Utah Transit Authority

669 West 200 South
Salt Lake City, UT 84101

Audit Committee

REGULAR MEETING AGENDA

Monday, September 23, 2024   **3:00 PM**   **FrontLines Headquarters**

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

1. **Call to Order & Opening Remarks**   Chair Carlton Christensen

2. **Safety First Minute**   Patrick Preusser

3. **Consent**   Chair Carlton Christensen

   a.   Approval of July 11, 2024 Audit Committee Meeting
        Minutes

4. **Audit Committee Actions**

   a.   Internal Audit Charter Approval   Mike Hurst

5. **Internal Audit Update**

   a.   Internal Audit Update   Mike Hurst
        - 2024 Audit Plan Status
        - Other Internal Audit Activities

   b.   Open Issues Follow Up Report   Mike Hurst

6. **Internal Audit Reports**

   a.   Payroll Process Preliminary Assessment (R-24-06)   Mike Hurst
                                                                         Luke Barber
                                                              Mary Ann Schwalbendorf
                                                                        Sandra Evans

   b.   Follow-up of the Limited Scope Assessment of the   Mike Hurst
        Vendor Master File Review (R-23-05)   Viola Miller
                                                                        Eric Barrett

   c.   Fleet Engineering Follow-up (R-22-04)   Luke Barber
                                                                        Nathan Hess
                                                                     Phillip Burtcher

7. **Other Business**   Chair Carlton Christensen

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a.   Next Meeting: Monday, December 16, 2024 at
3:00 p.m.

8.   Adjourn   Chair Carlton Christensen

Meeting Information:

•   Special Accommodation: Information related to this meeting is available in alternate format upon request by contacting adacompliance@rideuta.com or (801) 287-3535. Request for accommodations should be made at least two business days in advance of the scheduled meeting.

•   All members of the Audit Committee and meeting presenters will participate in person, however committee members may join electronically as needed with 24 hours advance notice.
•   Meeting proceedings may be viewed remotely by following the instructions and link on the UTA Public Meeting Portal - https://rideuta.legistar.com/Calendar.aspx
•   In the event of technical difficulties with the remote connection or live-stream, the meeting will proceed in person and in compliance with the Open and Public Meetings Act.
•   Public Comment will not be taken at this meeting, but general comment may be given online through https://www.rideuta.com/Board-of-Trustees. Comments may also be sent via e-mail to boardoftrustees@rideuta.com

•   Meetings are audio and video recorded and live-streamed.
•   Motions, including final actions, may be taken in relation to any topic listed on the agenda.

Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 9/23/2024

TO: Audit Committee
FROM: Jana Ostler, Board Manager

TITLE:

Approval of July 11, 2024 Audit Committee Meeting Minutes

AGENDA ITEM TYPE:

Minutes

RECOMMENDATION:

Approve the minutes of the July 11, 2024 Audit Committee meeting

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BACKGROUND:

A special meeting of the UTA Audit Committee was held in person and broadcast live through the UTA meetings website on Thursday, July 11, 2024 at 1:00 p.m. Minutes from the meeting document the actions of the committee and summarize the discussion that took place in the meeting. A full audio recording of the meeting is available on the [Utah Public Notice Website <](#)
https://www.utah.gov/pmn/sitemap/notice/926075.html[>](#)
 and video feed is available through the UTA Public Meetings Portal at
https://rideuta.legistar.com/Calendar.aspx.

ATTACHMENTS:

2024-07-11_AUDIT_Minutes_UNAPPROVED

Utah Transit Authority
Audit Committee
MEETING MINUTES - Draft

669 West 200 South
Salt Lake City, UT 84101

Thursday, July 11, 2024	1:00 PM	FrontLines Headquarters

Special Meeting

Present: Chair Carlton Christensen
                  Jeff Acerson
                  Beth Holbrook
Excused: Troy Walker
Remote: Bob Stevenson

Also in attendance were UTA staff and interested community members.

1.   Call to Order & Opening Remarks

UTA Board Chair Carlton Christensen welcomed attendees and called the meeting to order at 1:10 p.m. He announced this is an in-person, recorded meeting with live streaming available online. Chair Christensen noted Committee Member Troy Walker is excused and Committee Member Bob Stevenson is participating remotely.

2.   Safety First Minute

Rob Lamph, UTA Comptroller, delivered a brief safety message.

3.   Consent

a.   Approval of June 24, 2024 Audit Committee Meeting Minutes

A motion was made by Trustee Holbrook, and seconded by Committee Member Stevenson, to approve the consent agenda. The motion carried by unanimous vote.

4.   Audit Committee Actions

a.   2023 UTA Annual Comprehensive Financial Report (ACFR) and National Transit Database (NTD) Agreed Upon Procedure Report

Rob Lamph, UTA Comptroller was joined by Eric Barrett, UTA Deputy Comptroller, and by Vi Miller, UTA Chief Financial Officer, who connected remotely. Lamph recognized Barrett for his efforts in putting together the reports as Interim Comptroller.

Lamph introduced Brad Schelle from Crowe LLP, UTA's external auditors, to present the agency's 2023 Annual Comprehensive Financial Report (ACFR) and National Transit Database (NTD) Agreed Upon Procedure Report.

Schelle introduced the Crowe LLP Team and highlighted the following information:
- The audit approach.
- Two new accounting standards: GASB 94 - Public-Private and Public-Public Partnerships and GASB 96 - Subscription-Based Information Technology Arrangements.
- The audit timeline which was pushed back two months due to staff turnover at UTA.
- Audit deliverables including financial statements and compliance documents.
- Audit results (referenced below).
- Required communications - the only item of note was a delay in Crowe receiving information from UTA and completing year-end fieldwork testing due to key staff turnover in UTA accounting positions.
- Emerging accounting standards and implementation dates: GASB 100 - Accounting Changes and Error Corrections and GASB 101 - Compensated Absences (12/31/24). GASB 102 - Certain Risk Disclosures (12/31/25), and GASB 103 - Financial Reporting Model Improvements (12/31/26).

Schelle presented a full summary of the Audit Results which identified:
- An unmodified (clean) opinion
- No material weaknesses in internal controls
- One significant deficiency in internal controls
  - Controls over the preparation of the Schedule of Expenditures of Federal Awards
- Six deficiencies communicated verbally
  - Census data
  - Improper accrual of expenses
  - Payment of invoices within 60 days in accordance with Utah State Law
  - Capital assets not placed into service timely
  - Inaccurate calculation of depreciation
  - GASB 96 implementation issues
- No posted audit adjustments
- One waived adjustment
  - $8 million of capital assets that were incorrectly still in construction in progress and not being depreciated, that were already in service
- No observations noted in the NTD testing.

Schelle noted UTA's finance team are now fully staffed, the deficiencies are being addressed, and corrective processes are in place. He mentioned Crowe have offered assistance to Miller and staff to review the audit, answer questions, and provide further direction and suggested improvements as needed.

Discussion ensued. Questions relating to the handling of capital accounting, software service agreement liability, census data, and difficulties encountered during the audit under "required communications", were posed by the committee and answered by Schelle and staff.

Miller thanked Schelle and his team for their work and patience during the audit process.

A motion was made by Trustee Acerson, and seconded by Committee Member Stevenson, to recommend acceptance of the 2023 UTA Annual Comprehensive Financial Report (ACFR) and National Transit Database (NTD) Agreed Upon Procedure Report by the Board of Trustees as presented. The motion carried by unanimous vote.

5. Other Business

    a.   Next Meeting: Monday, September 23rd, 2024 at 3:00 p.m.

6. Adjourn

A motion was made by Trustee Holbrook, and seconded by Trustee Acerson, to adjourn the meeting. The motion carried by unanimous vote and the meeting adjourned at 1:55 p.m.

Transcribed by Hayley Mitchell
Executive Assistant to the Board
Utah Transit Authority

This document is not intended to serve as a full transcript as additional discussion may have taken place; please refer to the meeting materials or audio located at: <https://www.utah.gov/pmn/sitemap/notice/926075.html> for entire content. Meeting video is accessible at: <https://rideuta.granicus.com/player/clip/310?view_id=1&redirect=true>. This document along with the digital recording constitute the official minutes of this meeting.

Approved Date:

_____
Carlton Christensen
Chair, UTA Audit Committee

Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 9/23/2024

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

TITLE:

Internal Audit Charter Approval

AGENDA ITEM TYPE:

Audit - Approval

RECOMMENDATION:

Review and approve the revised Internal Audit Charter as presented.

BACKGROUND:

The Audit Committee Charter (mandated by the Authority's Bylaws) requires an Internal Audit Charter to be reviewed and approved annually by the committee. The Internal Audit Charter is a written document that sets the scope, authority, and standards of the Internal Audit function. The charter is reviewed annually, and changes are presented to the Audit Committee for approval.

DISCUSSION:

The proposed Internal Audit Charter has been updated to reflect new standards adopted by the Institute of Internal Auditors (IIA) to comply with requirements in state law. The Charter also clarifies audit types and reporting procedures and removes the responsibility for discrimination and retaliation investigations, with that function being transferred to the Office of the Attorney General to perform.

ALTERNATIVES:

The Audit Committee may make suggestions for further revisions to the charter.

FISCAL IMPACT:

There is no fiscal impact from the proposed changes.

ATTACHMENTS:
Internal Audit Charter - September 2024 Draft

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.

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 Director of Internal Audit and the Internal Audit staff have responsibility to:

- 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

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- Perform independent and objective audit engagements~~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~~ audit engagement 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
- Perform safety related audits required by the Federal Transit Administration.
- Support UTA management in their interaction with the external financial a~~A~~uditors
- Assist UTA management to facilitate other external compliance a~~A~~udits 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
- Establish and maintain a Quality Assurance and Improvement Program ("QAIP") in accordance with the *International Standards for the Professional Practice of Internal Auditing*
- Ensure that a peer review is conducted every five years, and that results are communicated to the Audit Committee
- 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
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- 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 UTA's Legal Counsel
- 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
- ~~Internal Audit serves as UTA's investigators for any claims of retaliation or discrimination.~~

- ~~Perform safety related audits required by the Federal Transit Administration.~~

- ~~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~~
- ~~Establish and maintain a Quality Assurance and Improvement Program ("QAIP") in accordance with the *International Standards for the Professional Practice of Internal Auditing*~~
- ~~Ensure that a peer review is conduct every five years, and that results are communicated to the Audit Committee~~

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- 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 and is submitted to the Audit Committee for review and approval.

The annual Audit Plan is comprised of topics or processes to be the subject of audit engagements, and 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 Director of Internal Audit will present a proposed annual Audit Plan to the Audit Committee for approval. The Audit Plan is a list of topics or processes that will be the subject of audit engagements. Any significant deviation from the approved Audit Plan, such as adding a large audit engagement or removing an audit engagement, from the formally approved Audit Plan will be communicated submitted to the Audit Committee for review and approval. Small changes, such as changing the type of engagement performed or small requested audit engagements can be carried out without Audit Committee approval and will be reported in the Director of Internal Audit's quarterly report to the Audit Committee.

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The Internal Audit Plan will be developed in a manner that allows for the coverage of UTA's highest risk areas in a three-year period. The Director of Internal Audit, 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 typical Audit process at a high-level:
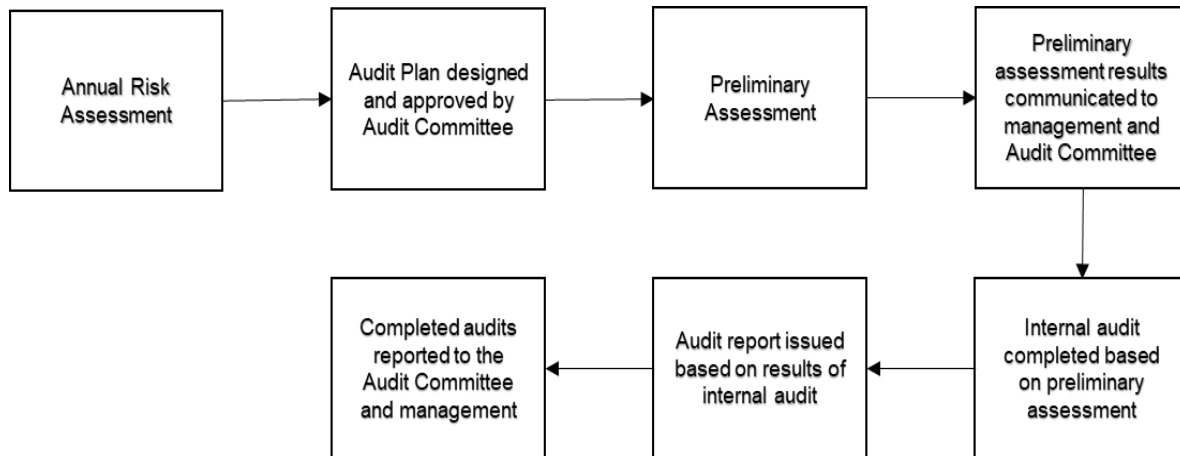
A preliminary assessment is the typical type of engagement for Internal Audit to conduct. The primary purpose of a preliminary assessment is to evaluate the control environment of the process or topic. A preliminary assessment may progress to an audit phase to test the operation of the control environment. Further follow-up of outstanding issues may be conducted as a separate phase, as necessary.

Internal Audit may perform other types of audit engagements, such as performance audits, which evaluate a department's success against an objective criteria or measurement, or a compliance audit, which measures adherence to specific regulations, laws, or policies. Internal Audit will select the audit type during the planning of the engagement.

REPORTING

A ~~preliminary assessment~~ report will be issued by the Director of Internal Audit to the Audit Committee following the completion of any engagement phase (preliminary assessment, audit, follow-up). ~~assessment of a process or department to provide an initial view on the governance and control environment as part of the audit process.~~ The report will document observations, recommendations, and management action plans, as necessary. The ~~preliminary assessment~~report will be provided to the Audit Committee members and discussed ~~with the~~at a future Audit Committee meeting. Reports may be restricted from public release if classified as protected under the provisions of the Governmental Records Access and Management Act (Utah Code, §63G-2-101, _et seq._)

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  - ~~A final written report will be issued by the Director of Internal Audit following the finalization of each audit and will be distributed as appropriate. The report will include findings and recommendations along with management's action plans. The audit report will be discussed with the Audit Committee.~~

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- Other engagement types will have a report issued by the Director of Internal Audit outlining any findings, recommendations, and management action plans. The report will be provided to the Audit Committee members and discussed in a future Audit Committee meeting.
- The Director of Internal Audit may report urgent issues to the Board of Trustees as necessary.

INDEPENDENCE AND AUTHORITY

To provide for Internal Audit's independence, the Director of Internal Audit reports directly to the Board of Trustees. All Internal Audit personnel will report to the Director of Internal Audit. The Director of Internal Audit 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 Director of Internal Audit in private and apart from UTA management, if the meeting satisfies the criteria for a closed session under Utah's Open and Public Meetings Act (Utah Code §52-4-101, *et seq.*).

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 Director of Internal Audit.

STANDARDS OF AUDIT PRACTICE

The Internal Audit will adhere to mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Definition of Internal Auditing, and the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors in the execution of its duties. During 2024, Internal Audit will begin adopting the 2024 Global Internal Audit Standards published by The Institute of Internal Auditors on January 9, 2024, with full compliance by 2025.

Revision/Review History:

Date	Action
3/28/2018	Board of Trustees adopted Internal Audit Charter by R2018-03-03
6/10/2019	Audit Committee presented with revised Internal Audit Charter for review on 4/29/19; Audit Committee approved the Charter on 6/10/2019.
2/10/2020	Revised Internal Audit Charter reviewed and approved by Committee on 2/10/20 with minor verbiage updates.
2/1/2021	Internal Audit Charter presented and approved by the Audit Committee with no changes.

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Draft September 2024February 2023

1/31/2022	Committee adopted revised Internal Audit Charter. Revisions included title changes for staff functions and updates to audit processes including establishment of a QAIP, documentation of a peer review process, and expanded standards of audit practice.
3/6/2023	Audit Committee Charter duties and responsibilities amended to include the Committee's review and approval of the Internal Audit Charter annually. Committee approval of revised Internal Audit Charter that adds responsibility for EEO investigations, safety audits, and removes duties to facilitate UTA's annual risk assessment which will be done by management.
9/23/2024	Language was added to reflect new standards adopted by the Institute of Internal Auditors (IIA) that comply with State of Utah law, and to clarify audit types. Removed language about investigating discrimination and retaliation claims which will be done by the Office of the Attorney General.

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Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 9/23/2024

TO: Audit Committee
THROUGH: Jay Fox, Executive Director
FROM: Mike Hurst, Director of Internal Audit
PRESENTER(S):   Mike Hurst, Director of Internal Audit

TITLE:

Internal Audit Update
- **2024 Audit Plan Status**
- **Other Internal Audit Activities**

AGENDA ITEM TYPE:
Report

RECOMMENDATION:
Informational report for discussion

BACKGROUND:
Internal Audit provides periodic updates to the Audit committee on work completed and progress made.

DISCUSSION:
Internal Audit will report on their activities since the June 24, 2024 Audit Committee Meeting.

The following items will be discussed:

- Status of engagements listed on the 2024 Audit Plan

- Other Internal Audit activities completed will be discussed, including completion of employee 2024 financial disclosures.

ALTERNATIVES:
N/A

FISCAL IMPACT:

N/A

ATTACHMENTS:

None

Utah Transit Authority

MEETING MEMO

Audit Committee **Date:** 9/23/2024

TO: Audit Committee
THROUGH: Jay Fox, Executive Director
FROM: Mike Hurst, Director of Internal Audit
PRESENTER(S): Mike Hurst, Director of Internal Audit

TITLE:

Open Issues Follow Up Report

AGENDA ITEM TYPE:

Report

RECOMMENDATION:

Informational item for discussion

BACKGROUND:

In the March 11, 2024 Audit Committee meeting, the committee requested an accounting of outstanding items or uncompleted action plans (also referred to as open issues) from previous audit engagement phases.

DISCUSSION:

Internal Audit will provide an update on the status of the open issues follow up report.

ALTERNATIVES:

N/A

FISCAL IMPACT:

N/A

ATTACHMENTS:

None

Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 9/23/2024

TO: Audit Committee
THROUGH: Jay Fox, Executive Director
FROM: Mike Hurst, Director Internal Audit
PRESENTER(S): Mike Hurst, Director Internal Audit
                   Luke Barber, Senior Internal Auditor
                   Mary Ann Schwalbendorf, Payroll Manager

TITLE:

Payroll Process Preliminary Assessment (R-24-06)

AGENDA ITEM TYPE:
Report

RECOMMENDATION:
Informational report for discussion.

BACKGROUND:
Internal Audit completed a preliminary assessment of Payroll in June 2024. We evaluated the department's governance, including separation of duties within the functions, resourcing and expertise, and the state of policy and standard operating procedure. We also performed substantive testing over a sample of payroll items, including paid leave categories, interim checks, and overtime payments.

DISCUSSION:
Internal Audit will report on observations and recommendations from the audit.

ALTERNATIVES:
Not applicable

FISCAL IMPACT:
Not applicable

ATTACHMENTS:
R-24-06 Payroll Process Preliminary Assessment

INTERNAL AUDIT

Preliminary Assessment of Payroll Process

R-24-06

June 25, 2024

Table of Contents

Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action[1]	For Information	Reviewed prior to release
Executive Director		*	*
Chief Financial Officer		*	*
Payroll Manager	*	*	*
Payroll Supervisor	*	*	*

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

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Executive Summary

Introduction

The Audit Committee directed Internal Audit (IA) to perform an audit engagement to determine if governance and controls around the payroll process are sufficient to meet management objectives. The Audit Committee approved the Audit Plan on December 18, 2023.

IA completed the assessment on June 20, 2024, and conducted it in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors.

Background and Functional Overview

UTA Payroll is a sub-department of the Finance Office. The department consists of a manager, supervisor, and three payroll analysts.

Payroll has responsibility for processing paychecks twenty-six (26) times a year for all UTA employees, approximately 3,000 as of June 2024. Payroll's duties include ensuring accurate payroll payments, recordkeeping, payroll reconciliation, ensuring compliance with payroll tax and related laws, and assisting employees with payroll related issues and questions.

Objectives and Scope

The period under review was January 1, 2023 – December 31, 2023. IA applied risk-based planning to select the following areas for testing:
- Overtime and graveyard shift payments
- Vacation and sick leave payments
- Personal time payments
- Vacation sell-back payments[1]
- 457 deferred compensation matches
- Interim checks[2]
- Hiring bonus and other spot bonus[3]

IA also evaluated the Payroll department's governance against principles established by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") We evaluated if Payroll has sufficient resources to complete their responsibilities. We verified if Payroll has necessary expertise by documenting staff education, certifications, and training attendance. We confirmed if management has developed standard operating procedures ("SOP") to ensure that governance is adequately integrated. We reviewed management's red flag monitoring program and confirmed that there was separation of key duties ("SOD") sufficient to reduce the likelihood of fraud and abuse.

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[1] UTA employees are permitted to "sell-back" vacation if certain time-of-service conditions are met.
[2] Interim checks are payments made between regularly scheduled pay periods, for reasons such as to correct a significant error on an employee's regular paycheck.
[3] UTA does not offer "bonuses" in the usual sense. Bonuses are generally limited to hiring incentives and certain award programs, such bonuses offered to bus operators who reach mileage milestones.

Summary

Throughout this preliminary assessment, we observed numerous strengths, best practices, and accomplishments within UTA Payroll. We found that the department has adequate resources, that staff is highly qualified related to education, experience, and training, and that management proactively monitors payroll red flags, such as discrepancies in pay rates and vacation balances.

Our review of SOD found that greater separation is needed in areas of performing and approving payroll actions. However, we judged the issue to have low severity and decided not to report it as a formal issue in this report. The lack of separation is a result of a historically small Payroll department. The Payroll Manager position did not exist prior to 2024, and management expects to create greater SOD with this position now filled. IA will follow-up with management during a follow-up phase of the engagement.

We found that management has not adopted sufficient SOP, but that extensive informal documentation of key processes does exist. This documentation is not a substitute for formally adopted SOPs, but it does demonstrate a level of management responsibility and concern for continuity. We decided not to report it as a formal issue, but we will follow-up with management on progress toward formal SOPs during a follow-up phase of the engagement.

Our testing of payroll line items yielded the following results:
- Overtime and graveyard shift payments – no exceptions.
- Vacation and sick leave payments – no exceptions.
- Personal time payments – no exceptions.
- Vacation sell-back payments – we noted instances of employees violating vacation sell-back policy.
- 457 deferred compensation match – no exceptions.
- Interim checks – no exceptions.
- Hiring bonus and other spot bonus – no exceptions.

We observed during the testing that there are opportunities to improve documentation retention. Management retains documents in a shared drive folder with reasonable organization. Nonetheless, when we had exceptions we could not always find the underlying documentation and had to rely on management. It was not always quick and intuitive for Payroll employees to find needed documentation. We recommend that management use built-in attachment features of the JD Edwards accounting system to directly associate material exceptions with documentation. We intend this recommendation as a process improvement and not as a finding that indicates there was a significant deficiency or violation of policy.

IA appreciates the assistance offered by UTA Payroll management and staff in completing this preliminary assessment.

PA Finding R-24-06-01	Vacation Sell-back exceeded policy	Risk Level: Low

Criteria:
Per policy UTA.05.02 Paid Time Off - Administrative Employees section 3(B):

> *Vacation policy - Employees who accrue 168 hours or more per year may elect to sell back up to 40 hours of vacation per year.*

Additionally, per the 12/11/2022 - 12/10/2025 Collective Bargaining Agreement (CBA) ARTICLE 21: VACATIONS Page 22 line 3 states:

> *UTA shall allow operators to request and be paid for unused available vacation. Operators with two or more weeks of accrued and available vacation, in lieu of time off, may choose to receive pay in **full week increments** for all but one week.* (Bold added for emphasis).

Condition:
IA found in testing vacation sell-back compliance that 22 employees used the vacation sell-back code multiple times during the year. Each of these time entries were subsequently approved by their supervisor(s) and in some instances, this exceeded the amount of vacation sell-back as allowed by policy. Nine of these employees incorrectly sold back an additional 412 vacation hours which did not conform to UTA policy, or the Collective Bargaining Agreement (CBA) for union employees. IA also noted that the employees who sold extra hours were not operators, and therefore should not have been able to sell back more than forty (40) vacation hours.

Underlying Cause:
The Payroll department has been relying on the employee's supervisors to know the appropriate policy and applying when vacation time sellback would be allowed. IA noted that Operators submit a Payroll Memo when they are using their option to sell back vacation hours, while other departments did not appear to follow the same procedure.

Effect:
The total value of the excess vacation time paid out was approximately $14,000.

Recommendations:
1. Management should work with the Total Rewards department to educate supervisors on vacation sell-back policy and procedure.
2. We recommend that Management develop a form or memo required for all employees requesting vacation sell-back that verifies that all eligibility requirements are met before the sell-back is processed.
3. We recommend that Management monitors the vacation sellback entries to detect any future occurrences of the error.
4. We recommend that Management *not* attempt to claw-back past errors.

Management Response and Action Plan:
The Payroll Department has taken pro-active measures to mitigate the risk of vacation sell back that is not within policy. A new JDE report has been created titled "Vacation Sell Back Verification". This new report shows year-to-date sell back hours compared with the current pay period vacation sell back by employee type. This report is being used during the payroll cycle to ensure that all vacation sell back is conducted according to UTA policy.

Management agrees that a refresher training session in conjunction with Total Rewards for all supervisors and office specialists would be beneficial. We believe that with the implementation of the new JDE report and the refresher training that the risk would be sufficiently mitigated, and another form or memo would not be required.

Management agrees that the monies should not be clawed back. Some of the employees involved are now retired and the overall amount that could be clawed back is immaterial.

Target Completion Date:

The new JDE report is already in affect and management has targeted the third quarter of 2024 for remedial training.

PA Finding R-24-06-2	Recommendation to use JDE for document storage	Risk Level: Medium

Criteria:
Since COSO has published its *Internal Control – Integrated Framework* (Framework) it has gained broad acceptance and is widely used around the world. The COSO Framework is recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control.

Component Four: Information & Communication, Principle 13 within the Framework states:

> *The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.*

The Points of Focus for Principle 13 further elaborates:

> *Information systems produce information that is timely, current, accurate, complete, **accessible,** protected, and **verifiable and retained**. Information is reviewed to assess its relevance in supporting internal control components (*emphasis added with bold*).*

Condition:
Due to the complex nature of UTA's payroll, there are unusual circumstances or exceptions in most pay periods. The documentations for these exceptions are stored in a shared folder instead of the built-in retention of the JD Edwards system where payroll is processed. The focus of this recommendation is limited to offering recommendations for better data organization and retention in these exception scenarios.

Underlying Cause:
Not applicable

Effect:
IA noted that throughout the audit there were frequent exceptions, or special situations, within each area of our testing. IA has access to the Payroll Department's shared drive, but we often could not find the underlying documentation and would find it necessary to contact the Payroll Department to obtain the answers. In all but the one instance noted above in Finding R-24-06-1, Payroll would ultimately provide the documentation, and we resolved the question. However, this process is time consuming for all involved.

Additionally, the current practices for data retention relies heavily on the institutional knowledge of a few individuals to locate and produce information. The risk of UTA losing this knowledge can be reduced by improving the way Payroll stores documentation.

Recommendations:

1. We recommend that the Payroll Department use the Attachment Manager feature of JD Edwards to directly associate exception documentation with the related paycheck.

    Examples of information that they could attach to a paystub could include, but are not limited to, an employee's final check and severance pay calculations, hiring bonuses, notes or calculations for double-overtime, and corrections to time entries. If adopted, management would want to consider materiality thresholds and other efficiency considerations. For example, every pay period has a large volume of small-value gift cards employees receive through a rewards program. Management documents these with a reports showing all employees with gift cards that pay period. Matching gift card documentation with each of receiving employee would be impractical and unnecessary given the small dollar amount.

Management Response and Action Plan:

Management agrees that certain complex, uncommon, or singular transactions should have the directly associated documentation attached to the item in JDE. This can be achieved by utilizing the attachment functionality within JDE's payroll module. A new standard operating procedure will be crafted with the parameters to be applied to these types of transactions and subsequent documentation requirements.

Target Completion Date:

Management expects that the process could be instituted by the end of the third quarter 2024.

Utah Transit Authority

MEETING MEMO

Audit Committee **Date:** 9/23/2024

TO:	Audit Committee
THROUGH:	Jay Fox, Executive Director
FROM:	Mike Hurst, Director Internal Audit
PRESENTER(S):	Mike Hurst, Director Internal Audit
	Viola Miller, Chief Financial Officer
	Eric Barrett, Deputy Comptroller

TITLE:

Follow-up of the Limited Scope Assessment of the Vendor Master File Review (R-23-05)

AGENDA ITEM TYPE:

Report

RECOMMENDATION:

Informational report for discussion.

BACKGROUND:

The vendor master file is an accounting database of vendors that are authorized to be paid from company bank accounts. Internal Audit completed a limited scope assessment of the vendor master file in May 2023. The objectives of that assessment were to ensure that controls are adequately designed to safeguard funds and that the record data was accurate, complete, and consistent. We found financial security issues in the area and so the report was presented to the Audit Committee in closed session on 10/16/2024. We completed a follow-up phase of this assessment in August 2024 that reviewed management progress of action plans, re-tested data attributes, and reviewed the area of security concern. Management had addressed the security concerns and shown progress in other areas.

DISCUSSION:

Internal Audit will report on observations from the follow-up phase of the assessment.

ALTERNATIVES:

Not applicable

FISCAL IMPACT:
Not applicable

ATTACHMENTS:
R-23-05 Vendor Master File report - follow up

U T A INTERNAL AUDIT

Follow-up of the Limited Scope Assessment of the Vendor Master File Review

R-23-05

September 3, 2024

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action[1]	For Information	Reviewed prior to release
Audit Committee		*	
Executive Director		*	*
Chief Financial Officer	*	*	
Comptroller		*	
Deputy Comptroller		*	
Accounting Supervisor		*	

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

Executive Summary

Introduction

The Audit Committee directed Internal Audit ("IA", alternatively referred to as "we") to conduct an engagement over the Vendor Master File to determine whether controls are designed to effectively manage vendor payments and reduce the likelihood and impact of fraud, waste, and abuse. We completed the initial phase in May 2023 but did not publicly release the report because of security concerns. We completed the follow-up phase on June 25, 2024 and conducted it in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute for Internal Auditors.

Background and Overview

A vendor master file ("VMF"), for purposes of this report, refers to the database of vendor information used by the Accounts Payable team ("AP") as the list of vendors approved for payments. While AP are the users of the VMF, the Accounting team ("Accountants") enters information into the database as a function of separation of duty ("SOD"). A well-controlled and managed VMF is essential for accurate and timely payments, and for reducing fraudulent abuse of the accounts payable system.

Objectives and Scope

Initial Phase Scope:
This engagement had two primary objectives: 1) Determine the existence and strength of control activities around the VMF 2) Determine the validity of existing data in the VMF.

The VMF has 23 types of records for different purposes, such as payments to payroll vendors, pension, claims, etc. This engagement was focused on type "V" which are the typical suppliers paid by AP. Transactions reviewed were focused on payment batches approved between 1/1/2021 – 1/31/2023.

Follow-up Phase Scope:
We reviewed management's progress on action plans during the follow-up phase of the engagement. We tested key VMF data, such as attribute completeness. We hired a consultant, Greenskies Analytics, to test UTA data against the Internal Revenue Service ("IRS") database for accuracy of vendor's taxpayer identification numbers (TIN) and entity names. Finally, we performed a stress test to determine if AP could detect a false invoice and false vendor.

Summary

Initial Phase Summary:
The Accounting department needs to implement a more clearly defined and controlled process over the VMF. This need is shown by inaccurate information in the database, control gaps that expose the organization to fraud, and a generally informal approach to adding new records and managing existing records.

A significant SOD violation was noted and resolved. A particular user in the Accounting department could add and edit vendors and add and approve payments. This issue was brought to management's attention, and they promptly changed the user's access rights. It must be emphasized that there is no evidence that the employee inappropriately abused this access.

Management is committed to addressing the record and control issues noted in the engagement. IA would like to thank them for their diligence and attention completing the engagement.

Follow-up Phase Summary:
Management implemented new procedures to vet vendors and verify accuracy of TIN, and we believe these procedures are well designed and sufficient. We tested compliance with these procedures and found that they are not always followed for new vendor additions. We do not have high present concern over these results given that new processes take time to mature and become habits to the employees performing them. We encourage management to continue to emphasize these processes and measure success.

We found that the VMF still has data consistency issues, such as missing contact information and duplicate vendors. Our most significant concern was that 526 vendors did not have any transactions from 1/1/2023 – 1/9/2024. We recommend that management request complete contact information from active vendors and deactivate vendors that have not had transactions in the past year.

We performed a stress test of management's current procedures by submitting a fake invoice for a fake vendor. The AP team successfully detected the invalid transaction and stopped the process.

Management demonstrated significant improvement to the control environment in this follow-up phase from the initial phase. We commend their efforts and dedication and invite them to continue to implement meaningful action plans. We will keep the initial phase action plans open with a status of "pending remediation" and will follow-up on progress in two years.

Finding R-23-05-01 Vendor Master File Process Issue	Risk Level: Medium

Initial Phase Issue Status

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") publishes an integrated framework to guide organizations on best practices for internal controls. Component Three: Control Activities, Principle 12 of this framework, states:

> *The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.*

The Points of Focus for Principle 12 further elaborates:

> *Management establishes control activities that are built into business processes and employees' day-to-day activities through policies establishing what is expected and relevant procedures specifying actions.*

Condition

The Accounting department has not developed sufficient processes to ensure the accuracy and validity of vendor information in the VMF.

Cause

a. The Accounts Payable team has historically operated lean and lacked the resources to develop and maintain a robust control process. The team is currently at six and now better resourced to implement controls.
b. Roles and responsibilities between the Accounts Payable team and Accountants was unclear.
c. A former employee performed, or was believed to have performed, certain tasks to validate new vendors. These tasks were not communicated to the successor.
d. New hires to the Accounts Payable team did not receive sufficient training or instruction on properly validating new vendors.

Effect

1. The current VMF contains inaccurate, incomplete, or missing information, including:
    *   Tax identification number ("TIN) is missing on 311 vendors.
    *   The TIN for 25 vendors are not valid within the database of the Internal Revenue Service ("IRS").
    *   The name and TIN combination for 148 vendors do not match IRS records.
    *   Duplicate or similar names existed for 46 vendors.
    *   964 vendors do not have a phone number on file.
    *   710 vendors do not have an email address.
    *   IA reviewed a sample of 25 vendors added or edited since 2021. Four of the vendors had no attachments, indicating that there is no W-9 on file.

- IA reviewed a sample of the name, address, and phone number data for 179 VMF records against an internet search engine and found the following inaccuracies[1]:
  - 29 incorrect names
  - 30 incorrect addresses
  - 2 with no address listed
  - 44 incorrect or missing phone numbers
2. Low or no use vendors with an active profile have a higher risk of being "hijacked" by an employee with access to the information without detection. Analysis of transactions per supplier from the approximate range of 1/1/2021 – 1/31/2023 showed a high rate of low to no use vendors with active profiles:
   - 13% of active vendors (163/1,238) had zero transactions during the 25-month period reviewed.
   - 54% (671/1,238) had between one and ten transactions during the 25-month period reviewed.
   - 20% (252/1,238) had between 11 and 50 transactions during the 25-month period reviewed.
3. Fraud and abuse are more likely to occur if proper vendor validating does not occur. IA demonstrated this by successfully submitting a fake invoice to Accounts Payable. The invoice was stopped at a point planned by the auditor (no funds were paid out), but it went far enough in the process to show that the current controls are insufficient to prevent fraud and abuse.
4. Inaccurate or incomplete TIN may cause compliance failures with 1099 tax reporting requirements.

Recommendation
1. A formal process should be developed to validate new vendors.
2. Roles and responsibilities between the Accounts Payable team and Accountants should be clearly defined and documented.
3. An IRS TIN match should be performed for new vendors additions.
4. Existing data errors should be investigated and resolved.

Management Response and Action Plan
- The AP team had a preliminary meeting with the Accountants to discuss a plan.
- The Accounting Supervisor met with the Enterprise Systems and Records departments to ensure date security and compliance with vendor sensitive information.
- The Accounting Supervisor is putting together a Laserfiche form that AP and anyone that is needing a Vendor added, updated, or amended fills out.
- The form will them route to a second individual who will then call the vendor and do an internet search on the address to confirm the information to be accurate.
- The form will then route to a special Laserfiche bucket for the Accountants where they will then do an IRS TIN check to ensure the name and TIN match.
- The Accountants team will then perform the requested addition, update or amendment as requested, when the search comes back confirming TIN and name match.
- The Accounting Supervisor and the AP will be performing a review and research the existing Vendor list and request W9s or inactivate the unused vendors if applicable.
  - Note: We are not able to inactivate vendors if there is an outstanding PO (Purchase order) that still has funds on it. Even if it has been more than two years since their last payment.

Target Completion Date
- Completed: Preliminary meeting (AP) with Accountants to discuss a plan.

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[1] This test should be understood as an informal demonstration that potentially inaccurate information persists in the VMF. If management elects to validate and correct existing information they should do so through formal sources, preferably confirming with the vendor directly.

- Completed: The Accounting Supervisor has met with the Enterprise Systems and Records departments for first steps on new form.
- June 1st, 2023: New Laserfiche form draft submitted to Enterprise Systems to create.
- July 1st, 2023: Testing of completed form in Laserfiche.
- August 1st, 2023: Training of purchasing and all parties on the new form completed and start using form.
- August 1st, 2023: Have access and go live on the new form and the IRS Website (Accountants).
- December 31st, 2023: Review of all outstanding old vendors cleaned up and accurate for daily business needs.

Follow-up Phase Issue Status

Current Status

Pending Remediation

Management implemented a new checklist form with actions for employees to perform to verify the legitimacy of new vendors. They also validate vendor provided TIN against IRS records. We believe these are strongly designed and properly measured controls. We tested a sample of 25 new vendors added to the VMF to verify the rate these new procedures are followed. Management did not document the checklist for eight of the vendors and did not retain evidence of TIN match for 14 of the vendors. Management should continue to mature these procedures.

We analyzed the fidelity of VMF data and found opportunities for management to clean existing records. For example, 1,321 vendor records do not have a phone number; 936 do not have an email address; 14 vendor names were exact or near duplicates; 158 had a mismatch of name and TIN; six had an invalid TIN. Our most concerning find in the data was that 526 vendors did not have a transaction from 1/1/2023 – 1/9/2024. We recommend that management request complete contact information from active vendors and deactivate vendors that have not had transactions in the past year.

We performed a stress test of management's current procedures by submitting a fake invoice for a fake vendor. The AP team successfully detected the invalid transaction by following the newly designed checklist procedures. Their success in this stress test is a strong indication that management's new processes, when followed, are a strong control.

Overall, we recognize that management has made significant and well-designed changes to improve the internal controls of the VMF. We will keep the status as "pending remediation" but follow-up will be in two years instead of the typical one year.

Management Response and Action Plan

Accounting management is aware of the need to improve consistency with the new procedures. We will continue to focus on training and accuracy when inputting new vendors into the VMF database. As encouraged, we will continue to emphasize these processes and measure success. As to the most concerning finding of 526 inactive vendors, we will work with IT staff to identify and confirm vendors with no transactions and provide information to Procurement to coordinate so that purchase orders can be closed out where appropriate. We will then be able to close vendor records that are currently inactive but open due to purchase order balances.

Target Completion Date

December 31, 2024

Utah Transit Authority

MEETING MEMO

Audit Committee   **Date:** 9/23/2024

TO:	Audit Committee
THROUGH:	Jay Fox, Executive Director
FROM:	Mike Hurst, Director Internal Audit
PRESENTER(S):	Luke Barber, Senior Internal Auditor
	Nathan Hess, Fleet Engineering Supervisor
	Phillip Burtcher, Fleet Engineer

TITLE:

Fleet Engineering Follow-up (R-22-04)

AGENDA ITEM TYPE:

Report

RECOMMENDATION:

Informational report for discussion

BACKGROUND:

Internal Audit completed a preliminary assessment of Fleet Engineering in September 2022. We noted opportunities for improvement and issued recommendations in the report. The report was presented to the Audit Committee on December 12, 2022. We completed follow-up work on the recommendations in August 2024. All issues are now closed.

DISCUSSION:

Internal Audit will report on observations from the follow-up phase work we completed.

ALTERNATIVES:

Not applicable

FISCAL IMPACT:
Not applicable

ATTACHMENTS:
R-22-04 Fleet Engineering Follow up Report

INTERNAL AUDIT

Follow-up Report of Fleet Engineering

R-22-04

August 30, 2024

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Rating Matrix

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Distribution List

Title	For Action[1]	For Information	Reviewed prior to release
Executive Director		*	*
Chief Operating Officer		*	
Director of Fleet Engineering	*		
Fleet Engineering Supervisors	*		

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

Executive Summary

Introduction

The Audit Committee directed Internal Audit (IA) to perform an audit to determine if controls over Fleet Engineering are designed adequately and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives. The Audit Plan was approved by the Audit Committee on January 31, 2022

The preliminary assessment phase was concluded in September, 2022. IA completed follow-up work on August 28, 2024. We completed both phases of work in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors.

Background and Functional Overview

Initial Background Information:
Fleet Engineering (FE) consists of two different functional divisions, bus, and rail. UTA has multiple models of buses and rails that each have their own maintenance requirements. FE is responsible for taking the Original Equipment Manufacturers manuals (OEM manuals) for different vehicle models and components and translate those into Preventive Maintenance checklists and forms (PM forms) to be used by UTA mechanics to perform required maintenance at the correct service intervals.

Currently UTA has 499 long buses currently being operated. This fleet consists of buses from three manufacturers, Gilling, MCI, and New Flyer. Gillig is the most common bus brand making up 86% of the fleet. The Bus Division of FE also creates PM forms and schedules for the fleet of 122 Paratransit buses and many aftermarket components that are installed on the bus fleet such as lifts for handicapped patrons, air conditioning units, fuel monitoring systems, and others. For this Preliminary Assessment we focused on the long bus fleet and emphasized the Gillig buses because they make up the bulk of the long buses in the fleet.

The Rail Division has three primary models of rail: S70, SD100, and SD160 which are used on UTA's light rail system. The light rail OEM manuals state that the cars are designed by Siemens Transportation Systems specifically for the UTA rail system. As such all three of the rail cars have very similar service intervals which has allowed FE to develop repeatable PM schedules.

Follow-up Background Information:
During the follow up phase IA did not gather new data regarding UTA's bus fleet since we determined that it was not necessary to properly conduct our follow up work. As such, the data noted from the initial phase is no longer accurate because UTA has added multiple bus models from both Gillig and other manufacturers to the current fleet.

Objectives and Scope

Initial Phase Scope:
The primary areas of focus for the Fleet Engineering preliminary assessment were to determine if the Preventative Maintenance Forms designed by FE coincide with OEM manuals issued by the manufacturers. To accomplish this, we divided the assessment into the three primary areas of:
- Governance

Follow-Up Report

3

- Bus Division forms
- Rail Division forms

IA reviewed internal policies and procedures, legal and regulatory requirements, interviewed personnel, department leadership, and evaluated control documents to conduct this preliminary assessment.

Follow-up Phase Scope:
We reviewed management's progress on action plans during the follow-up phase of the engagement. We tested additional processes and procedures which Fleet Engineering had developed to improve the control environment ensuring that the bus manufacturers' recommended maintenance schedules are addressed within UTA's maintenance inspection forms.

Summary

Initial Phase Summary:
Although we note opportunities and recommendations for improvement emphasized in this report, we observed numerous strengths, best practices, and accomplishments within Fleet Engineering. Developing the maintenance schedules for the large fleet of vehicles UTA is not an easy task, and often times they have managed to extend the life of our equipment beyond both the manufacturers' *[sic]* and FTA's anticipated life cycle.

IA appreciates the assistance offered by Fleet Engineering management and staff in completing this preliminary assessment.

Follow-up Phase Summary:
Management implemented new procedures for analyzing the OEM manuals for any changes or updates for each model of bus that UTA utilizes within the fleet. Management uses the data gathered through this process to develop accurate inspection forms for each model. This is an ongoing process as UTA continually purchases new bus models to better serve the public. IA performed sample testing for number of updates made by the bus manufacturer Gillig. Our testing included a sample of changes to the OEM Manual for four separate models of bus. While we noted one exception, we determined the item was broadly addressed within the inspection form, and we noted the difference verbally with management and consider the item inconsequential.

Management also explained that at times UTA has developed a process of "Best Practices" for some maintenance recommendations made by the manufacturers. In general, the difference of maintenance timing is for high mileage maintenance issues as recommended by the manufacturer when a bus hits 100,000 to 200,000 miles or more. In these situations, Fleet Engineering now has an improved process of documenting a Best Practices Memo which they retain for reference. IA reviewed these memos, and we judged that this is an appropriate control and consider the recommendation closed on its merits. We encourage management to continue to emphasize these and other process and control improvements.

Management demonstrated significant improvement to the control environment in this follow-up phase from the initial phase. In large part, the improvements made to the control environment were possible because management committed added resources to this area, which included additional staff. Due to the improvements to the control environment IA will be closing the initial phase action plan..

We would like to express our appreciation to the Fleet Engineering staff and management for their assistance in completing this audit process and commend them for their innovative work developing the procedures now in place.

Attachment A: Details of Recommendations

| Preliminary Assessment Finding R-22-04-01 Gillig Bus PM forms 2018 – 2021 Models | Risk Level: |

Preliminary Assessment Status

Details:
Buses received between 2017 and 2021 have many changes to their recommended maintenance intervals as compared to the prior OEM Manuals. The changes within the OEM Manuals often occurs earlier than PM forms that were developed, or in some cases they do not appear to be noted on the PM forms that were developed. *See table below for changes noted.*

Table 1 OEM Manual Changes

Year(s) of Change	Repair recommendation	OEM Mile Mark	Prior OEM Mile Scheduling
2017	Check for excessive hub end play	100,000	None
2017 - 2020	Clean and inspect brake valve, treadle, plunger boot, and mounting plate every	25,000	100,000
2017 - 2020	Check, clean replace rotor Spinner II auxiliary oil filter every	50,000	None
2017 - 2020	Inspect suspension components for damage, looseness, and wear/cracks every	50,000	None
2017 - 2020	Inspect wheel end hub bearings at	100,000	None
2018 - 2020	Check air piping and air cooler charge	3,500	6,000
2018 - 2020	Change secondary fuel filter, Coolant SCA level, change coolant filter	7,000	12,000
2018 - 2020	Check belt tension, drive belts	14,000	28,000
2018 - 2020	Flush cooling system	14,000	28,000
2018 - 2020	Steam clean engine compartment	28,000	48,000
2018 - 2020	Change crankcase breather element	28,000	48,000
2018 - 2020	Inspect Vibration damper	28,000	48,000
2018 - 2020	Clean air compressor lines	28,000	48,000
2018 - 2020	Clean EGR sensors and DPF	70,000	150,000
2018 - 2020	Adjust Engine brake assembly and overhead se	70,000	150,000
2018 - 2020	Change DEF dosing unit filter	91,000	200,000
2019 - 2020	Inspect lines for cuts, cracks, swelling kinks, melted and chaffing.	Every 6,000	None
2019 - 2020	Inspect connections, retaining clips, ties, grommets	Every 6,000	None

Criteria:
At the beginning of Chapter 2 of each Gillig Service Manual there the Standard Limited Warranty & Extended Coverage certificate which states,

"This warranty DOES NOT COVER malfunction or failure resulting from the purchaser's or its agents or employees' alteration, misuse, abuse, accident, neglect or failure to perform normal preventative maintenance as outlined in Gillig's Service Manual, nor does it cover components or assemblies not originally provided by Gillig."

Underlying Cause:

IA noted that when creating PM forms FE would group the forms by bus use as well as by year. For example, there is a grouping called *Gillig Ski Bus 2007-2013*, meaning that this PM form covers that group of buses. Through testing IA found that the most recent groupings dealing with buses received from 2016 - 2021 had the highest number of changes to the recommended preventive maintenance schedules. These more recent buses have reduced the recommended timing for many of the preventative maintenance items.

While meeting with FE management the internal auditor learned that prior to buses being manufactured FE works directly with the company and establishes extended warranty terms. Certain components such as the transmission receive extended warranties for an additional 24-36 months, while the structural frame of the bus is often extended out to 168 months (or 12 years). IA reviewed the ages of the buses and compared the OEMs to the PM forms to determine how many buses in the active fleet still have extended warranty items available.

Potential Risks:
- IA noted that 186, or 37% of the bus fleet is aged 5 years or less. These buses would have most warranty items still active and available. There is a risk that the warranty would no longer apply through not meeting the manufacturer's recommended preventative maintenance schedules.
- We also noted the highest number of differences between recommended maintenance is the OEM manuals for this age group of buses. Due to the way the PM forms are organized we risk missing the recommended maintenance schedules.

Recommendations:
1. All bus preventative maintenance forms should be reviewed to ensure that key maintenance intervals match what is recommended by the manufacturer.
2. Consideration may be given to creating a one-to-one PM form for each bus kept within the UTA fleet.

Management Response and Action Plan:

Fleet Engineering will review all PM inspections for warranty requirements as lined out by OEM. During this process any deviations from OEM specifications that fleet engineering has determined are best for our fleet are documented following the current Fleet Engineering standards. Currently this will consist of creating a fleet engineering memo outlining the reasoning and qualifications for the deviation.

Target Completion Date:

March 31, 2023

Current Status: Completed

IA conducted preliminary follow up work in early 2024. At that time, we confirmed that Fleet Engineering had developed a process for reviewing maintenance inspection forms, and they identified many items within the OEM which they needed to add to the inspection forms.

Through additional testing IA confirmed that Fleet Engineering has developed and completed a process of controls for organizing and creating more accurate FE Inspection forms. Fleet Engineering uses the latest information from the manufacturer's OEM to develop the current inspection forms.

Preliminary Assessment Finding R-22-04-02 High Mileage Preventative Maintenance   Risk Level: Low

Preliminary Assessment Status

Details:
The PM forms we received covered 6,000-mile intervals from 6,000 to 48,000 miles. All OEM manuals contain recommended maintenance items beyond 48,000 miles, but we could not identify some of these items in the regularly scheduled maintenance or daily maintenance, such as changing transmission fluid at around 150,000 miles.

Criteria:
At the beginning of Chapter 2 of each Gillig Service Manual there the Standard Limited Warranty & Extended Coverage certificate states,

> "*This warranty DOES NOT COVER malfunction or failure resulting from the purchaser's or its agents or employees' alteration, misuse, abuse, accident, neglect or failure to perform normal preventative maintenance as outlined in Gillig's Service Manual, nor does it cover components or assemblies not originally provided by Gillig.*"

Additionally, UTA Fleet Engineering Maintenance Instructions No. FE-ALL-009 Inspections Section D states,

> "*The Preventative Maintenance Manuals (PM forms) for each vehicle model will include detailed descriptions or each preventative maintenance inspection (whether it be mileage or time-based) and will include intranet locations of all Preventative Maintenance Inspection documents and schedules.*"

Underlying Cause:
Not applicable.
Potential Risks:
- There is the risk that higher mileage maintenance may not be performed causing the useful life of the bus to be shortened.
- Regular maintenance should also be performed to ensure the safe operation of all UTA vehicles. All maintenance performed needs to be tracked and easily understood to reduce the risk of liability should any safety problems arise.

Recommendations:
1. We recommend that PM forms be developed and tracked for the higher mileage intervals listed with the OEM manuals.

Management Response and Action Plan:
Fleet Engineering will review making sure there are not any independent higher milage or time-based inspections that are not accounted for. Fleet Engineering standard has to keep as much of the inspections tied to our regular A, B, C, D inspections. Currently we are using the electronic inspection program, developed by IT, for the shops to access the inspection paperwork for completing inspection and record

retention. If there are inspection items not already accounted for in an inspection Fleet Engineering will create additional inspections to cover the gap.

Target Completion Date:
March 31, 2023

Current Status: Closed

IA is closing this finding based on the mitigating controls which management has developed. Management tracks all changes for bus models, with an emphasis on high mileage OEM recommendations. The manufacturer recognizes that they may need to update OEM manuals and they actively contact customers with needed updates. IA also found that Fleet Engineering now maintains a memo as record of any deviation from the original OEM provided by the manufacturer. IA has will not perform any additional follow up due to the degree to which the control environment has changed.

Preliminary Assessment Finding R-22-04-03 FE Staffing and Travel Issues	Risk Level: Low

Preliminary Assessment Status

Details:
UTA sends an engineer and a member of the mechanics team to the factory for every bus that is being built for UTA. Because Gillig is our primary manufacturer UTA has two employees travel to their assembly line in Hayward, CA nearly every week of the year.

Criteria:
The Federal Transit Authority (FTA) provides grants and other funding for the purchase of buses and other capital assets. This funding may be applied for both prior to and after ordering or delivery of a revenue vehicle. As part of the FTA's Federal Transit Laws, codified at 49 U.S.C. chapter 53, the FTA provides the following guidance on their website* for any post-delivery application, bold lettering was added for emphasis:

> *The requirements for and process of complying with the **post-delivery purchaser's requirement certification** depend on the number of buses purchased. **The recipient has more demanding responsibilities when procuring more than ten buses** or modified vans than when procuring ten or fewer buses or modified vans, or any number of unmodified vans.*
> *The purchaser's requirements certification is meant to help safeguard the recipient by ensuring that the buses are built to contract specifications. **To demonstrate compliance with the purchaser's requirement certification requirement when procuring more than ten buses** or more than ten modified vans, **the recipient, or its duly appointed analyst, must (1) Send a resident inspector to the manufacturer's final assembly facility and (2) visually inspect and road test the buses and/or vans.***

*For full text see - https://www.transit.dot.gov/regulations-and-guidance/buy-america/post-delivery-review-requirements

Underlying Cause:
While UTA has not recently purchased buses with FTA funding we do adhere to this guidance so that we could seek FTA funding if needed. To meet the FTA's "Post-Delivery Purchaser's Requirements Certification Requirement", UTA is currently sending an engineer as the inspector from our headquarters in Utah.

Potential Risks:
Because a member of the Fleet Engineer team is not present in Salt Lake City much of the time other duties they could perform while traveling are not accomplished. Additionally, there is a high cost for travel when sending employees to an out of state facility on a regular basis. Through a separate analysis IA estimated the weekly cost of sending an employee to the Gillig facility is between $1200 – 1,350 per week; we further estimated that UTA's annual cost of sending an employee to this facility is between $37,000 and $66,000 per employee per year if sent 30 times or 45 times each year.

Recommendations:
1. We recommend that FE work with our attorney and an official from the FTA to determine if there is another means for meeting the post-delivery purchaser's requirement. Possible suggestions might include employing an inspector who resides near the manufacturer's facility or hiring a contractor to perform those duties.
2. We recommend that FE and the UTA Board determine if adherence to the inspection requirements from the FTA is still within the best interest and financial goals of UTA.

Management Response and Action Plan
We disagree with this assessment for the reasons listed below.

1. The inconsistency of the bus build over the last 20 years, as well as the future. Moving forward this recommendation would make it too expensive to hire an employee who would live near each of the bus Original Equipment Manufacturing (OEM) facilities for the time the buses are being built.
2. As the OEMs are located in several locations across the country, we would be required to hire an inspector or pay wages for that local area. Our current contract is with Gillig who is located in Livermore, CA. This could cause a discrepancy between what we are paying our Fleet Engineers versus what we would have to pay an inspector in that location.
3. Currently we are able to share different views on the inspection which improves the final project having multiple Fleet Engineers look over the buses being built after they have been working on the buses at UTA as well as at the OEM.

Target Completion Date:
Not applicable

Current Status: Closed – management declined to accept the recommendations and implement an action plan.