



OFFICE OF INSPECTOR GENERAL

FLORIDA DEPARTMENT OF TRANSPORTATION

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Inspector General

Single Audit Compliance Review
Office of Freight Logistics and Passenger Operations
Advisory Report No. 13I-8005

June 10, 2013

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted a single audit compliance review in the Florida Department of Transportation's (department) Office of Freight Logistics and Passenger Operations (FLP), formerly known as the Public Transportation Office (PTO). The purpose of this engagement was to determine if FLP complied with federal and state single audit regulations as well as the department's *Single Audit Procedure*.

While performing this review, we determined single audit compliance reviews had not been conducted previously in FLP or PTO. Program managers were unaware of the laws, rule and department requirements.

We tested seven financial assistance grants, three federal and four state, with total disbursements over \$1 million for fiscal year ended 2010. Of the seven grants reviewed, none were in full compliance (Attachment 1). We identified the following:

- five (72%) agreements contained the required single audit language and provisions from Form DFS-A2-CL pursuant to Rule 69I-5.006(3), Florida Administrative Code (F.A.C.);
- five (72%) files contained evidence of project monitoring;
- two out of the three (67%) required audit reports were received; but
- none (0%) of the audit reports had a date stamp documenting receipt;
- none (0%) of the Single Audit System checklists or audit report expenditure reconciliations were completed; and
- none (0%) of the two Single Audit System threshold certification statements were completed or exemption letters obtained from recipients.

Based on the current findings, we recommend the FLP program managers:

- revise agreement ANE05 to include current single audit contract language and provisions;
- conduct during-the-award monitoring throughout the year;
- proactively attempt to obtain audit reports and hold subrecipients accountable for submitting an audit report;
- attend single audit training to understand their responsibilities, the processes and single audit requirements; and
- comply with the department's *Single Audit Procedure*.

During this review, FLP program managers responsible for active projects initiated corrective action by attending single audit training.

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BACKGROUND AND INTRODUCTION

The department's single audit liaisons and program managers are responsible for maintaining internal controls and reasonable assurance that recipients/subrecipients are complying with laws, regulations and the provisions of grant agreements related to federal and state single audit requirements. Since FLP's program managers oversee a minimal number of agreements, a single audit liaison is not needed. Department program managers reconcile the recipient's/subrecipient's reported expenditures against department funds disbursed and complete the OIG's Single Audit System checklist within six months after receipt of the recipient's/subrecipient's audit report or obtain an exemption letter if the recipient/subrecipient is under the \$500,000 threshold.

The OIG had not conducted single audit compliance reviews previously in FLP or in PTO.

PURPOSE, SCOPE AND METHODOLOGY

Section 20.055, Florida Statutes (F.S.) requires the OIG to conduct audits, examinations, investigations and management reviews related to programs and operations of the department. This engagement was performed as part of the OIG's Annual Audit Plan.

The **purpose** of this engagement was to determine if FLP complied with federal and state single audit regulations as well as the department's Procedure No. 450-010-001, *Single Audit Procedure*.

The **scope** of this advisory was a population of seven federal and state financial assistance grants from the Single Audit System for fiscal year ended 2010 with total disbursements over \$1 million.

The **methodology** included a checklist with 41 individual compliance elements, which were consolidated into these categories:

- reviewing federal and state regulations and the department's *Single Audit Procedure*;
- reviewing agreements for current single audit language and provisions;
- reviewing the recipients'/subrecipients' audit reports for required documents;
- reviewing project files for monitoring documentation;
- reviewing Single Audit System checklist activity and determining if expenditures were reconciled accurately;
- examining management controls and supporting documentation; and
- interviewing appropriate staff.

RESULTS OF REVIEW

The details of our current review are summarized as follows:

Finding 1 – Federal regulations

Objective	To determine if federal financial assistance grants are in compliance with federal regulations.
Conclusion	<p>Of the three federal grants tested, none were in full compliance with federal regulations (Attachment 1). Our testing determined:</p> <ul style="list-style-type: none">• two (67%) agreements contained the required single audit language and provisions;• two (67%) audit reports were received, but without evidence of receipt, such as a date stamp, we could not determine if the audit reports were submitted timely within nine months after the subrecipients' fiscal year end; and• one (33%) file had evidence of during-the-award monitoring.
Condition (Supporting Evidence)	<p>Agreement ANE05 contained outdated single audit language and no audit report was received.</p> <p>There was no evidence of during-the-award monitoring for AP381 and APF43.</p>
Criteria	OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> . Rule 69I-5.006(3), Florida Administrative Code (F.A.C.) for single audit contract language and provisions from Form DFS-A2-CL.
Cause	Program managers were unaware of the single audit laws, rule and department requirements.
Effect (Impact)	Not being aware of the single audit laws, rule and requirements puts the department at risk of noncompliance with federal regulations.
Recommendation	<p>Since agreement ANE05 expires on December 31, 2013, we recommend the program manager:</p> <ul style="list-style-type: none">• revise agreement ANE05 to include current single audit contract language, such as: a \$500,000 threshold,

monitoring and a records retention period pursuant to Form DFS-A2-CL; and

- proactively attempt to obtain an audit report and hold the subrecipient accountable for submitting the report.

Since agreements AP381 and APF43 are closed, there is no recommendation regarding these agreements.

However, for current active agreements, we recommend the program manager conduct during-the-award monitoring activities throughout the year, such as:

- site visits at the subrecipients to review programmatic records and observe operations;
- regular contact and documented inquiries concerning program activities; and
- obtaining status reports demonstrating the project's progress.

Finding 2 – State regulations

Objective

To determine if state financial assistance grants are in compliance with state regulations.

Conclusion

Of the four state financial assistance grants tested, none were in full compliance with state regulations (Attachment 1). Our testing determined:

- three (75%) agreements contained the required single audit language and provisions;
- no audit reports were required to be submitted; and
- all (100%) files contained evidence of monitoring.

Condition (Supporting Evidence)

The department's Joint Participation Agreement Exhibit D provides recipients with information from the Catalog of State Financial Assistance and State Project Compliance Supplement. Exhibit D for agreement APL79 was missing the catalog title.

Criteria

State single audit regulations are contained within:

- Section 215.97, F.S., *Florida Single Audit Act*;
- Section 218.39, F.S., *Annual financial audit reports*; and
- Rule 69I-5.006(3), *State Financial Assistance*, F.A.C. for single audit contract language and provisions from Form DFS-A2-CL.

Cause	The program manager was unaware of the single audit laws, rule and department requirements.
Effect (Impact)	Not providing a recipient with all single audit requirements in the agreement puts the department at risk of noncompliance with state regulations.
Recommendation	<p>Since agreement APL79 is closed, there is no recommendation regarding this agreement.</p> <p>However, we recommend the program manager revise any active agreements to include, along with the catalog number, the official catalog title as well.</p>

Finding 3 – Department procedure

Objective	To determine if the program managers followed the department's <i>Single Audit Procedure</i> .
Conclusion	<p>Of the seven federal and state financial assistance grants tested (Attachment 1), we determined:</p> <ul style="list-style-type: none">• none (0%) of the audit reports had a date stamp documenting receipt or timely submission by the subrecipient;• none (0%) of the Single Audit System checklists and expenditure reconciliations were completed; and• none (0%) of the two Single Audit System threshold certification statements were completed or exemption letters obtained from recipients.
Condition (Supporting Evidence)	<p>Although audit reports were received for AP381 and APF43, there was no date stamp documenting receipt. The date stamp is used to determine if submission is timely.</p> <p>Program managers maintained payment records, but did not complete Single Audit System checklists reconciling recipients' expenditures to department disbursements for ANE05, AP381 or APF43.</p> <p>Joint Participation Agreements for APG90 and APG91 were between the Secure Airports for Florida's Economy (SAFE) Council and City of Pensacola. Although the Center for Urban Transportation Research (CUTR) managed the grants, the department disbursed state financial assistance and, therefore,</p>

	<p>the program manager is responsible for reconciling expenditures in the Single Audit System.</p> <p>Expenditures for APD03 and APL79 were under the \$500,000 threshold and were exempt from single audit reporting. However, the program managers did not complete a Single Audit System threshold certification statement or obtain exemption letters from the recipients.</p>
Criteria	<p>The department's Procedure No. 450-010-001, <i>Single Audit Procedure</i>, establishes responsibilities for the program managers, which includes:</p> <ul style="list-style-type: none">• maintaining knowledge of federal and state laws, rules and regulations;• advising recipients/subrecipients of requirements imposed on them by federal and/or state laws, rules and regulations and provisions under their agreements; and• reviewing audit reports, reconciling the expenditures and completing Single Audit System checklists within six months after receipt of the audit report or documenting a recipient's/subrecipient's exemption by completing a Single Audit System threshold certification statement.
Cause	<p>Program managers were unaware of the department's procedure and their responsibility for grants subject to single audit.</p>
Effect (Impact)	<p>Not following the department's <i>Single Audit Procedure</i> diminishes the department's monitoring ability and accounting for funds expended by recipients/subrecipients.</p>
Recommendation	<p>We recommend program managers:</p> <ul style="list-style-type: none">• attend single audit training to understand their responsibilities, the processes and single audit requirements; and• comply with the department's Procedure No. 450-010-001, <i>Single Audit Procedure</i>.
Corrective Action Taken	<p>FLP program managers responsible for active projects initiated corrective action by attending single audit training.</p>

APPENDIX A – Management Response

Annette Lapkowski, P.E., Director of Intermodal Systems Development (ISD) Financial Services, submitted the following response on May 31, 2013:

FLP’s Response to Finding 1 – Federal regulations: *We concur with the finding.*

FLP’s Corrective Action: FLP project managers will review current active agreements and will conduct grant monitoring that may include site visits, documentation on grant activities, or obtaining progress reports. There will be no action on closed agreements. The tentative completion date for the review of existing agreements will be August 30, 2013.

FLP’s Response to Finding 2 – State regulations: *We concur with the finding.*

FLP’s Corrective Action: FLP project managers will review current active agreements and will revise agreements to include the catalog number and the official catalog title. There will be no action on closed agreements. The tentative completion date for the review of existing agreements will be August 30, 2013.

FLP’s Response to Finding 3 – Department procedure: *We concur with the finding.*

FLP’s Corrective Action: As noted, the FLP project managers have taken single audit training to understand the requirements and their responsibilities. Every effort will be made to complete the Single Audit System checklists in a timely manner with detailed comments. In addition, Intermodal System Development Financial Services staff will also take single audit training and will become familiar with the Department’s Procedure No. 450-010-001, *Single Audit Procedure* to aid in ensuring FLP is in compliance with State and Federal regulations.

DISTRIBUTION, PROJECT TEAM AND STATEMENT OF ACCORDANCE

Action Official Distribution:

Richard Biter, Assistant Secretary for Intermodal Systems Development
Juan Flores, Administrator, Office of FLP Operations
Annette Lapkowski, P.E., Director, ISD Financial Services

Information Distribution:

Ananth Prasad, P.E., Secretary of Transportation
Brian Peters, Assistant Secretary for Finance and Administration
Robin Naitove, Comptroller
Ken Harvey, Finance Director, Federal Highway Administration (FHWA)
Dyshá Weems, Financial Specialist, FHWA

Project Team:

Engagement was conducted by:
Helen Titoff, Auditor
Under the supervision of:
Joseph W. Gilboy, Audit Manager; and
Kristofer B. Sullivan, Director of Audit
Approved by:
Robert E. Clift, Inspector General

Statement of Accordance

The mission that ensures the integrity and performance of the Department of Transportation

The mission of the Office of Inspector General is to ensure the integrity and performance of the Department of Transportation through independent, objective, and confidential audits and investigations.

This work product was prepared in accordance with the applicable Principles and Standards of the International Association of Auditors and Accountants (IAA) and the Association of Inspectors of Internal Auditing as published by the Institute of Internal Auditors (IIA).

This report is intended for informational purposes only and is not intended to be used for legal or regulatory purposes. This report is intended for informational purposes only and is not intended to be used for legal or regulatory purposes.

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to ensure the integrity, efficiency, and effectiveness of the system, and to promote the prosperity, safety, and security of the State.

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ATTACHMENT 1 – Compliance Review Elements

Federal:			Federal Requirements			Department Procedure		
Agreement Number	Subrecipient	Disbursements	Agreement contained required single audit language and provisions?	Audit report received? Timely?	Evidence of during-the-award monitoring?	Evidence of audit report received (date stamped)?	Single Audit System checklist completed and expenditures reconciled?	Under Threshold Certification completed and exemption letter obtained?
ANE05	South Florida Regional Transportation Authority (SFRTA)	\$438,794.37	No	No	Yes	No	No	--
AP381	Ride Solution	\$19,205.92	Yes	Yes / Unknown	No	No	No	--
APF43	Ride Solution	\$156,581.94	Yes	Yes / Unknown	No	No	No	--
TOTAL:		\$614,582.23						

State:			State Requirements			Department Procedure		
Agreement Number	Recipient	Disbursements	Agreement contained required single audit language and provisions?	Audit report received? Timely?	Evidence of monitoring?	Evidence of audit report received (date stamped)?	Single Audit System checklist completed and expenditures reconciled?	Under Threshold Certification completed and exemption letter obtained?
APD03	Florida Airports Council	\$56,038.00	Yes	Exempt	Yes	Exempt	--	No
APG90	City of Pensacola	\$56,663.00	Yes	N/A*	Yes	N/A*	No	--
APG91	City of Pensacola	\$44,930.00	Yes	N/A*	Yes	N/A*	No	--
APL79	Florida Ports Council	\$370,000.00	No	Exempt	Yes	Exempt	--	No
TOTAL:		\$527,631.00						

*N/A – CUTR managed the grants for City of Pensacola; the department disbursed state financial assistance.