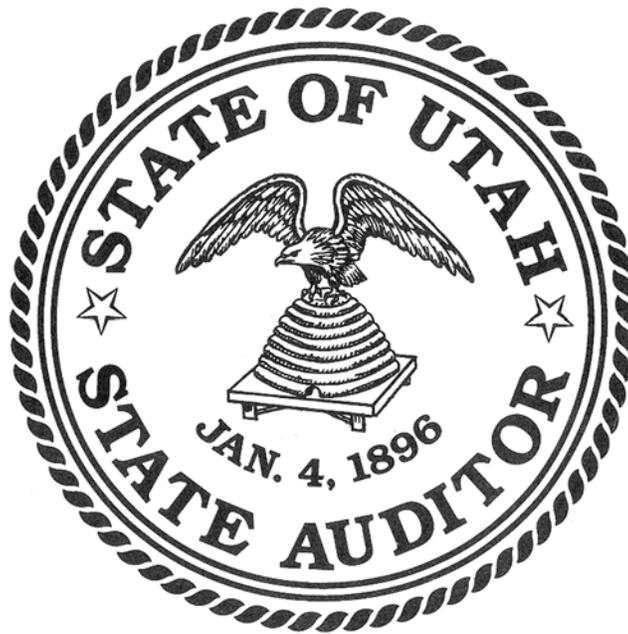


UTAH DEPARTMENT OF TRANSPORTATION

Financial Audit Management Letter
For the Year Ended June 30, 2017

Report No. 17-28



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor

Jon Johnson, CPA, Audit Director

Jason Allen, CPA, CFE, Senior Audit Manager

UTAH DEPARTMENT OF TRANSPORTATION
FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL AUDIT MANAGEMENT LETTER	1
FINDING AND RECOMMENDATION:	
Inaccuracies in Class B and C Road Apportionment Calculations	3
UDOT'S RESPONSE	ATTACHMENT A



OFFICE OF THE
STATE AUDITOR

FINANCIAL AUDIT MANAGEMENT LETTER NO. 17-28

January 30, 2018

To the Audit Committee
and
Carlos Braceras, Executive Director
Utah Department of Transportation

This management letter is issued as a result of the Utah Department of Transportation's (UDOT's) portion of the statewide financial audit for the year ended June 30, 2017. Our final report on internal control over financial reporting and on compliance and other matters issued to meet the reporting requirements of *Government Auditing Standards* issued by the Comptroller General of the United States, dated December 1, 2017, is issued under separate cover.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the State of Utah, including UDOT's Transportation Fund and Transportation Investment Fund, as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Utah's or UDOT's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Utah's or UDOT's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in UDOT's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Utah's financial statements, including UDOT's Transportation Fund and Transportation Investment Fund, are free from

material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, the results of our tests disclosed an instance of noncompliance that is described in the accompanying finding and recommendation.

UDOT's Response to Finding

UDOT's written response to the finding and recommendation was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

We appreciate the courtesy and assistance extended to us by the personnel of UDOT during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Jon Johnson, CPA
Audit Director
801-538-1359
jonjohnson@utah.gov

cc: Shane Marshall, Deputy Director
Becky Bradshaw, Finance Director

FINDING AND RECOMMENDATION

INACCURACIES IN CLASS B AND C ROAD APPORTIONMENT CALCULATIONS

During the 2017 State of Utah financial audit, we evaluated the Utah Department of Transportation's (UDOT's) apportionment of funds available for class B and C roads as required by *Utah Code 72-2-108*. We noted the following.

- a. For the August 2016 and June 2017 apportionments, UDOT did not use the most recent federal census data available at the time of periodic apportionment as required by *Utah Code 72-2-108(2)(b)*. The Department used 2014 and 2015 census data instead of 2015 and 2016 census data available at the time of the calculations. Based on our calculations, this clerical oversight resulted in under and over allocations to counties and municipalities ranging from (\$20,265) to \$23,271, with an absolute value of \$477,024 and a net error of zero.
- b. The Department incorrectly interpreted "prior fiscal year" requirements when calculating the final 2017 hold harmless reapportionment required by *Utah Code 72-2-108(7)(a)*. This law requires that the reapportionment be calculated by taking the prior fiscal year amount (i.e. FY 2016 rather than FY 2015 used by UDOT) and multiplying it by the percentage increase or decrease in total funds available for class B and C roads between the prior fiscal year and the fiscal year immediately preceding the prior fiscal year (i.e. the change between FY 2016 and FY 2015 rather than the change between FY 2017 and FY 2016 as used by UDOT). Based on our calculations, this clerical oversight resulted in under and over allocations to counties and municipalities ranging from (\$104,428) to \$16,063, with an absolute value of \$261,642 and a net error of zero.

The language constructed in State statutes related to required apportionments or allocations can be complicated and subject to interpretation, thus increasing the risk of unintended errors. Using specific mathematical formulas in legislation rather than describing formulas in legal text could help reduce errors in understanding and applying the formulas for such allocations or apportionments.

Recommendation:

We recommend UDOT properly calculate the apportionment of funds available for class B and C roads in accordance with *Utah Code 72-2-108(2)(b)* by using a) the most recent census data available from the United States Bureau of Census at the time of apportionment and b) the appropriate fiscal years to calculate the hold harmless reapportionment in accordance with *Utah Code 72-2-108(7)(a)*. We also recommend that UDOT correct the calculations noted and make appropriate adjustments to the next distribution.

We also encourage UDOT to work with the Legislature to use specific mathematical formulas in legislation to help ensure clarity in the calculation of allocations and apportionments.



State of Utah

GARY R. HERBERT
GovernorSPENCER J. COX
Lieutenant Governor

DEPARTMENT OF TRANSPORTATION

CARLOS M. BRACERAS, P.E.
*Executive Director*SHANE M. MARSHALL, P.E.
Deputy Director

January 26, 2018

Jon Johnson, CPA
Audit Director
Utah State Capitol Building
350 North State Street
Salt Lake City, UT 84115

Dear Mr. Johnson:

Thank you for the opportunity to respond to your Financial Audit Management Letter Number 17-28. We appreciate the recommendation to use the most recent census data to appropriate B&C funds. The Utah Department of Transportation (UDOT) reviews census data each January and updates the information to a spreadsheet when annual calculations are made. Typically, we have not made mid-year census adjustments to the spreadsheet due to the potential for data entry errors. However, we are committed to apply the most recent census data as required by statute and will make appropriate adjustments to future distributions once new updates are available.

We agree with your finding for the clerical oversight with the final 2017 hold harmless reapportionment. We will make the appropriate adjustments in the final 2018 hold harmless distribution.

UDOT actively works with the Legislature to assure that the actual language that is developed clearly reflects our understanding of the Legislative intent. We continue to be committed to work with the Legislature on any revision to the B&C calculation for allocations and apportionments that they may propose, to assure alignment between intent and execution.

We constantly strive to evaluate and improve our work processes. Thank you for your assistance with this endeavor. You may contact me at (801) 965-4027 if you have questions or need further information.

Sincerely,

Carlos M. Braceras, P.E.
Executive Director