



OFFICE OF THE
STATE AUDITOR



◦ STATE OF UTAH ◦

Utah Department of Transportation

Audit Management Letter

For the year ended June 30, 2023

Report No. 23-26

March 15, 2024

Office of the State Auditor

Audit Leadership:

John Dougall, State Auditor

Doug Seager, CPA, Audit Director

Caleb Tindall, CPA, Audit Supervisor

Table of Contents

Management Letter No. 23-261

Findings & Recommendations3

**Finding 1. Improper Acceptance of Materials Due to Lack of Effective Internal
 Controls Over the Quality Assurance Program3**

**Finding 2. Noncompliance Resulting from the Failure to Implement Effective
 Internal Controls Over Value Engineering Program.....4**

**Finding 3. Improper Reimbursement of Utility Expenditures Due to Lack of Effective
 Internal Controls6**



OFFICE OF THE
STATE AUDITOR

Management Letter No. 23-26

March 15, 2024

Carlos Braceras, Executive Director
Utah Department of Transportation
4501 South 2700 West
Salt Lake City, UT 84119

Dear Director Braceras:

This management letter is issued as a result of our audit of the State of Utah's basic financial statements as of and for the year ended June 30, 2023. It is also issued as a result of the Utah Department of Transportation's (UDOT) portion of the statewide federal compliance audit (Single Audit) for the year ended June 30, 2023. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our final reports on internal controls and on compliance required under *Government Auditing Standards* and federal *Uniform Guidance* will be issued under separate cover. These reports will also provide further detail as to considerations made during the course of the audit regarding internal controls and compliance, both at the financial statement and at the federal program level, and the limited purposes of those considerations. The purpose of this letter is to communicate with UDOT management concerns identified during the course of our audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or to detect and correct on a timely basis misstatements, errors, or instances of noncompliance. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatements, errors, or noncompliance are not prevented or are not detected and corrected on a timely basis.

Based on the audit procedures performed, we identified deficiencies in internal control which, while not considered material, we consider to be significant enough to merit the further attention of management and those charged with governance (Findings 1-3). We also identified Findings 1-3 as instances of noncompliance which we are required to report under *Uniform Guidance*.

UDOT's written responses to and Corrective Action Plans for these findings will be included in the final reports identified in the second paragraph above.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing and not to provide an opinion on the effectiveness of the UDOT's internal control over compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to *Utah Code* Title 63G Chapter 2, this report is a matter of public record, and as such, its distribution is not limited.

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

Sincerely,



Doug Seager, CPA

Audit Director

801-808-0507

dseager@utah.gov

cc: Shara Hillier, Executive Finance Director, UDOT
Shane Young, Performance Audit Director, UDOT
Carmen Swanwick, Engineering Manager, UDOT

Findings & Recommendations

Finding 1. Improper Acceptance of Materials Due to Lack of Effective Internal Controls Over the Quality Assurance Program

(Finding Type: Significant Deficiency and Reportable Noncompliance)

Federal Agency: Department of Transportation

Assistance Listing Number and Title: 20.205 Highway Planning and Construction

Federal Award Number: Various

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

23 CFR Section 637 requires UDOT to follow an approved Quality Assurance Program (QAP) to assure the quality of materials and construction of all Federal-aid highway projects. For 7 of 40 (17.5%) items reviewed, the Resident Engineer accepted construction materials that were not tested in compliance with UDOT's QAP as approved by the Federal Highway Administration.

Section 1010-1015 of UDOT's Materials Manual of Instruction describes UDOT's QAP, and states that materials acceptance decisions for applicable materials must be based on manufacturer information, or sampling and testing procedures performed by qualified testing personnel. Qualified testing personnel must pass two independent assurance (IA) tests each calendar year for each certification area, and one test must be a split sample.

In our testing of 40 accepted materials covered by the QAP, we noted the following errors:

	Material Not Tested	No Documentation Provided	Testing Technician did not perform a Split Sample IA to be certified	No Documentation of Testing Technicians Second IA to be certified	Total Errors
Number of Items	4	1	1	1	7
Cost of Material	\$188,071	\$15,710	\$1,289,474	\$45,250	\$1,538,505

These erroneous acceptance decisions and the inconsistent applications of the QAP occurred because internal controls were not adequate to ensure UDOT personnel fully understood the elements of the QAP.

The lack of understanding and the inconsistent application of the QAP could result in inferior construction materials and workmanship being accepted, paid for, and used on UDOT projects.

Recommendation:

We recommend that UDOT strengthen its internal controls to ensure that all relevant personnel are properly trained and familiar with the QAP requirements, and that they apply those requirements consistently.

UDOT's Response:

Concur

Corrective Action Plan:

UDOT will train employees to test materials within the quality assurance program (QAP) requirements. Furthermore, the materials division will ensure testers are fully certified before they proceed with testing of materials.

Responsible Party: [Carmen Swanwick](#), Project Development Director, (801) 232-7802

Anticipated Completion Date: June 2025

Finding 2. Noncompliance Resulting from the Failure to Implement Effective Internal Controls Over Value Engineering Program

(Finding Type: Significant Deficiency and Reportable Noncompliance)

Federal Agency: Department of Transportation

Assistance Listing Number and Title: 20.205 Highway Planning and Construction

Federal Award Number: Various

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

UDOT has not implemented effective internal controls over their Value Engineering (VE) Program to ensure VE analyses are properly performed on all applicable projects in accordance with federal requirements and UDOT policy and procedures. Consequently, UDOT was unable to provide evidence of the following VE program requirements:

- VE analyses are being completed on all applicable projects; and
- Proper documentation, assessment, and reporting of the completed VE analyses.

23 CFR Part 627.7a(5) “The [State Transportation Agency’s (STA)] VE program shall: Establish and document policies, procedures, and controls to ensure a VE analysis is conducted and all approved recommendations are implemented for all applicable projects administered by local public agencies; and ensure the results of these analyses are included in the VE program monitoring and reporting.”

The issues noted above are the result of inconsistent staff training and inadequate resources to run the expanding VE program effectively. Without appropriate internal controls, VE may not be performed for all applicable projects and approved recommendations identified from VE may not be incorporated into the plans, specifications, and estimates of projects.

Recommendation:

We recommend that UDOT implement effective internal controls and ensure staff over their VE Program are properly trained and have adequate resources to ensure compliance with Federal requirements and UDOT policy.

UDOT’s Response:

Concur

Corrective Action Plan:

UDOT will train the responsible employees to comply with VE requirements for applicable federal projects. UDOT will take this opportunity to update the UDOT VE Program and determine which controls will help project managers better understand and comply with VE requirements.

Responsible Party: [Carmen Swanwick](#), Project Development Director, (801) 232-7802

Completion Date: June 2025

Finding 3. Improper Reimbursement of Utility Expenditures Due to Lack of Effective Internal Controls

(Finding Type: Significant Deficiency and Reportable Noncompliance)

Federal Agency: Department of Transportation

Assistance Listing Number and Title: 20.205 Highway Planning and Construction

Federal Award Number: Various

Questioned Costs: \$27,559

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

UDOT improperly reimbursed utility expenditures for two projects prior to the utility agreements being approved by UDOT and the utility company and prior to completion of the work. 23 CFR Section 645.113(g)(3) requires a utility agreement to be approved prior to the utility incurring any costs or conducting any work that would be eligible for reimbursement. In addition, 23 CFR Section 645.107(a) requires reimbursement of utility costs to occur after the work is completed. The expenditures on these projects were paid improperly because UDOT has not implemented effective internal controls over utility reimbursements, personnel did not fully understand the Federal reimbursement requirements, and the Utility companies required UDOT to pay for their costs upfront prior to performing any work. Due to improperly approving and reimbursing expenditures before requirements were met, we are questioning the associated costs for the two projects for the amount of \$27,559.

Recommendation:

We recommend that UDOT implement effective internal controls and follow Federal requirements for the reimbursement of utility costs.

UDOT's Response:

Concur

Corrective Action Plan:

UDOT will train employees to verify utility agreements are drafted and effective before UDOT works on projects with utility partners. UDOT will continue to coordinate with utility partners to align reimbursement practices with the applicable federal requirements.

Responsible Party: [Carmen Swanwick](#), Project Development Director, (801) 232-7802

Completion Date: June 2025