operations may be compromised, making accidents more likely to occur.</p>		
Recommendations		
<p>An SOP should be developed regarding what training is required, how often it should be updated, and how it should be administered and reviewed.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager	December 31, 2017
<p>Vanpool management is aware of the driver training issue. When the Vanpool program was established either driver training was not required or large groups of drivers all participated in training at once. Many training records were not associated with individual participant records or all driver training records were maintained in a central file location. Additionally, many of these drivers are still in the Vanpool program today which is why training records may not be associated with their individual file.</p> <p>Limited resources have only allowed for the Vanpool department to offer a driver training program that is administered through an onsite DVD driver training program and is extremely difficult to</p>		

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provide to all customers across the service area in a timely manner or for ongoing training needs. In addition, drivers of minivans were not required to participate in driver training until early 2017.

The Vanpool department in partnership with IT is currently identifying new driver training opportunities including online training and various tracking opportunities as part of the entire driver database and training programs. This is included as part of the driver monitoring improvements as noted above.

The Vanpool department has also developed a new customer agreement and Vanpool operations manual which will require mandatory refresher training for all drivers (to be implemented as part of the new training program). The Vanpool department intends to require all existing drivers to go through a refresher driver training program on a regular basis after the new training system is in place. The Vanpool department will develop a formal SOP regarding driver training as recommended.

Final Status		Medium
<p>Vanpool Management created and implemented SOP E.04.07.01-03.01S Vanpool Driver Certification and Training which indicated when driver training was required and how often it should be updated. IA noted that neither the SOP, nor the Vanpool Operations Manual indicated individuals responsible for monitoring training nor management review of training records. However, the job descriptions of the Vanpool Support Specialists incorporated the responsibility for monitoring training and review of training records.</p> <p>IA also noted that drivers enrolled with Vanpool prior to January 2018 had not received updated training regardless of the length of time since the driver was last trained.</p> <p>Recommendation: Vanpool should continue to work towards ensuring all drivers receive updated training at least every 5 years, in compliance with the new policy.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager	April 30, 2019
<p>Vanpool will continue to work towards providing refresher training to drivers at least every 5 years, in compliance with the new policy.</p>		

11. Administration of Gas Cards

Preliminary Finding R-17-7-11	High
<p>Criteria: Vanpool Manual, page 40-41, Section Established Fares, Expenditures, states: <i>Fuel cards are assigned to specific vans. The card for each van should be used to fuel that van only, unless you need to fuel a loaner van... If there are any questionable transactions or monthly payment has not been received, fuel card may be locked.</i></p>	

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Condition:

IA found that controls over ordering and activating, disposing and deactivating, and transferring of gas cards were not adequate. IA noted:

- There was no documentation of gas cards transferred between employees during initial gas card and PIN receipt or de-commissioning of old gas cards, including the date, quantity and card numbers transferred.
- The same individual performed ordering and receipt of gas cards and gas card PINs, at administration and at Vanpool, with no supervisory review or approval, resulting in poor separation of duties.
- Out of 582 gas cards with an active status assigned to UTA Vanpool in the State's gas card system, along with 178 active gas cards assigned to other departments within UTA IA found:
 - 150 gas cards with an "active status" on the State's report were associated with vehicles that had been retired from Vanpool.
 - More than one gas card was assigned to 29 vehicles. In 4 cases, the vehicle number was incorrectly recorded on the State's report. In an additional 4 cases the make and model of the van were different. 18 of the cards had not been used in over one year even though it was listed as active on the State's records.
 - 16 gas cards did not match a Vanpool vehicle, 12 of which had never been used.
- 9 active Vanpool vehicles on Vanpool's April Van Inventory Master List did not have an assigned gas card on the State's record.

Root/Cause Analysis:

There are no standard procedures for administration of gas cards. Gas cards assigned to retired vans were reportedly shredded, but were not deactivated through a request to the State. In addition, in prior years gas cards remained with the Vanpool group even after the van was retired, which may have resulted in inaccurate van numbers being associated with certain cards.

Effect:

In the event that gas cards are not properly administered, responsibility for cards cannot be established and Vanpool management would not be able to establish accountability for unauthorized purchases. In addition, unauthorized use is more likely to occur and remain undetected. Fuel may be charged to the wrong division.

Recommendations

- An SOP should be developed for ordering and receiving, transferring, issuing, approving, monitoring, disposing and deactivating of gas cards and gas card PINs, including:
 - Requiring documentation and approving signatures whenever gas cards are ordered and whenever they are transferred between individuals.
 - Separating responsibility for ordering gas cards and gas card PINs from the responsibility for receiving them.
 - Deactivating gas cards in the State's system whenever vans are retired from Vanpool.
 - Ensuring that each van has only one active gas card.
 - Periodic monitoring of outstanding gas cards to ensure active cards are only associated with active vans.

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<ul style="list-style-type: none"> Existing gas cards that are not associated with an active Vanpool van, or that are assigned to the incorrect van, etc. should be researched and corrected or deactivated through a request to the State, as applicable. 		
Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager, Manager of Maintenance and, Acting Comptroller	December 31, 2017
<p>Management is aware that the fuel card process is challenging and improvements are needed. The Vanpool department does not manage many aspects of this process and it becomes extremely difficult to provide the services needed by customers, accurately tracking fuel cards and ensuring they are active and associated with the correct vehicles. Additionally, the Vanpool and Accounting departments have identified opportunities to better manage the fuel card processes, however resources have been limited.</p> <p>The Vanpool and the Accounting departments will identify opportunities for improvements to these processes and procedures which includes opportunities for Vanpool to take greater control in the management of the fuel card processes which impact Vanpool customers. The Vanpool department has also hired a new customer accounts position who can manage this process full time.</p> <p>The Vanpool department in partnership with the Accounting department will review the fuel card process for improvement opportunities and develop a formal SOP for the management of Vanpool fuel cards which includes the ordering, receiving, transferring, issuing, approving, monitoring, disposing and deactivating of fuel cards and pin numbers.</p>		

Final Status	High
<p>Pending implementation of the new fuel system, there was no SOP developed for ordering and receiving, transferring, issuing, approving, monitoring, disposing and deactivating of gas cards and gas card PINs.</p> <p>In addition, separation of duties over gas card administration remained inadequate, with the same individual ordering and decommissioning cards as well as maintaining physical custody.</p> <p>There was no documentation created when requesting deactivation of fuel cards nor when transferring fuel cards and PINs between staff and no management review was in place to ensure that cards were ordered and deactivated properly.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> An SOP regarding gas card administration and use should be developed and implemented, including procedures for ordering and receiving, transferring, issuing, approving, monitoring, disposing, and deactivating of gas cards and gas card PINs Physical custody of gas cards and PINs, responsibility for ordering and decommissioning cards in the system, and authorization and approval of gas cards, should be appropriately segregated so that no one person performs more than one function Documentation should be created whenever gas cards and PINs change hands and management oversight and review of the process should be designed and implemented 	

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Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager, Manager of Maintenance, and Comptroller	July 1, 2019
<p>Vanpool Management agrees to create appropriate SOP's and processes upon full implementation of the gas card program. Our request for an extension beyond 90 days is due to the fact that we are unsure what the New gas card system is capable of reporting therefore want to create the details once we have implemented the system and worked out all the system bugs. We also expect to request customized reports which is an additional reason for the 6 month target. We expect this SOP to be completed by Q2 2019.</p> <p>Accounting's Portion: Accounting has provided suggestions on the fuel card program controls as UTA went out to RFP for new Vanpool specific fuel card, but will look to formalize those recommendations and responsibilities in writing with vanpool over the next few months as the new cards are being handed out and old cards deactivated.</p>		

12. Monitoring Gas Card Expenditures

Preliminary Finding R-17-7-12	High
<p>Criteria: In accordance with EL Policy 2.2.1 Asset Protections, which states: <i>... the General Manager shall not:</i></p> <ol style="list-style-type: none"> 1. <i>Fail to protect against:</i> <ol style="list-style-type: none"> a. <i>Property and casualty losses;</i> b. <i>Public officials' errors and omissions and fiduciary liability;</i> c. <i>Theft and fraud;</i> <p>Controls are required to be in place to ensure the appropriate use of gas cards to prevent theft and fraudulent actions.</p> <p>Condition: Gas card invoices were not reviewed for validity of charges, potential overcharges or abuse.</p> <ul style="list-style-type: none"> • There was no comparison of vehicles with fuel charges per the invoices to vans in the active Vanpool inventory. • 38 gas cards were associated with vehicles that had been retired from Vanpool were used to make a purchase at least 2 weeks after the date the van was retired. For 26 of these, the purchase was made by another UTA department, indicating that the gas card may have been transferred along with the van but not updated on the State's gas card system. • Odometer entry errors, potentially excessive or abusive purchases were not reviewed or followed up on using exception codes included on the detailed invoice or any other method. <p>Root/Cause Analysis: There is no SOP for monitoring expenditures made using gas cards. There is a high volume of monthly transactions, making manual reviews more time-consuming and difficult. In addition, staff were not aware of exception codes available for review on gas card invoices.</p>	

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<p>Effect: If gas card expenditures are not monitored, gas cards could be used by unauthorized individuals for excessive purchases, personal use and/or purchases not allowed under policy.</p>		
<p>Recommendations</p> <ul style="list-style-type: none"> Gas card transactions should be monitored for odometer entry errors, purchases that are not allowed, or that are potentially excessive or abusive, using existing exception codes on detailed gas card invoices, or using other means. Gas card transactions should be monitored to ensure that charges match active Vanpool vehicles. An SOP should be developed regarding required monitoring of gas expenditures and required follow-up. 		
Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager, Manager of Maintenance, and Acting Comptroller	December 31, 2017
<p>Vanpool management is aware that potential misuse of fuel cards is a risk to UTA. Management has worked with the data analysis team to identify opportunities to review monthly fuel card data in order to identify outliers or potential fuel card misuse. Initial challenges were identified due to the large amounts of data including numerous data entry errors by customers during the fueling process. The Vanpool team will continue to work with the data analysis team to develop and implement solutions which assist customers in reducing errors.</p> <p>The Vanpool department will develop a system and process for the monthly reviewing of invoices and data analysis of the fuel card usage reports to identify potential misuse or other fuel card issues. The Vanpool team will also develop a formal SOP for auditing monthly fuel usage and reports as recommended.</p>		

Final Status	High
<p>Pending implementation of the new gas card system, no SOP had been put into place regarding fuel cards. In addition, gas card invoices and transactions are not reviewed for validity of charges, potential overcharges nor abuse.</p> <p>Vanpool Management had acquired and was in the process of implementing a new fuel card system. The system included tracking and monitoring of fuel cards and monitoring reports to assist in identification of usage that may indicate errors or abuse. The effectiveness of the controls available in the new system could not be validated as it was not in use during the audit period. The risks identified continued to be elevated pending implementation of the new system.</p> <p>IA obtained a report of active fuel cards from the current system and found 120 fuel cards out of 539 that did not match an active van pool vehicle. In each case, fuel cards had not been used during the audit period. Out of 13 selected for further testing, 9 were found to have been retired from Vanpool. 2 were identified as "Loaner" vehicles and 1 was awaiting reassignment.</p>	

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<p>Recommendations:</p> <ul style="list-style-type: none"> • An SOP regarding gas card administration and use should be developed and implemented • Gas card transactions should be monitored for odometer entry errors, purchases that are not allowed, and purchases that are excessive or potentially abusive • Active cards should be monitored to ensure that they match active Vanpool vehicles 		
Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager, Manager of Maintenance, and Comptroller	July 1, 2019
<p>Vanpool Management will identify the new reporting capabilities with the new fuel card program and agrees to create appropriate SOP's and processes upon full implementation of the gas card program. We expect this SOP to be completed by Q2 2019. Our request for an extension beyond 90 days is due to the fact that we are unsure what the new gas card system is capable of reporting therefore want to create the details once we have implemented the system and worked out all the system bugs. We also expect to request customized reports which is an additional reason for the 6 month target</p> <p>Accounting's Portion: Accounting has provided suggestions on the fuel card program controls as UTA went out to RFP for new Vanpool specific fuel card, but will look to formalize those recommendations and responsibilities in writing with vanpool over the next few months as the new cards are being handed out and old cards deactivated.</p>		

13. Grants Management

Preliminary Finding R-17-7-13	High
<p>Criteria: Grants Development and Management, UTA's Grants-Related Positions, their Interactions, and Processes, Standard Operating Procedures, Section 4.5, states, <i>"In preparing the drawdown request, the Assistant Comptroller will review that all expenses being reported as eligible for drawdown have been paid, match requirements have been met, adequate supporting documentation is available, and the expenditures align with the grant budget."</i></p> <p>Condition: IA found that controls over the Congestion Mitigation Air Quality (CMAQ) grant drawdown processes, and annual CMAQ grant reporting to the Wasatch Front Regional Council (WFRC), were not adequate based on the following:</p> <ul style="list-style-type: none"> • There was no secondary review of the WFRC annual report prepared by the Special Services Program Manager • Not all information on the WFRC annual report had supporting documentation on file • The WFRC annual report was not provided to or reviewed by Accounting for accuracy of the accounting information • CMAQ grant drawdowns and back up documentation were not reviewed by the Special Services Program Manager on behalf of Vanpool 	

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- The Assistant Comptroller did not review CMAQ grant applications for an assessment of allowable expenditures prior to submitting grant drawdowns
- There was no practice to compare the expenditures submitted per the CMAQ drawdowns to expenditures included on the WFRC annual report and different methodologies were used to account for eligible expenditures. In addition, there was no reconciliation of WFRC reported CMAQ revenue listed to amounts actually drawn down.

Root/Cause Analysis:

There is no SOP for Vanpool grant application, drawdowns or yearly report preparation. In addition, the Special Services Program manager took over the role the WFRC reporting process from a predecessor without documentation of how prior reports were compiled. CMAQ grants span over the course of several years. In some cases the staff involved in the application are no longer part of UTA or now serve in a different position.

Effect:

Amounts drawn down may not be compliant with the terms of the grant. UTA may be subject to negative publicity and/or may be required to return Federal funds.

Recommendations

- An SOP be developed for grant applications, monitoring and approval of drawdowns by Vanpool and preparation of the annual WFRC CMAQ report, as well as CMAQ report review.
- The Assistant Controller should review grant applications or receive other, documented assurance, that only allowed expenditures are included prior to requesting funds drawdown.
- Amounts drawn down and related backup should be reviewed by the Special Services Program Manager.
- Independent review of the annual WFRC report should occur and back up all documentation should be retained.
- A copy of the WFRC annual report should be provided to Accounting and a consistent methodology followed for determining qualifying expenditures and service areas to be used for drawdowns and WFRC reporting.

Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager and Acting Comptroller	December 31, 2017

The accounting department will work with Vanpool management to develop an SOP to coordinate the sharing and review of information of reports and drawdowns before they are submitted. In addition, the accounting department will review the applicable CMAQ grant applications to determine which costs are eligible for grant reimbursement prior to preparing drawdown requests.

Vanpool management will finalize and document the methodology used for preparing the WFRC annual report including implementing a review process with the accounting department and Special Services General Manager.

Final Status

Medium

Vanpool Management created and implemented SOP E.04.07.01-05.01S Grant and Program Performance Reporting, which included provisions regarding independent review and sign off on

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Vanpool performance reports by the Special Services General Manager and the UTA Comptroller. The SOP also describes the methodology used for reported figures. However, IA noted that the SOP did not include guidelines regarding:

- Retention of supporting documentation
- Consistency between performance reporting figures and accounting drawdowns
- Requirements for Vanpool sign off of Accounting drawdowns

IA reviewed the WFRC CMAQ Report (Rideshare Annual Report) for 2017 and noted that it had been reviewed and approved by the Special Services General Manager and the UTA Comptroller in accordance with the new policy.

A haphazard sample of 8 reported figures were selected for review and comparison to supporting documentation. IA found that the number of vans reported for 1 service area selected for review was understated. In addition, because expenditures were allocated based on percentage of vans by service area, the allocation of expenditure for sampled areas was also impacted. The total expenditure amount reported remained the same.

The methodology for calculating 2 other figures selected for review was not included in the SOP and the source for the figures was not readily apparent in the back up provided.

Accounting processes and submits drawn-downs of grant funds. There was no process in place for Vanpool management to review and sign off on amounts drawn down.

Recommendations:

- The SOP should be reviewed and modified to include guidance regarding the areas listed above
- The methodology for each figure should be included in the SOP and that backup should be retained to support each item reported
- Vanpool Management should review the drawdown of the grant funds done by Accounting

Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager and Comptroller	December 20, 2018

Vanpool Management agrees to comply with UTA Corporate Policy 1.1.10 Records Access & Management Policy specific to the retention of records.

Vanpool will revisit the annual report to WFRC, which may change based on WFRC requirements. Vanpool will retain supporting documentation and methodologies used for whatever report is generated. Vanpool will revisit the existing SOP and make modifications if necessary

Accounting's Portion:

Accounting will create a new SOP that looks like this:

Before each drawdown request is made, Accounting will forward a spreadsheet listing the transactions included in the request to Vanpool management for their review. If Vanpool management would like to see backup of a transaction in the spreadsheet, Accounting will provide such. Vanpool management will provide written notification to Accounting stating that they agree with the transactions and the proper grant procurement has been completed for the expenses in the request being drawn down and Accounting will proceed with the drawdown. If Vanpool management

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fails to provide written notification of their approval within 3 days of receiving the spreadsheet from Accounting, Accounting will consider this as an approval and proceed with the drawdown. If Vanpool management believes that any transactions should not be included in the drawdown, Accounting will remove those transactions from the drawdown request, unless Accounting can provide a satisfactory explanation of why they are included in the draw down.

14. Risk Assessment

Preliminary Finding R-17-7-14		High
<p>Criteria: Best practice necessitates that risks are identified and actively managed to mitigate adverse impacts on achieving management's objectives.</p> <p>Condition: While Vanpool management was aware of risks facing Vanpool Operations, there was not a defined risk register in place that included the potential impact of that risk and any mitigating controls.</p> <p>Root/Cause Analysis: Management oversight</p> <p>Effect: Critical risks may exist that management is not aware of or not managing, which could result in Vanpool's objectives not being met.</p>		
Recommendation		
<p>Management should implement a risk register that identifies the key risks, assigns ownership where actions have to be taken to address the risks, and a monitoring process to review the risk register on a periodic basis.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Special Services Program Manager	April 30, 2018
<p>Vanpool management will develop and monitor a risk register as recommended including identifying and implementing effective solutions to continuing mitigating risk to the department and UTA.</p>		

Final Status		High
<p>A risk assessment for Vanpool has not been conducted, in part due to changes in Vanpool management and other, competing tasks.</p> <p>Recommendation: A documented risk assessment of Vanpool operations should be conducted</p>		
Management Agreement	Owner	Target Completion Date
Yes	Coordinated Mobility Manager	July 1, 2019

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Vanpool management will develop and monitor a risk register as recommended including identifying and implementing effective solutions to continuing mitigating risk to the department and UTA no later than Q2, 2019. The reason for the extended time is due to staffing changes. It is anticipated that a new manager will be in position in January 2019. The OJT/program review will be approximately 90 days. With higher priorities in new software implementation a formal risk assessment isn't practical to be completed before 6 months from hire.

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.

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DISTRIBUTION LIST			
Name	For Action ¹	For Information	Reviewed prior to release
Interim Executive Director	*		*
Managing Attorney		*	
Acting VP of Operations, Capital and Assets	*		*
VP of Finance	*		*
Special Services General Manager	*		*
Coordinated Mobility Manager	*		*
Manager of Maintenance	*		*
Comptroller	*		*

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



INTERNAL AUDIT REPORT

Inventory Management

R-18-07

December 13, 2018

Contains sensitive security information that should not be publicized pursuant to Utah Code 63G-2-106 and 63G-2-305(12). Such information is also controlled under 49 CFR parts 15 and 1520 and may not be released without appropriate authorization. This information is highlighted in yellow in the internal version of the Report and should be redacted from any public version of this Report.

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 over Inventory Management are designed and operating effectively to ensure that inventory is physically protected, accurately and effectively tracked, as well as appropriately valued. The preliminary stage of the audit was concluded in November 2017 and the final audit was completed in September 2018.

Background and Functional Overview

The Vice President (VP) of Finance for the Utah Transit Authority (UTA), provided a functional overview of Inventory Management processes to provide context to this report. Please note that all of the information, including totals, figures, and percentages, are assertions made by the Vice President of Finance and were not assessed by Internal Audit.

UTA's service requires that a sizeable fleet of safe and well-functioning buses, vans, and light rail and commuter rail vehicles be available every day for 362 days a year. Also essential are well-functioning system components (e.g., rail switches, crossing lights and crossbars, and customer information boards), facilities, and supporting equipment. UTA's maintenance departments are charged with ensuring the daily fleet needs are met and that system components are functioning. To efficiently and effectively meet the daily demands before them, maintenance personnel must have the right parts available when they need them. Buying, stocking, and delivering the right parts when needed is the responsibility of Supply Chain.

Supply Chain's work includes minimizing inventory and parts costs while supporting the agency's core mission of providing safe, reliable and high-quality transit service. In addition to assisting maintenance in meeting daily vehicle and system component requirements (service focus), Supply Chain is also charged with running a well-managed inventory system which minimizes spoilage, parts costs, warehouse inefficiencies, and overall inventory investment (stewardship focus). Inventory is stored in warehouses located at Meadowbrook, Jordan River, and Warm Springs locations as well as in parts rooms at six UTA sites.

Some initiatives which have been put in place to improve parts availability include:

- Operations and Supply Chain have developed better forward-looking modeling for regular and cyclical maintenance parts needs
- A new inventory reorder-point calculation was put in place to account for delivery lead-times from suppliers and subsequent appropriate inventory levels
- Reordering models have been changed to increase inventory of low-cost parts
- Staff has worked with key vendors to understand their production cycle and ordering models have been adjusted accordingly
- Frequently needed supplies have been moved from the parts room to the point of use at the mechanics' work site
- Parts rooms have been rearranged to place frequently used parts closest to the parts counter

One key performance goal for Supply Chain is to have the right part on hand when a mechanic needs it 95% of the time, which is the industry best practice standard. Parts availability by parts room has improved significantly from January 2015 to November 2017, to an overall average of 94%.

Every three years, the Federal Transit Agency (FTA) performs a Triennial Review which includes evaluation of UTA's compliance with best procurement and inventory practices. There were no findings regarding procurement or inventory in the 2013 and 2016 Triennial Reviews

Objectives and Scope

The period of the preliminary audit was September 1, 2016, through August 31, 2017 with the completion of the audit work focusing on April 1, 2018 through August 31, 2018..

The primary areas of focus for the Inventory Management audit were:

- All warehouses and parts rooms for Bus, Light Rail, and Commuter Rail locations
- Inventory receiving and distribution
- Inventory tracking and controlling
- Issuing of inventory
- Stock counts
- Warranties

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

- Non-inventory items
- Inventory procurement process
- Inventory accounts payable process
- Fuel and oil

Audit Conclusion

Audit Report Rating*

Stronger governance has been designed and implemented for the Inventory Management process with the approval of Corporate Policy No. 2.1.15, Inventory Management (Policy), in September 2018. The Policy assigns Supply Chain overall authority over inventory management processes. The Policy also includes roles and responsibilities and certain procedures for key activities such as receiving, tracking, distributing and safeguarding of inventory. The Policy was not approved until after the audit period, resulting in many risks identified in the preliminary assessment persisting throughout the audit period.

Inventory Management had previously developed a series of flowcharts and other process documentation that were referenced in the Policy as processes and procedures. IA acknowledges Inventory Management's efforts in establishing the Policy and process documentation to guide parts clerks and warehouse staff. However, IA noted that the referenced documents did not contain all aspects required to be considered Standard Operating Procedures, which IA recommends be developed. Missing elements include, but were not limited to, identification of critical controls, alignment with policy objectives, required reports and documentation, and required approvals.

Management has segregated warehouse and parts room duties from centralized inventory control, but all segregation of duties concerns have not been addressed. Inventory counts were one such area of concern in that the same staff that has custody of inventory performs inventory counts. Corporate Policy No. 2.1.15, Inventory Management includes requirements for supervisory review of counts and for different individuals to conduct 2nd and 3rd counts when discrepancies were noted. The effectiveness of these mitigating controls could only be partially tested because the Policy had not been adopted and therefore the requirement had not been fully implemented. A formal, documented risk assessment of the Inventory Management process, including the costs versus benefits of existing deployment of staff may identify opportunities for additional segregation of duties or additional compensating controls.

As part of the Policy, and in advance of its approval, Inventory Management has implemented additional supervisory monitoring and review of inventory transactions such as adjustments and out-of-stock orders.

This is the first internal audit of Inventory Management and overall, the audit found that there are pockets of excellence, but further work is required to improve the overall governance and control environment.

While this report details the results of the audit based on limited sample testing, the responsibility for the maintenance of an effective system of internal control and the prevention and detection of irregularities and fraud rests with management.

*Rating is defined in Appendix 2

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

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1. Governance

Preliminary Finding R-17-13-1	High
<p>Criteria:</p> <p>Enterprise governance is an overarching system, which seeks to align priorities, funding, and resources and elevates decision making responsibility, authority, and accountability to the appropriate levels. Governance principles include:</p> <ul style="list-style-type: none">• Management establishes reporting lines, with board oversight, of the development and performance of internal control• Individually establishes accountability for internal control responsibilities in pursuit of entity objectives <p>Sources: COSO Enterprise Risk Management: Establishing Effective Governance, Risk, and Compliance (GRC) Processes, Robert R Moeller COSO: How the COSO Frameworks Can Help, James DeLoach and Jeff Thomson</p> <p>Condition:</p> <ul style="list-style-type: none">• While there were Board and corporate policies on protection of assets, there was no written corporate level policy regarding inventory management• Written standard operating procedures (SOPs), available on the UTA Intranet, were obsolete and incomplete• Current flowcharts and other process documentation had been developed for several areas but they did not include elements required to be considered SOPs and did not include all inventory management processes <p>Root/Cause Analysis:</p> <ul style="list-style-type: none">• The ERP Tech Sys Admin-Supply Chain and the Warehouse & Inventory Opns Mgr did not understand that they have the authority to set policies for all Business Units (BUs) involved in the process• Management relied on the expertise of existing staff rather than a set of documented procedures to direct users in the process <p>Effect:</p> <ul style="list-style-type: none">• Overall authority, responsibility, and accountability for inventory management, from purchase to use, was not clearly defined between Supply Chain, Maintenance, and Operations Divisions which may lead to:<ul style="list-style-type: none">○ Inconsistent practices, inefficiencies, and misuse○ Higher potential for errors and omissions○ Missed opportunities for continuous improvement	
<p>Recommendations</p> <p>Management should formally assign overall authority, and areas of responsibility, for the inventory management process. Ideally, such assignment would be done through a corporate policy to clarify authority to direct the activities of the inventory management process across BUs, reporting lines, and functions (as needed).</p> <p>Management should create an SOP to direct users in the inventory management process, following best practices. Processes currently documented through flowcharts and work instructions should be</p>	

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included in an SOP. At a minimum, the following areas should also be included: parts inventory organization, tagging, and distribution; required environmental and access controls; maintenance of master data; disposals, write offs and adjustments; planning and reconciling cycle counts; and warehouse receiving.

After SOPs have been created, management should train all inventory management employees on them and create a centralized record of personnel training in order to assess completeness of the employee training process.

Management Agreement	Owner	Target Completion Date
Yes	VP of Finance	3/31/2018

By the target completion date the Supply Chain group will create an Inventory Management Corporate Policy to incorporate the areas listed above and submit it to the policy committee for approval. This Corporate Policy will set forth policy at a high level that will apply to all business units and warehouses. Once the policy is finalized we will train all employees affected by the policy.

Final Status	Medium
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Corporate Policy No. 2.1.15, Inventory Management (Policy), was developed by Supply Chain, with input from the business units, and was signed, subsequent to the audit period, by the Interim Executive Director on September 10, 2018. The policy assigns Supply Chain overall authority of inventory management processes. The Policy included provisions regarding inventory organization, tagging, and distribution, access controls, maintenance of master data, disposals, write offs, adjustments, planning and reconciling cycling counts and receiving. However, there were no provisions noted for appropriate environmental controls, which IA recommends be included in future updates of the policy.

Given that the Policy was approved after August 31, 2018, risks identified in the preliminary assessment persisted during the audit period. Also, certain control activities, such as staff training on the Policy, could not be audited because it was not yet in place.

The Policy included procedures as well as policy statements and incorporated existing flowcharts and other process documentation, by reference, under Section XII, Processes and Procedures. IA acknowledges Inventory Management's efforts in establishing the Policy and process documentation to guide parts clerks and warehouse staff. However, best practices recommend that policies set forth process objectives and roles and responsibilities. Procedures, on the other hand, should describe the steps required to ensure that process objectives set forth in policy are to be achieved. Therefore, IA recommends that Inventory Management review Corporate Policy to ensure the document includes process objectives and roles and responsibilities. SOPs should then be developed for key areas of inventory management, and should include the following elements:

- Identification of the critical controls in the process that align the procedures with applicable policy
- Reports or other process documentation to be created and retained
- Acceptable methods of communication between parties and when it is required (i.e. verbal, email, etc.)
- How evidence of required approvals should be documented

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Management Agreement	Owner	Target Completion Date
Yes	VP of Finance	6/1/2019
<p>There is a project underway within UTA Legal and Records Retention to identify the information to be contained within a Corporate Policy and a Standard Operating Procedure. Part of this project is to create a standard template to be used by all departments at UTA. Once this project is complete and the templates created, Supply Chain will review our Policy and align it with the defined guidelines.</p> <p>While there are some parts or equipment that may be susceptible to environmental conditions steps have been taken to ensure these items are not damaged, or cause damage, such as covers, stored indoors, or containment pallets used.</p> <p>Additional policies, procedures, and/or work instructions will be added to the revised documentation.</p>		

2. Segregation of Duties

Preliminary Finding R-17-13-2	High
<p>Criteria:</p> <p>A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying segregation of duties (SOD) is that no employee or group of employees should be in a position to conceal errors or misuse in the normal course of their duties. In general, the principal incompatible duties to be segregated are:</p> <ul style="list-style-type: none"> • Custody of assets • Authorization or approval of related transactions affecting those assets • Recording or reporting of related transactions <p>Systems of internal control rely on assigning certain responsibilities to different individuals by segregating incompatible functions. The general premise of SOD is to prevent one person from having both access to assets and responsibility for maintaining the accountability of those assets.</p> <p>Source: IIA https://iaonline.theiia.org/simplifying-segregation-of-duties</p> <p>Condition:</p> <p>Inadequate SODs were noted in the following:</p> <ul style="list-style-type: none"> • ERP System Access controls: <ul style="list-style-type: none"> ○ With the exception of part number changes, there were no documented procedures regarding changes to master data, nor the procedures to be followed ○ There was no documented review and approval by business units, or other independent party, of master data changes ○ Any parts or warehouse clerk was able to create an out-of-stock for any location. Warehouse staff could issue parts to a work order at any location. Staff at Jordan River and Midvale locations could create out-of-stocks and issue parts to either location ○ Bus Supervisors and a Production Control Specialist had access to both Parts Inventory and Maintenance ERP system applications 	

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- Nine warehouse staff had access to Parts Inventory and Purchase Order ERP system applications
- Parts and Inventory Supervisors had access to Work Order ERP System applications
- The Maintenance Systems ERP Admin had access to Issue parts as well as acting as the ERP Super User for Maintenance
- No user access form was in place for a contractor with Super User level access to Supply Chain applications
- Receiving, distribution, transfers and parts issuance:
 - Warehouse staff review of packing slip entries into the ERP System included the packing slips that the reviewer originally entered
 - Parts were released by the Warehouse Specialist without an independent review of parts to be shipped
 - Couriers accepted custody of parts for delivery without documented physical or electronic acknowledgement and acceptance. In addition, there was no “in-transit” status for items being routed to a new location
 - Parts rooms accepted custody of parts without documented physical or electronic acknowledgement or acceptance
 - Management did not perform reviews to determine whether distributions of parts were accurate, appropriate, and complete
 - Parts were issued by parts room staff to open work orders with no documented physical or electronic acknowledgement and acceptance by Maintenance
- Inventory counts
 - Warehouse and parts room staff performing inventory counts were the same individuals responsible for the parts on a daily basis
 - Recounts were sometimes performed by the initial counter
- Adjustments and disposals
 - There was no formal review of adjustments to ensure that all adjustments were authorized, documentation was retained and were performed correctly
 - Items could be physically disposed of by the same party who has identified the need for the disposal
 - Parts may be deleted or disposed of within the ERP system without detection

Root/Cause Analysis:

- Cross functional job duties resulted in access to maintenance and inventory application modules e.g. bus supervisors oversee both maintenance and inventory staff, the Production Control Specialist works in Production Control and at the Warehouse and staff at the Jordan River and Midvale locations provide coverage of both areas.
- Quarterly User Access Reports do not include all ERP application access nor do they flag potential SOD violations. SOD monitoring software was not in place.
- Inventory management cited technical constraints preventing a change to warehouse staff issue rights
- Management identified resource constraints as causing inadequate SODs
- Management relied on informal means of communicating areas of responsibilities rather than documented corporate policy
- Management relied on the expertise of existing staff rather than a set of documented SOPs to guide users in the process
- No formal, ongoing, and periodic risk assessment practice in place

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Effect:

Misuse and error may occur and not be detected in the absence of adequate SOD.

Recommendations

A comprehensive, ongoing, and periodic risk assessment of inventory management should be conducted. The risk assessment should include risks related to inadequate SODs.

Management should consider how resources may be best deployed to minimize lack of SODs and related risks. Additionally, management should consider implementing compensating controls, such as exception reports and reviews, to mitigate the risk of insufficient SODs due to resource constraints.

Management should include in SOPs what duties should be segregated within the ERP system and in daily operations and what reviews and sign-offs should be performed.

Management Agreement	Owner	Target Completion Date
Yes	VP of Finance	3/31/2018

By the target date the Supply Chain team will complete the following tasks. We will remove access to create work orders for the Parts and Inventory Supervisors. Access to modify POs by the warehouse staff will be reviewed and limited based on actual needed field access. Recounts of inventory will be conducted by a second person. A random review of 2 Inventory adjustments per month will be performed by management for document verification and approval. Created reports will be reviewed randomly, or for outliers. Monthly reports will be created where appropriate from an analysis of risk vs. benefit and logical labor use. All other processes and job assignments are as designed in order to maximize labor efficiencies or due to other resource constraints. A formal risk assessment for Inventory Management will be conducted annually in conjunction with, and feeding into the annual Supply Chain risk assessment. SOD risk vs. cost/benefit will be considered in the creation of the Corporate Policy.

Final Status

Medium

A risk assessment for Inventory Management has not yet been performed. Management stated that a risk assessment was planned for January 2019.

IA recommends that a Risk Assessment of Inventory Management be performed, that all key processes be assessed for potential SOD violations and that those noted be individually evaluated based on costs versus benefits. Where SOD violations not already addressed cannot be eliminated, we recommend that Inventory Management design compensating controls, such as additional oversight.

During testing IA noted that Parts and Inventory Supervisors' access to create work orders, had been removed. However, 9 warehouse staff continued to have access to make changes to purchase orders (PO). An audit trail exists within JDE should questions arise, but PO modifications by warehouse staff are not currently monitored or reviewed, therefore the related risk remains.

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IA recommends that Management implement tolerance levels within the ERP system to allow warehouse staff to receive items in excess of those ordered, within a certain threshold, or implement compensating controls, such as monitoring and review of warehouse staff changes to PO values.

Inventory Management has created a repository for all adjustment documentation. In addition, the ERP Tech Systems Admin- Supply Chain conducted a random audit of two adjustments per month and ensured that documentation was saved to the repository and included appropriate authorization. IA selected 4 inventory adjustments for review and found that:

- Documentation for 1 of the 4 had not been not saved in the centralized file, although it was later provided.
- 3 out of 4 adjustments reviewed were authorized by a parts clerk or warehouse specialist and not a lead or supervisor.

IA noted that the Policy requires parts supervisor or lead approval whenever inventory adjustments are communicated. However, because the Policy was not approved until after the audit period, some business units elected to allow non-supervisory staff to communicate adjustments. The Policy did not include approval requirement for inactive inventory write off, which IA recommends be considered for future Policy updates.

In addition, IA recommends that all adjustment documentation be retained in the centralized file and that adjustments be authorized by a parts room supervisor or lead.

Parts clerks continued to be responsible for issuance, organization, and accuracy of inventory as well as for performing physical inventory counts for the same inventory. This was identified as inadequate SODs. The Policy includes the requirement that a supervisor approve inventory counts, however the Policy was not in force during the audit period, which resulted in the control not being implemented. The Policy also requires different staff to perform 2nd and 3rd inventory counts, which had been implemented. However, IA found that count sheets lacked evidence to support whether different staff conducted the counts. IA recommends that supervisors review and approve inventory counts and that Inventory Management develop procedures to ensure that the individual performing 2nd and 3rd inventory counts can be evidenced.

Management Agreement	Owner	Target Completion Date
Yes	VP of Finance	6/1/2019

Inventory Management reviews and audits system access rights quarterly to identify SOD concerns. A tolerance level is currently being implemented in the ERP system that will eliminate the need for Warehouse employees to modify POs. Once this is implemented, Warehouse employee access to modify POs will be removed.

The approval date of the new Policy to the audit date did not allow adequate time for IA testing to be validated to the policy. Inactive inventory reviews and write off approval process, and inventory count approval procedures will be established and either added to the current policy or new procedures as dictated by the new UTA policy template. Adjustment documentation procedures are already outlined in the new policy, however the audit period was performed prior to the new Policy approval.

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An annual risk assessment will be conducted in January 2019 will include all key processes. This assessment will include an evaluation of SODs. Supply Chain will inquire to see if there are risk assessment training opportunities for the department as well.

Relative to the SODs of the parts clerks, oversight of physical inventory counts is performed by Inventory Control as an unbiased 3rd party with ultimate authority and responsibility for inventory count integrity. Physical inventory count adjustments are reviewed and approved by the unit Supervisor or Manager.

As of January 2018 all adjustments documentation is being retained in a centralized shared drive.

3. Adjustments, Disposals, and Write Offs

Preliminary Finding R-17-13-3	High
<p>Criteria: Executive Limitations Policy No. 2.2.1 "Asset Protection," states, "Assets of the Utah Transit Authority shall not be unprotected, inadequately maintained, or unnecessarily risked. Accordingly, the General Manager shall not:</p> <ol style="list-style-type: none">1. Fail to protect against:<ol style="list-style-type: none">a. Property and casualty losses;b. Public officials' errors and omissions and fiduciary liability;c. Theft and fraud;d. Loss of value, appearance, and utility of assets; ande. Loss of or significant damage to intellectual property, systems, and records essential to the well-being of the Authority." <p>Condition:</p> <ul style="list-style-type: none">• 6 (of 25) items disposed of were not flagged in the ERP System to prevent re-orders• BU approval was not on file for 4 (of 25) disposed items• One back-to-stock transaction was miscoded as an adjusting transaction <p>Root/Cause Analysis:</p> <ul style="list-style-type: none">• Management relied on the expertise of existing staff rather than a set of documented procedures to guide users in the process• A formal review process is not in place for adjustments, disposals, and write-offs <p>Effect: Adjustments, disposals, and write offs are more likely to be invalid, incomplete, or inappropriate without policies and procedures that include requirements for formal independent reviews and approval of activity.</p>	
Recommendation	
<ul style="list-style-type: none">• Management should include a review and approval process for adjustments, disposals, and write-offs in an SOP, including individuals authorized to request an adjustment, what	

APPENDIX 1

<p>documentation should be retained to support an audit trail, and a way to ensure all adjustments entered into the ERP system are detected, reviewed, and approved.</p> <ul style="list-style-type: none"> • Management should implement a periodic review and approval process of adjustments, disposals, and write-offs by an independent person. 		
Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	3/31/2018
<p>In the new Corporate Policy (item #1) approvals for adjustments, disposals, and write-offs will be required to be approved by the BU Lead or Supervisor position. A random review of 2 Inventory adjustments per month will be performed by management for document verification and approval. We will work with IT to identify the best method for a 1 year retention of adjustment approval documentation. A formal risk assessment for Inventory Management will be conducted annually in conjunction with, and feeding into the annual Supply Chain risk assessment.</p>		

Final Status	Low	
<p>Management included a review and approval process for adjustments, disposals, and write-offs in the new Policy, as well as the individuals that are authorized to communicate an adjustment and what documentation should be retained to support an audit trail. Even though the Policy includes these adjustment requirements and reviews, it was not fully implemented during the audit period.</p> <p>In line with the Policy, the ERP Tech Systems Admin- Supply Chain conducted a random audit of 2 adjustments per month to ensure documentation was saved, matched the adjustment made in the ERP system, and included appropriate authorization.</p> <p>IA selected 4 adjusting transactions from June 2018 for testing, 2 of which were for disposal of obsolete inventory.</p> <ul style="list-style-type: none"> • 1 out of 4 was not saved in the centralized repository, although it was later provided for review • 3 out of 4 were not authorized by a parts supervisor or lead <p>Some business units allowed non-supervisory staff to communicate adjustments and elected to continue that practice until the Policy was approved. IA also noted that the Policy did not include the individuals that are authorized to communicate disposal of inactive or obsolete inventory write offs, which included two items in the audit sample.</p> <p>IA recommends that all adjustment documentation be retained in the centralized file, be authorized by a supervisor or lead, and that requirements for authorization of inactive or obsolete inventory write-offs be included in future Policy updates.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	6/1/2019
<p>Inactive inventory reviews and approval process will be established and either added to the current policy or new procedures as dictated by the new UTA policy template.</p> <p>As of January 2018 all adjustments documentation is being retained in a centralized shared drive.</p>		

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4. Inventory Counts

Preliminary Finding R-17-13-4	High
<p>Criteria: Physical inventory counts are performed on a periodic basis to ensure that inventory records reflect actual quantities on hand.</p> <p>Condition:</p> <ul style="list-style-type: none">• The same individuals responsible for stocking and issuing warehouse inventory performed inventory counts (Repeated condition from finding 2)• The initials of the person performing the first and second recount were not recorded in the ERP System• During inspection of count sheets provided for selected items, IA noted that not all count sheets had sign offs by two counters• The Inventory Audit report generated by Inventory Control staff during entry of counts in the ERP system was not printed or retained• There was no supporting documentation of supervisory spot checks of counts• There was no requirement to lock the ERP system during the physical count• During a physical count IA noted that inventory count sheets were completed in pencil• For 3 (out of 25) inventory adjustments resulting from physical counts that were tested there was no record of a recount to support the adjustment• New parts were excluded from inventory counts for the first year• Inventory count instructions were not complete in guiding users what to do when a part's location on the count sheet was incorrect <p>Root/Cause Analysis:</p> <ul style="list-style-type: none">• Management identified resource constraints as causing inadequate SODs• Management preferred to rely on the same parts room staff responsible for daily inventory operations to perform counts for greater efficiency• Management relied on the expertise of existing staff rather than a set of documented procedures to guide users in the process• No formal, ongoing, and periodic risk assessment practice in place <p>Effect: System inventory may not reflect physical inventory, potentially resulting in inaccurate management information.</p>	
Recommendations	
<p>Management should consider how resources may be best deployed to minimize lack of SODs and related risks. Additionally, management should implement compensating controls that mitigate the risk of insufficient SODs where resource constraints prevent enforcement of SODs.</p> <p>Management should define the inventory count process and required controls in an SOP.</p> <p>Management should implement a formal review and approval process for Inventory Count sheets, ERP count entry, and related documentation by an independent person</p>	

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Management should assess the inventory count process risks as part of a formalized, comprehensive, and ongoing risk assessment for inventory management.

Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	3/31/2018

Inventory counting conducted by an employee who is familiar with the inventory and is the “subject matter expert”, is a standard best practice in the Supply Chain field (example, see <https://www.ids-astra.com/blog/inventory-control-know-whats-on-shelves>). Included in the Corporate Policy (item #1) we will implement a formal review and approval process of inventory counts by an independent person. SODs will include the use of different employees for 2nd and 3rd counts, and supervisor approval for inventory adjustments. The physical inventory Policy and will be outlined in the new Corporate Policy (item #1). A formal risk assessment for Inventory Management will be conducted annually in conjunction with, and feeding into the annual Supply Chain risk assessment.

Final Status	High
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To address SODs, the Senior Supply Chain Manager, the Warehouse and Inventory Operations Manager, and the ERP Tech Systems Admin- Supply Chain met while drafting the Policy and discussed SOD violations identified in the preliminary assessment. No documented comparison of costs versus benefits was created for individual SODs. Even though SODs were discussed, parts clerks continued to be responsible for issuance, organization, and accuracy of the same inventory they perform physical inventory counts for.

IA noted that management defined some aspects and required controls for the inventory count process in the Inventory Management Policy, however, as noted, the Policy was adopted after the audit period. Before adoption of the Policy, adherence to its requirements was voluntary and therefore IA could not adequately test that required controls were followed.

IA noted that no SOP was created for the inventory count process in accordance with best practices, as noted above in Finding 1, which increases the risk that users performing inventory counts are not aware of required controls because they have not been documented or adequately communicated.

Per inquiry with management, the control, documented in the Policy, that requires different staff perform 2nd and 3rd inventory counts, had been implemented prior to the adoption of the Policy. IA tested a sample of 3 counts and found the following

- For 2 of 3 inventory counts tested there was no evidence of a different person performing recounts on the recount sheet
- For 1 of 3 counts where initials were provided as evidence of a different counter, 2 re-count sheets, out of 67 (3 percent), did not contain such evidence
- IA also noted that, although the system will record the initials of individuals performing a re-count if the quantity counted is different, it will not record the initials of the individual if the quantity counted is the same

In addition, IA did not find evidence that the results of the counts or the inventory adjustments made from count results were reviewed or approved by supervisory personnel. Furthermore, the Policy did not indicate a retention period for inventory count documentation by parts rooms.

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IA recommends the following:

- Inventory Management should develop SOPs which incorporate existing process flow documents for all critical Inventory processes. SOPs should, at a minimum, incorporate the required elements identified in Finding 1.
- Inventory Control personnel who oversee inventory counts should ensure that parts room supervisors review and approve inventory counts and that Inventory Management develop procedures to ensure that the individual performing 2nd and 3rd inventory counts can be evidenced.

Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	3/31/2019

The approval date of the new Policy to the audit date did not allow adequate time for IA testing to be validated to the policy. Inventory count approval procedures, and reference to the existing work flow documents, will be established and either added to the current policy or new procedures as dictated by the new UTA policy template.

Relative to the SODs of the parts clerks, oversight of physical inventory counts is performed by Inventory Control as an unbiased 3rd party with ultimate authority and responsibility for inventory count integrity. Physical inventory count adjustments are reviewed and approved by the unit Supervisor or Manager.

5. Warehouse and Parts Room [REDACTED]

Preliminary Finding R-17-13-5	Medium
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Criteria:

Executive Limitations Policy No. 2.2.1 “Asset Protection,” states, “Assets of the Utah Transit Authority shall not be unprotected, inadequately maintained, or unnecessarily risked. Accordingly, the General Manager shall not:

1. Fail to protect against:
 - a. Property and casualty losses;
 - b. Public officials’ errors and omissions and fiduciary liability;
 - c. Theft and fraud;
 - d. Loss of value, appearance, and utility of assets; and
 - e. Loss of or significant damage to intellectual property, systems, and records essential to the well-being of the Authority.”

Condition:

- A risk exists that a person can remove/take inventory without the authority to do so
- A further risk exists that inventory authorized to be taken for maintenance and repairs are not recorded on the ERP System

[REDACTED]

[REDACTED]

[REDACTED]

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- [Redacted] Mechanics retrieving inventory were relied on to write down what was taken for repairs and maintenance

Root/Cause Analysis:

- [Redacted]
- Inventory Management did not understand they held the authority for the overall inventory management process, including warehousing of parts
- Management relied on informal means of communicating areas of responsibilities rather than by documented corporate policy
- Management relied on the expertise of existing staff rather than a set of documented procedures to guide users in the process
- No formal, ongoing, and periodic risk assessment practice in place

Effect:

Inadequate physical controls increases the risk of incorrect, invalid, and inappropriate use of inventory and inaccurate system inventory records.

Recommendations

Management should formally assign overall authority, and areas of responsibility, for the inventory management process. Ideally such assignment would be done through a corporate policy to clarify authority to direct the activities of the inventory management process across BUs, reporting lines and functions, as needed (repeated from finding 1).

[Redacted]

[Redacted]

[Redacted]

Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	6/30/2018

The Warehouse & Inventory Operations Manager has authority over all parts room processes and will be clarified in the new Corporate Policy. Permitted employees who can access the parts rooms will be identified in the Policy (item #1).

[Redacted] how to record parts taken, and other related processes will be clarified in the Policy. A formal risk assessment for Inventory Management will be conducted annually in conjunction with, and feeding into the annual Supply Chain risk assessment.

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Final Status		Medium
<p>Corporate Policy No. 2.1.15, Inventory Management, assigned overall authority for Inventory Management to Supply Chain and identified, by title, the employees authorized to access the parts rooms.</p> <p>[REDACTED]</p> <p>A risk assessment for Inventory management has not been performed. Management stated that a risk assessment was planned for January 2019.</p> <p>[REDACTED] a risk assessment for the Inventory Management process be performed.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	6/1/2019
<p>[REDACTED] An annual risk assessment will be conducted in January 2019.</p>		

6. Automated Reorder Process

Preliminary Finding R-17-13-6	Medium
<p>Criteria: Executive Limitations Policy No. 2.2.1 "Asset Protection," states, "Assets of the Utah Transit Authority shall not be unprotected, inadequately maintained, or unnecessarily risked. Accordingly, the General Manager shall not:</p> <ol style="list-style-type: none"> 1. Fail to protect against: <ol style="list-style-type: none"> a. Property and casualty losses; b. Public officials' errors and omissions and fiduciary liability; c. Theft and fraud; d. Loss of value, appearance, and utility of assets; and e. Loss of or significant damage to intellectual property, systems, and records essential to the well-being of the Authority." <p>Condition:</p> <ul style="list-style-type: none"> • Inventory Control did not retain copies of the reports used to set reorder points and there is no review process in place to ensure its accuracy and completeness 	

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- The root cause and corrective action was not indicated for 13 out of stocks that occurred since November 1, 2016. While less than 1 percent of all out-of-stocks during that period, IA noted there was no control in place to ensure that all out-of-stock transactions were researched
- Personnel for two locations were not included on the monthly inventory management meeting invitation

Root/Cause Analysis:

- Reorder point reports were lost during the recent upgrade of the ERP system
- Management relied on the expertise of existing staff rather than a set of documented procedures to guide users in the process

Effect:

- Lack of an audit trail and review of the process increases the risk of error in automated reordering
- Increased risk of issues not being communicated and addressed for those locations without representation at monthly inventory management meetings

Recommendations

Management should perform a periodic review to determine the accuracy and completeness of the reorder point report process and ensure reports are retained on file. Further, management should work with UTA legal counsel to establish records classification and retention schedules.

Management should consider creating an SOP that includes reorder point report periodic reviews and documentation retention requirements for all critical controls and reports.

Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	6/30/2018

By the target date we will create a report to monitor OOS that do not have an RC/CA. We will also create a report that will identify repeat OOSs by part number over a period of time. We will review retention requirements with the Records Retention Manager for applicability.

Final Status

Low

Inventory Management developed a report to monitor OOS inventory with no root cause (RC) or corrective action (CA), which was generated each Monday starting on June 11, 2018. The report was automatically emailed to the ERP Tech Sys Admin-Supply Chain and Materials and Inventory Controls Analysts. For each item listed, the Materials and Inventory Control Analysts performed research and then entered the appropriate RC and CA.

IA haphazardly selected the reports from July 9th and August 27th. Six inventory items were listed on the July 9th report but dropped off as Inventory Controls Analysts researched and entered the RC and CA information. The August 27th report had no inventory items listed. While the control appears to be operating effectively, IA recommends that the process be included in a standard operating procedure (SOP) that describes the process, indicates when the ERP Tech Sys Admin-Supply Chain should follow up with Inventory Controls Analysts, and how that follow-up should be documented.

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IA found that overall trends in OOS inventory were being monitored using a monthly OOS Analysis report. IA noted that the report and OOS analysis process was being refined and had not been documented in a SOP, which IA recommends.

There was no Government Records Access and Management Act (GRAMA) classification or retention schedule in place for the OOS reports, resulting in an increased risk of not being in compliance with GRAMA. IA recommends that Inventory Management work with the Records Manager to classify all inventory management reports and records and ensure retention is in compliance with the statute.

Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	Complete

The OOS RCCA report is generated weekly and items that are identified as not having an RCCA on the report are addressed by the Inventory Manager and the Inventory Analysts. These items remain on the report until an RCCA is entered. This process is rudimentary and not necessary to add to a departmental SOP. The OOS trends analysis is currently being done by reviewing RCCA information and currently doesn't justify creating a departmental SOP. It is too early in the analysis to understand if this analysis has cost benefits.

Separate inventory records retention is not necessary since inventory transactions can be researched and identified with time-stamps, who performed the transaction, what was transacted, and all other relevant information. This information is stored within the JDE system and does not expire.

7. Receiving of Inventory

Preliminary Finding R-17-13-7	Medium
<p>Criteria:</p> <p>Executive Limitations Policy No. 2.2.1 "Asset Protection," states, "Assets of the Utah Transit Authority shall not be unprotected, inadequately maintained, or unnecessarily risked. Accordingly, the General Manager shall not:</p> <ol style="list-style-type: none"> 1. Fail to protect against: <ol style="list-style-type: none"> a. Property and casualty losses; b. Public officials' errors and omissions and fiduciary liability; c. Theft and fraud; d. Loss of value, appearance, and utility of assets; and e. Loss of or significant damage to intellectual property, systems, and records essential to the well-being of the Authority." <p>Condition:</p> <ul style="list-style-type: none"> • Parts rooms procedures regarding documentation of received inventory vary. Not all parts rooms retained packing slips. In addition, not all parts rooms required a signature and date for items reviewed against the packing slip • Evidence of the control to review packing slip entry into the ERP System was not retained (repeated condition from finding 2) 	

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- There was no SOP or other documentation detailing steps to be taken when vendor disagreements arise
- 4 (out of 25) item receipts tested were entered into the ERP System on a date other than the date stamped by the receiving parts clerk, creating the risk that parts may be stocked prior to entry into JDE or parts may not be available when needed
- For 2 (out of 25) item receipts tested the date stamp was illegible due to poor scanning and/or insufficient ink from the original stamp, compromising the audit trail for parts in the event of vendor disputes or other anomalies
- Although the receiving warehouse clerk verified the number of boxes and total weight delivered by the shipper and signed to acknowledge receipt, shipments were not otherwise tracked. Receiving warehouse clerks did sign and retain all bills of lading, however, they did not maintain a log of shipments to agree with the signed bills of lading

Root/Cause Analysis:

- Management relied on the expertise of existing staff rather than a set of documented procedures to guide users in the process
- No formal, ongoing, and periodic risk assessment practice in place

Effect:

Without adequate and effective controls, including sufficient SODs, there is an increased likelihood of inaccurate, incomplete, or invalid receipts.

Recommendations

Management should create an SOP that includes directions for users that conforms to best practices for managing the receipt of inventory.

Management should include inventory receipt risk in a formalized, ongoing, and periodic risk assessment for inventory management.

	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	6/30/2018

Included in the new Corporate Policy (item #1) will be a policy that requires receiving divisions to sign, date and retain stock order packing slips. An email will be sent to all divisions requesting stamps to be legible. A log will be created to track all incoming shipments at the receiving docks. A formal risk assessment for Inventory Management will be conducted annually in conjunction with, and feeding into the annual Supply Chain risk assessment.

Final Status

Low

As noted in Finding 1, best practices recommend that policies set forth process objectives and roles and responsibilities. Procedures, on the other hand, should describe the steps required to ensure that process objectives set forth in policy are to be achieved.

Corporate Policy No. 2.1.15, Inventory Management, included a requirement for receiving divisions to sign, date, and retain stock order packing slips. Prior to the Policy's approval, the Warehouse and Inventory Operations Manager instructed parts and warehouse staff to implement the new packing slip procedures, which were defined in the policy.

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IA noted that an SOP that conforms to best practices for managing the receipt of inventory was not created. IA recommends that Inventory Management create an SOP to guide users through the process, including critical controls and best practices for inventory receiving rather than relying on the Policy.

IA selected a sample of 16 packing slips for review and found that:

- 3 had not been initialed
- 7 had no indication of the date the items were received

IA recommends that staff be trained on best practices for compliance with the packing slip policy.

The Policy also included a requirement for Warehouse staff to log incoming shipments, which management asserted was implemented in July. IA haphazardly selected one location to review the log of incoming shipments and noted the following:

- There was no requirement for a unique identifier for each shipment log
- There was no requirement for bills of lading to be signed and dated

The lack of information recorded on the log and bills of lading may result in difficulty matching bills of lading to corresponding log entries. IA also noted that the Corporate Inventory Management Policy did not include a retention period for the receiving logs.

IA recommends that receiving logs be modified to include a unique identifier for each shipment and that receiving controls and best practices, including what information is needed to appropriately maintain a shipping log as well as where and how long those logs should be retained, be documented in an SOP. IA also recommends that bills of lading (BOL) be signed, dated, and retained and that the best practices and controls for that process be documented in an SOP.

There was no documentation file, such as an email, that indicated warehouse staff had been reminded to ensure stamp legibility, which IA recommends.

A risk assessment for Inventory management has not been performed, and IA recommends that a formal documented, periodic risk assessment be conducted. Management stated that a risk assessment was planned for January 2019.

Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	6/1/2019

All divisions have been instructed to sign and date all incoming packing slips, and to retain the packing slips for a period of one year. The receiving logs will be modified to include the last 5 digits of the BOL number as a unique identifier. In addition, an annual risk assessment will be conducted in January 2019.

Supply Chain will create an SOP to guide employees through the receiving process and employees will be trained with this document when it is approved. Part of this SOP will include instruction to ensure date stamps are legible on appropriate documents.

APPENDIX 1

Inventory management provided direction in the policy to retain stock order packing slips for a period of one year, however it is up to the individual units to determine how to best perform that retention within their business.

Shipping best practices will be established and either added to the current policy or new procedures as dictated by the new UTA policy template.

8. Issuing Parts to Work Orders

Preliminary Finding R-17-13-8

Medium

Criteria:

Executive Limitations Policy No. 2.2.1 "Asset Protection," states, "Assets of the Utah Transit Authority shall not be unprotected, inadequately maintained, or unnecessarily risked." Accordingly, the General Manager shall not:

1. Fail to protect against:

- a. Property and casualty losses;
- b. Public officials' errors and omissions and fiduciary liability;
- c. Theft and fraud;
- d. Loss of value, appearance, and utility of assets; and
- e. Loss of or significant damage to intellectual property, systems, and records essential to the well-being of the Authority."

Condition:

- There was no SOP in place to guide users in appropriately accounting for parts taken directly by Maintenance personnel when parts room or warehouse staff were not available, or for how to enter those parts into the system after the fact.
- The manual logs for parts taken by Maintenance when inventory staff were not available were not retained or reviewed for accuracy and completeness (repeated condition from finding 2)
- There was no control in place for parts that were removed but not listed on the log (repeated condition from finding 2)
- There was no documentation of maintenance approval of parts issued to work orders (repeated condition from finding 2)

Root/Cause Analysis:

- Management relied on informal means of communicating areas of responsibilities rather than by documented corporate policy
- Management relied on the expertise of existing staff rather than a set of documented procedures to guide users in the process
- There was no formal, ongoing, and periodic risk assessment practice in place

Effect:

Without adequate and effective controls, as well as a sufficient SODs, there is an increased likelihood of inappropriate or invalid use of inventory and inaccurate records within the ERP System.

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Recommendations		
<p>Management should create an SOP that includes requirements for users that conforms to best practices for inventory issued to work orders.</p> <p>Management should include the parts issuance process in a formalized, ongoing, and periodic risk assessment for inventory management.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	6/30/2018
<p>how to record parts taken, and other related processes will be clarified in the new Corporate Policy (item#1). Those affected will be re-trained in the process. A formal risk assessment for Inventory Management will be conducted annually in conjunction with, and feeding into the annual Supply Chain risk assessment.</p>		

Final Status	Medium	
<p>Corporate Policy No. 2.1.15, Inventory Management was approved on September 10, 2018.</p> <p>Because the Policy was not in force during the audit period, staff training on the new process was not in place and could not be tested. In addition, the Policy assigned responsibility for ensuring that the proper inventory was issued to each work order to Maintenance.</p> <p>A risk assessment for Inventory management has not been performed. Management stated that a risk assessment was planned for January 2019.</p> <p>In addition, IA recommends that management create an SOP that conforms to best practices for inventory issued to work orders, that staff receive training on Corporate Policy No. 2.1.15, and that a risk assessment be performed on Inventory Management.</p>		
Management Agreement	Owner	Target Completion Date
Yes	Sr Supply Chain Manager	6/1/2019

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Per their own departmental practices, Maintenance is required to review each work order for parts and labor accuracy before closing each work order. A risk assessment is scheduled and will be performed annually.

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

DISTRIBUTION LIST			
Name	For Action ¹	For Information	Reviewed prior to release
Interim Executive Director			*
Managing Attorney		*	
VP of Finance	*		*
Sr Supply Chain Manager	*		*
ERP Tech Sys Admin-Supply Chain	*		*
Warehouse & Inv Ops Mgr	*		*

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