

UTA Audit Committee Meeting

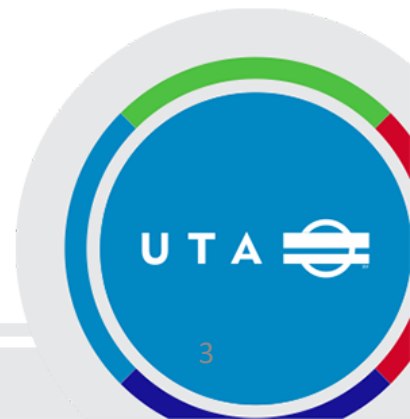
June 27, 2022



Call to Order and Opening Remarks



Pledge of Allegiance

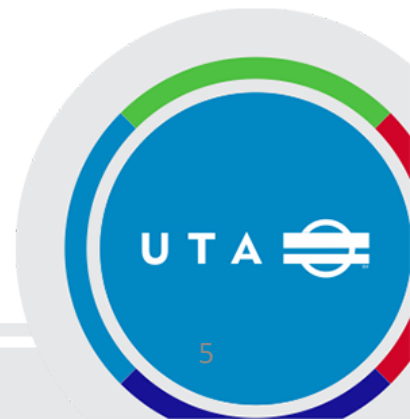


Safety First Minute



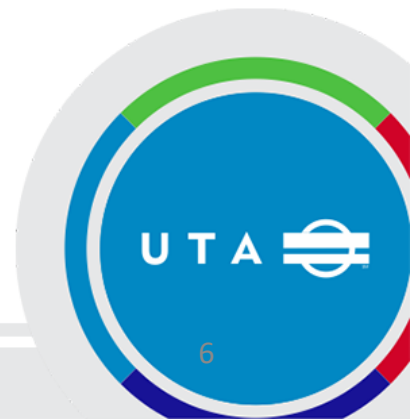
Consent

- a. Approval of April 18, 2022, Audit Committee Meeting Minutes



Recommended Action (by acclamation)

Motion to approve consent agenda



Audit Approvals

a. 2021 UTA Financial Audit Report and National Transit Database (NTD)
Agreed Upon Procedure Report



2021 UTA Annual Comprehensive Financial Report (ACFR) and National Transit Database (NTD) Agreed Upon Procedure Report





Smart decisions. Lasting value.™

2021 Audit Results

Utah Transit Authority

June 27, 2022

Audit Process and Scope of Work

Audit Methodology and Approach

- Purpose of Financial Statement and Compliance Audit
- Audit Committee Role – Quality, Internal controls, Compliance
- Concepts of Audit Risk and Materiality
- Role of Internal Controls and Tone at the Top
- Role of Monthly Financial Reporting

Financial Statement and Compliance Audits

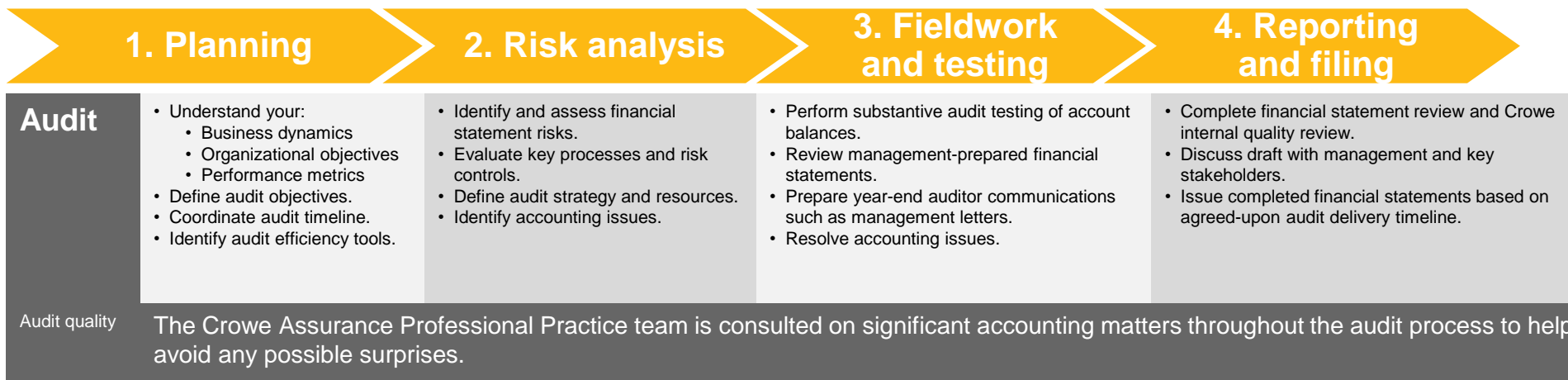
- Audit Highlights
- Management's Discussion and Analysis
- Comprehensive Annual Financial Report

New Accounting Standards

- GASB Statement No. 89 - Accounting For Interest Cost Incurred Before the End of a Construction Period
- GASB Statement No. 93 - Replacement of Interbank Offered Rates
- GASB Statement No. 98 - Annual Comprehensive Financial Report



Audit Approach and Plan



Interim fieldwork: December

- Management interviews
- Planning and Risk Assessment
- Internal controls
 - Entity-wide
 - Account-level
 - Financial reporting
- Single audit testing

Year-end fieldwork: March to early May

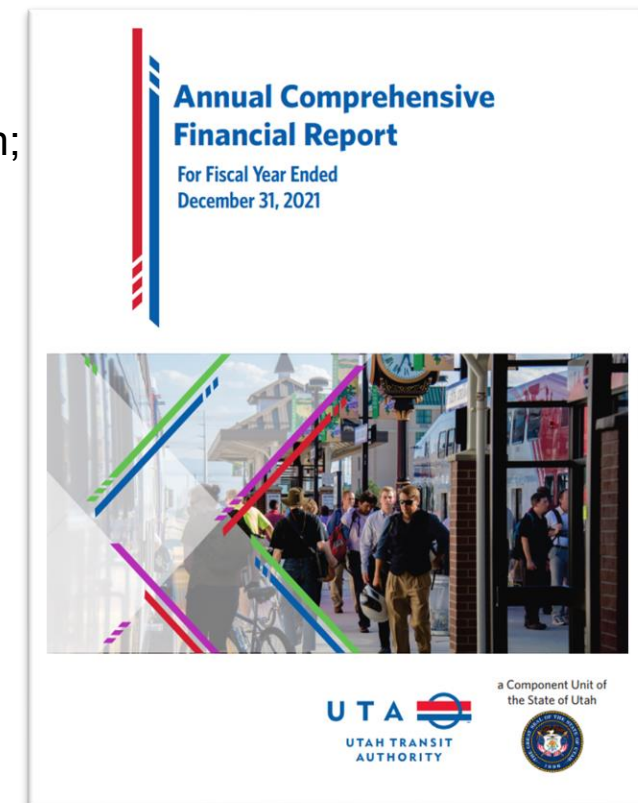
- Audit procedures on year-end balances and fiscal year activity
- Single audit testing – completion
- NTD testing

Reporting: May through current

- Review financial statements prepared by management
- Preparation and review of compliance reports
- Reporting to the Audit Committee

Audit Deliverables

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



Required Communications

- Auditor's Responsibility
- Independence from the Authority
- Significant Accounting Policies
- Management Judgments and Accounting Estimates
- Auditor's Judgments
- Corrected and Uncorrected Misstatements
 - Corrected misstatement to reclassify \$8.875 million of long-term debt to current liabilities for the portion due within one year.
 - Corrected misstatement related to long-term debt that decreases change in net position by approximately \$6.1 million due to the improper accounting for a debt refunding transaction.
 - An adjustment was waived to reclassify approximately \$25.8 million from construction in progress to depreciable capital assets for assets completed and placed into service during 2021. This waived adjustment did not have a material impact on the change in net position due to unrecorded depreciation expense.
- Other Communications

Required Communications

Management Recommendations / Findings

- **2021-001 (Information Technology Controls over Change Management)**

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

- **2021-002 (Financial Reporting Controls over Pension Trust)**

- General journal entries to the trust financial statements and reconciliations of trust balances and activity are not formally reviewed and approved.
- We recommend the Authority's management increase oversight of all third-parties involved in the administration of the pension trust by designing and implementing controls over the reconciliation of pension trust activity reported in the financial statements. Specifically, management should ensure that transactions and balances, including investment activity, contributions, benefit payments, and other general journal entries reported in the trust financial statements reconcile to the underlying detail maintained by the Authority, the custodian, and any other Third-Party Administrators.

Required Communications

Management Recommendations / Findings (Continued)

- **2021-003 (Accounting for Capital Assets)**

- During our testing of management's spreadsheet in the current year audit, we identified several formula errors resulting in an overstatement of 2021 depreciation expense of approximately \$3.2 million. In addition, in 2021 management changed the initial start date of the new useful lives, and as a result, the 2020 depreciation expense was overstated by approximately \$5.1 million, which caused 2021 depreciation expense to be understated by the same amount.
- We recommend that the Authority work with the software company to ensure that they can get accurate reporting of their capital assets from the system and recommend that when there is a change in accounting estimate, that the impact is recorded prospectively as required by the accounting standards. The Authority has also received several findings in a recent Federal Transit Administration Financial Management Oversight report citing additional deficiencies in internal control policies and procedures regarding capital assets that should be considered in addition to this finding.

- **2021-004 (Federal Transit Cluster Cash Management)**

- We selected a sample of 60 disbursements to test whether the Authority had disbursed the funds prior to the date of the reimbursement request from the Department of Transportation. For 4 of the disbursement sample selections, management was unable to identify which specific reimbursement request the expenditure was included in and thus we were unable to identify whether the funds were properly disbursed prior to the reimbursement request.
- We recommend that the Authority maintain detailed supporting documentation for each reimbursement request that includes a listing of individual allowable expenditures that reimbursement is being requested for.

Emerging Issues



- Implementation 12/31/2022
 - GASB 87, Leases
 - GASB 91, Conduit Debt Obligations
 - GASB 92, Omnibus 2020
 - GASB 97, CUCC and Section 457 Plans
- Implementation 12/31/2023
 - GASB 96, Subscription-Based Technology Agreements



Thank you

Scott Nickerson

Partner

scott.nickerson@crowe.com

Brad Schelle

Partner

brad.schelle@crowe.com

Rachel Snyder

Senior Manager

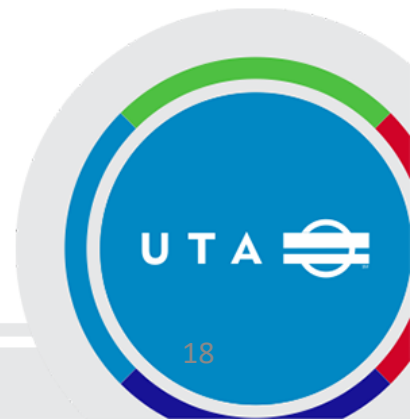
rachel.adoba@crowe.com

"Crowe" is the brand name under which the member firms of Crowe Global operate and provide professional services, and those firms together form the Crowe Global network of independent audit, tax, and consulting firms. Crowe may be used to refer to individual firms, to several such firms, or to all firms within the Crowe Global network. The Crowe Horwath Global Risk Consulting entities, Crowe Healthcare Risk Consulting LLC, and our affiliate in Grand Cayman are subsidiaries of Crowe LLP. Crowe LLP is an Indiana limited liability partnership and the U.S. member firm of Crowe Global. Services to clients are provided by the individual member firms of Crowe Global, but Crowe Global itself is a Swiss entity that does not provide services to clients. Each member firm is a separate legal entity responsible only for its own acts and omissions and not those of any other Crowe Global network firm or other party. Visit www.crowe.com/disclosure for more information about Crowe LLP, its subsidiaries, and Crowe Global.

The information in this document is not – and is not intended to be – audit, tax, accounting, advisory, risk, performance, consulting, business, financial, investment, legal, or other professional advice. Some firm services may not be available to attest clients. The information is general in nature, based on existing authorities, and is subject to change. The information is not a substitute for professional advice or services, and you should consult a qualified professional adviser before taking any action based on the information. Crowe is not responsible for any loss incurred by any person who relies on the information discussed in this document. © 2020 Crowe LLP.

Recommended Action (by acclamation)

Motion to recommend the 2021 UTA Annual Comprehensive Financial Report and National Transit Database Agreed Upon Procedure Report for approval by the Board of Trustees.

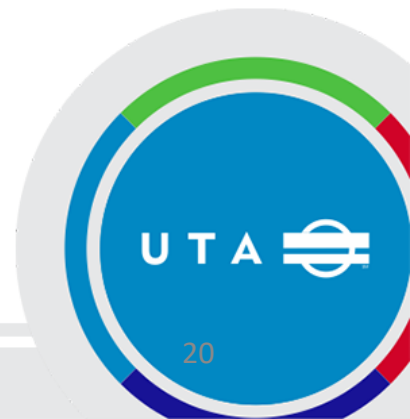


Internal Audit Update

- a. 2022 Audit Plan Status
- b. Fairbox Controls Review



2022 Audit Plan Status



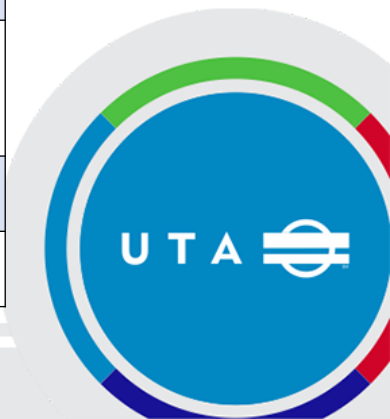
2022 Audit Plan – Next Phase Projects

Engagement #	Audit Phase Project	Status
21-06	Fuel Cost	Q4 2022
21-02	Utility Costs	In progress
21-03	MOW Systems	Completed
21-04	Bus Operations	Late Q3/early Q4 2022
20-02	Transit Oriented Development	Q3 2022



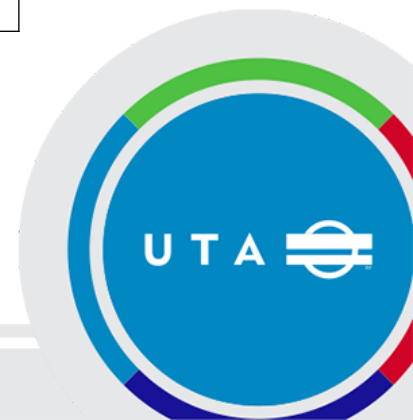
2022 Audit Plan – New Projects

Engagement #	Project Name	Status
22-01	Commuter Rail Operations	Q3 2022
22-02	Light Rail Operations	In progress
22-03	Covid Stimulus Spending	Q3 2022
22-04	Fleet Engineering	In progress
22-05	Benefits Calculations	Q3 2022
22-06	Support Fleet Preliminary Performance	Complete
22-07	Cell Phone Preliminary Performance	Complete
22-08	Capital Asset Accounting	In progress

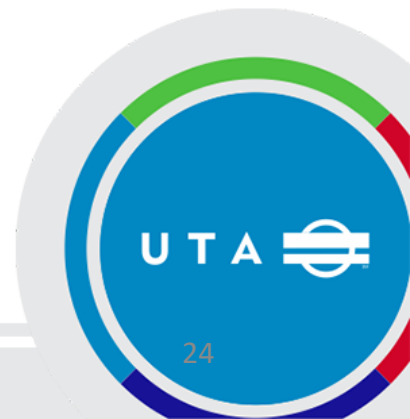


2022 Audit Plan – Special Projects

Engagement #	Project Name	Status
22-08	Data Discovery (third-party)	In progress
22-09	Data Analytics	In progress



Farebox Controls Review



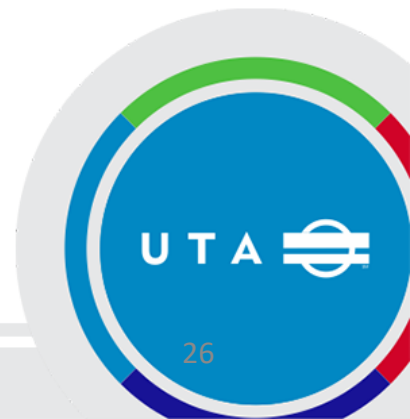
Farebox Revenue Follow-up

- Currently 8 recommendations covering 3 topics are in progress
 - Implementation of Smart Farebox Technologies
 - RFP submission deadline for Next Gen Electronic Fare Collection System (June 15, 2022)
 - Tracking of current fareboxes
 - Recently implemented controls: farebox tracking document and farebox repair work order documentation
 - Policies and Procedures
 - Development of SOPs and policy are in-progress



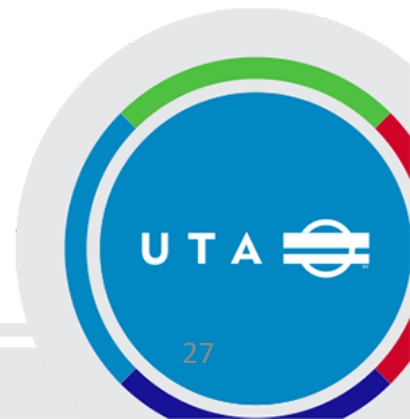
Internal Audit Report Review

- a. Maintenance of Way Systems Audit Report
- b. Cell Phone Preliminary Performance Audit Report
- c. Support Fleet Preliminary Performance Audit Report

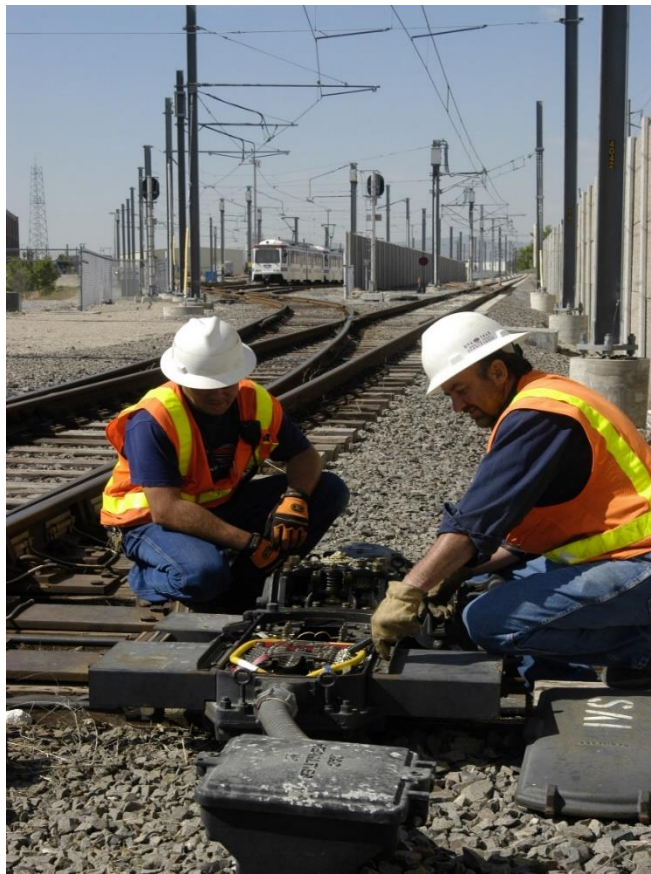


Maintenance of Way (MOW) Systems Audit Report

Engagement #21-05



MOW Systems Audit - Scope



Period of review was primarily June 1, 2021 – February 28, 2022. Periods before and after were reviewed, as necessary.

Audit Scope
Governance
Inspections
Maintenance
Training



MOW Systems – what we found

- *Follow up:* Management has invested significant resources – people and funding – into developing an MOW apprenticeship program.
- *Follow up:* The apprenticeship team feels well supported in their goal and are confident in resource availability needed to succeed.
- *New issue:* MOW Systems does not have dedicated training staff.



MOW Systems – why it matters

Because of the lack of dedicated training personnel:

- Supervisors have had to take on additional responsibilities, straining their normal duties.
- MOW has paid a part time consultant \$70,600 in the past four years.
- Training Records are incomplete.
- SOPs are not drafted for all major MOW process.



MOW Systems – why it matters

Potential risks include:

- Noncompliance with federal regulations.
- Personnel may become outdated on procedures or standards for maintaining rail assets.
- Supervisors may be required to work excessive overtime to meet training needs.
- MOW lacks capacity to provide ongoing subject matter expertise support for the apprenticeship program.



MOW Systems – recommendations

MOW should receive budget funding to staff a full-time training specialist.

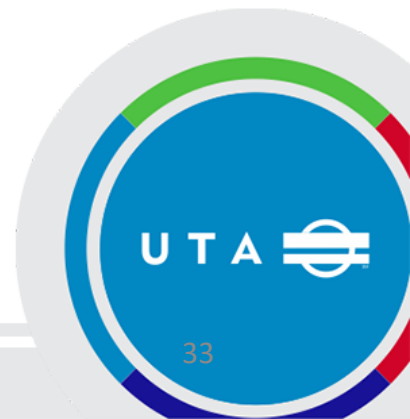
Management action plan:

- Funds will be requested in the 2023 budget.
- The new position will be responsible for training related responsibilities, including records management, development, and drafting SOPs.
- The new position will be a liaison with the MOW apprenticeship program.



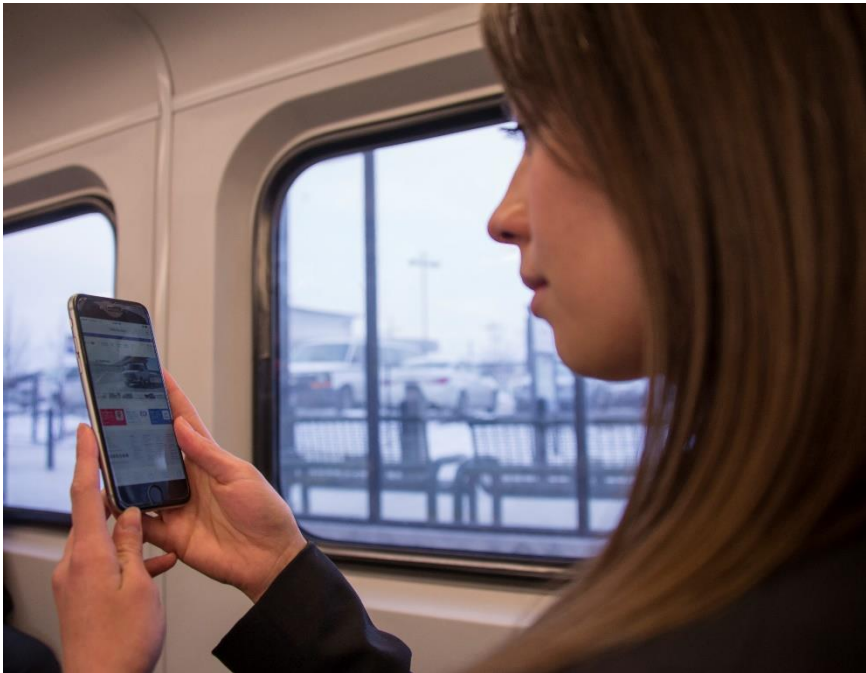
Cell Phone Preliminary Performance Audit

Engagement #22-07



Cell Phone Performance Audit - Scope

Period of review was primarily January 1, 2020 – January 31, 2022.
Periods before and after were reviewed, as necessary.



Audit Scope
Governance
Onboarding
Offboarding
Ongoing consideration



Cell Phone – what we found

- The IT department has the ultimate authority to manage cell devices and services, but the application of this authority is underdeveloped.
- IT does not have the resources to effectively manage all aspects of cell services.



Cell Phones– why it matters

Effects of IT resource constraints on cell phone management:

- Cell phone orders are not completed timely.
- Business need and bill analysis is not done.
- Onboarding and offboarding processes are not done effectively.
- Current process is vulnerable to waste and ethically questionable decisions.
- Managing cell phones takes time away from other IT responsibilities.



Cell Phones – why it matters

Lack of governance and resources have caused the following waste:

- 208 service lines had zero use at a monthly cost of \$8,300.
- Over 50% of service lines have low use in at least one of talk/text/data. The approximate cost ranges from \$14,000 to \$42,100 per month.
- 31 cell lines are being paid for but there is no active user. Device whereabouts are unknown in some instances.
- IT cellular service records are incomplete and/or inaccurate.



Cell Phones – recommendations

1. Create a full-time position with the primary responsibility to manage and track cellular services and devices, establish onboarding and offboarding procedures and solidify governance authority.
2. Require cellular service users to formally justify the business need for existing tools and services.



Cell Phones – management action plan

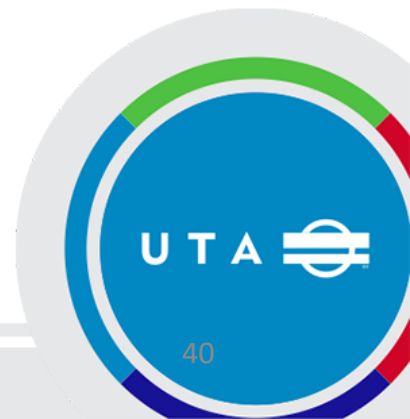
Management action plan:

- Funds will be requested in the 2023 budget to create a full-time position to manage cell phones.
- IT will work with Executive Management to establish clear governance authority and defined roles and responsibilities.
- IT will re-initiate the improvement project focused on the onboarding and offboarding procedures.



Support Fleet Preliminary Performance Audit Report

Engagement #22-06



Support Fleet Performance Audit - Scope

Period of review was focused on activity between April 23, 2021 – April 22, 2022. Periods before and after were reviewed, as necessary.

Audit Scope
Governance
Support Fleet Size
Appropriate Fleet Use
Physical safeguarding of vehicles



Support Fleet – what we found

- The Service Development department lacks the resources and formalized authority to effectively manage the support fleet.
- Management does not have internal policies and SOPs to govern its processes.
- There is a lack of consistent training procedures for users of support vehicles.
- Physical security measures are inadequate to prevent fraud and abuse.



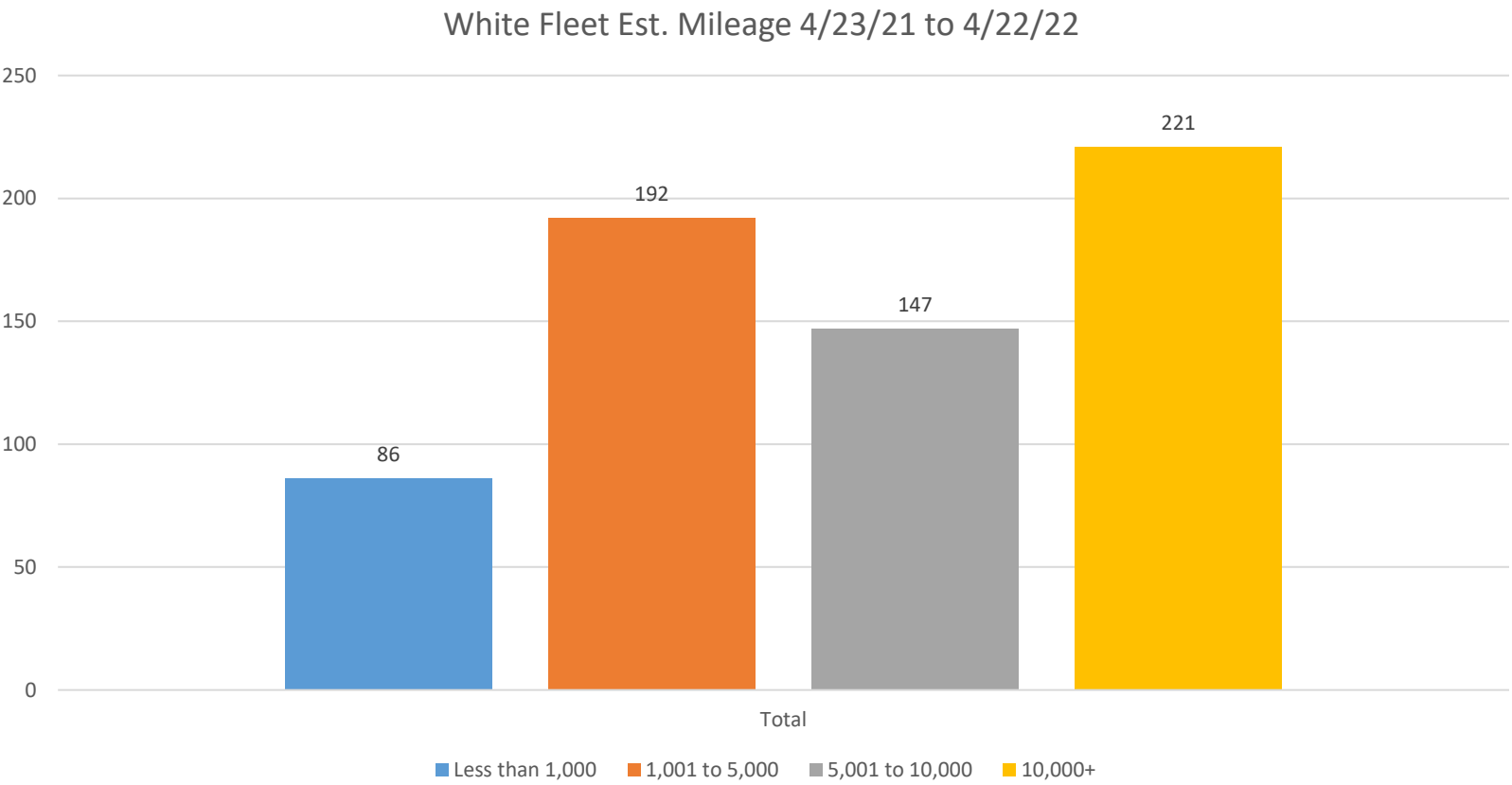
Support Fleet – why it matters

Effects of underdeveloped governance and under-resourcing:

- There are inconsistencies in how vehicles are managed and treated by different departments.
- Maintenance records are not adequately retained or tracked.
- Periodic maintenance could be delayed or not performed at all.
- Vehicle metrics are not adequately measured for performance management.
- Key security practices are not mandated.

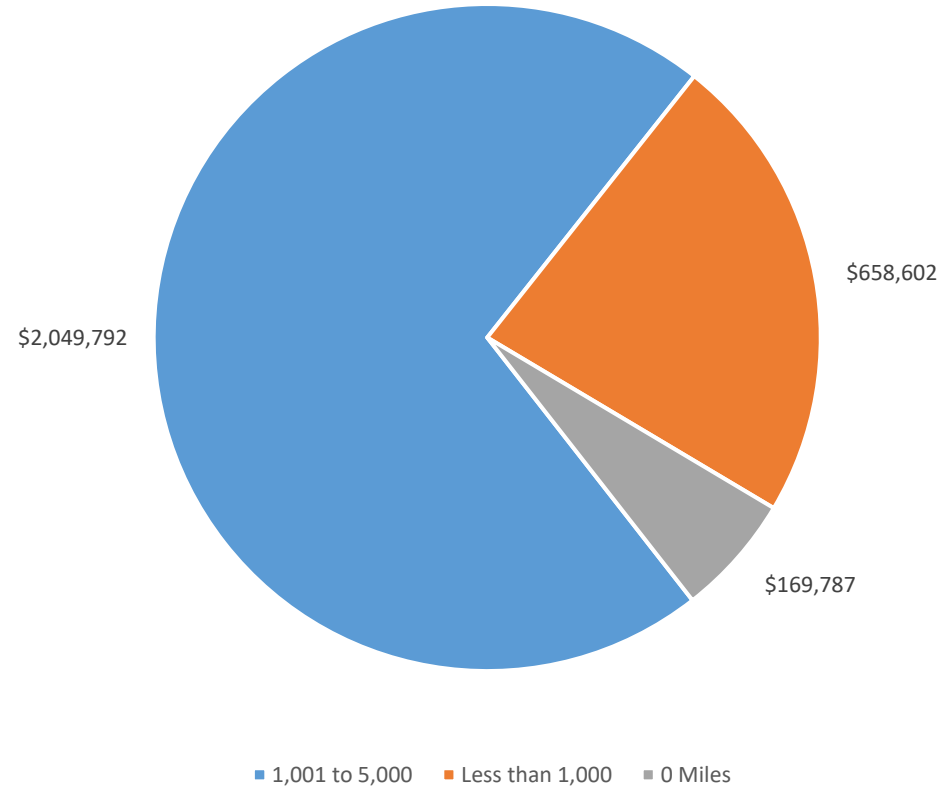


Support Fleet – vehicle use statistics



Support Fleet – current value of low use vehicles

Residual Value Fair Condition by Mileage Driven



Source:

Online vehicle valuation sites,
primarily Kelley Blue Book

Assumptions:

- Base model
- Standard features
- White paint
- Fair condition



Support Fleet – control issue example

Internal Audit relocated a car for one week* without detection by responsible parties.

This was possible because:

- a) The checkout system could be bypassed
- b) Keys were not kept secured
- c) The vehicle was not used enough to be noticed missing

**Audit informed the UTA Police department before doing this test. This security footage was taken 4/5/2022.*



Support Fleet – recommendations

Internal Audit's recommendations for governance and resources:

- Provide Service Development with two additional FTE to meet support fleet needs.
- Implement policies to invest Service Development with necessary authority to manage the support fleet.
- Draft policies and procedures over key areas of responsibility.
- Develop training procedures for employees who use support fleet vehicles.



Support Fleet – recommendations

Internal Audit's recommendations improving fleet size and utilization:

- Track vehicle mileage for underutilization.
- Overhaul vehicle purchasing strategy to better align needs with existing resources.
- Request business need justification for existing vehicles, particularly low use vehicles.
- Streamline the disposal and auction process.
- Investigate ways to more effectively manage the budget strategy for support fleet vehicle purchases.
- Review the use of check-out pool vehicles to determine if any could be repurposed or disposed.



Support Fleet – recommendations

Internal Audit's recommendations improving physical security of vehicles:

- Develop or purchase new check-out software and add additional controls to the checkout process.
- Ensure proper approvals for vehicle use are documented prior to an employee taking custody of a vehicle.
- Keep vehicle keys in a secure area that can only be authorized by employees approved to use a vehicle.



Other Business

Next meeting: Monday, August 29, 2022, at 3:00 p.m.



Adjourn

