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**From:** Clift, Robert <Bob.Clift@dot.state.fl.us>  
**Sent:** Thursday, September 22, 2016 3:00 PM  
**To:** Boxold, Jim; Miguel, Melinda  
**Cc:** Dubose, Kathy; JLAC  
**Subject:** FY 14/15 Federal Awards Six Month Update  
**Attachments:** 2015\_004\_Six\_Month\_Update.pdf; 2015\_010\_Six\_Month\_Update.pdf; 2015\_011\_Six\_Month\_Update.pdf; 2015\_012\_Six\_Month\_Update.pdf

Chief Inspector General Miguel and Secretary Boxold:

This Six-Month Update is provided for Auditor General report 2016-159, the annual statewide audit of federal awards and state financial statements, issued in March 2016. Of the four audit recommendations related to the Department, attached above, corrective actions have been completed for three and one (Federal Aid Matching, 2015-010) remains in-progress at this time.

Section 20.055(6) (h), Florida Statutes, requires a six month status of corrective actions taken as reported to us by the responsible Department of Transportation action officials for the subject audit be provided to "...the agency head or, for state agencies under the jurisdiction of the Governor, the Chief Inspector General on the status of corrective actions taken. The inspector general shall file a copy of such response with the Legislative Auditing Committee."

V/Resp, Bob

Note for CIG: Your staff will be receiving this report separately using your specified submission protocol.

**ROBERT E. CLIFT**

INSPECTOR GENERAL

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**FLORIDA DEPARTMENT OF TRANSPORTATION**  
**6-month Follow-up to the**  
**Office of the Auditor General Audit**  
**State of Florida Compliance and Internal Controls Over Financial Reporting**  
**and Federal Awards**  
**Report No. 2016-159**

<b>Finding Number</b>	<b>2015-004</b>
<b>Finding</b>	The FDOT recorded a receivable for amounts available for loan for which, as of June 30, 2015, entity expenditures had not been incurred and corresponding FDOT funds had not been loaned.
<b>Criteria</b>	FDOT policies and procedures specify that loan documentation is due to the FDOT Accounts Receivable Section (ARS) within 15 calendar days of execution and that the ARS is to book the receivable directly into the State's accounting system, FLAIR.
<b>Condition</b>	The FDOT, as part of a Joint Participation Agreement (JPA) executed on November 5, 2014, agreed to reimburse an entity funds totaling \$198,400,000, for the 2014-15 and 2015-16 fiscal years, with \$52,700,000 of the 2015-16 fiscal year funds subject to loan repayment requirements. However, the FDOT ARS recorded the \$52,700,000 as a receivable, upon execution of the JPA, on the fiscal year ended June 30, 2015, financial statements, with an offset to unavailable revenue. In response to our confirmation request, the other party indicated that no expenditures related to reimbursable funds had been incurred and no FDOT funds subject to loan repayment requirements had been received as of June 30, 2015.
<b>Cause</b>	FDOT management indicated that FDOT personnel misinterpreted FDOT procedures by recording the full loan amount, upon execution of the JPA, instead of in accordance with JPA loan terms.
<b>Effect</b>	Prior to audit adjustment, the Loans and Notes Receivable account was overstated by \$52,700,000 and the Unavailable Revenue account was overstated by \$52,700,000.
<b>Recommendation</b>	We recommend that the FDOT strengthen accounts receivable policies and procedures to ensure that the FDOT ARS reviews loan documentation prior to recording a receivable and that receivables are recorded in accordance with loan terms.
<b>State Agency Response</b>	We concur with the finding. The Accounts Receivable Administrator, in consultation with the Deputy Comptroller, will review agreement terms to ensure recognition criteria has been met prior to recording receivables into the State's accounting system.
<b>Six-Month Update</b>	Complete.

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<b>Finding Number</b>	2015-010
<b>Finding</b>	The FDOT did not always meet the Federal matching requirement for Highway Planning and Construction Cluster funded projects and incorrectly reported matching amounts to the Federal Highway Administration (FHWA).
<b>Criteria</b>	23 USC 120 – <i>Federal share payable</i>  FHWA Project Funds Management Guide for State Grants  FDOT Work Program Instructions
<b>Condition</b>	<p>During the 2014-15 fiscal year, the FDOT closed 700 Highway Planning and Construction Cluster funded projects. FDOT procedures for closing projects provided that Federal-billed amounts were to be reconciled to project agreement amounts to permit unexpended funds to be deobligated. The procedures required the FDOT Office of the Comptroller to perform the reconciliations and the FDOT Federal Aid Management Office to perform quality reviews of projects to ensure that the reconciliations were completed. Upon verification that all requirements were met, including completion of the reconciliation, the final project data, including the Federal, State, and local funds expended, was reported to the FHWA.</p> <p>Our examination of the financial records for 25 projects disclosed 8 instances where the Federal matching requirement was not met. For the 8 projects, the matching shortfall ranged from \$2.22 to \$23,882.84 and totaled \$26,109.99. In addition, our examination disclosed 19 projects where the State and local funds reported to the FHWA were incorrect, resulting in differences between the actual amount billed and the reported amount billed ranging from \$2 to \$2,706,750.</p>
<b>Cause</b>	FDOT procedures did not require the State and local funds expended and used for Federal matching to be reconciled to the State and local funds obligated prior to reporting final project data to the FHWA.
<b>Effect</b>	The FDOT received Federal funds in excess of the amount allowable and inaccurate data to support the matching requirement was submitted to the FHWA.
<b>Recommendation</b>	We recommend that the FDOT revise its procedures to ensure that State and local funds are reconciled and appropriately deobligated before the final project data is reported to the FHWA.
<b>State Agency Response</b>	<p>FDOT agrees with this finding as well as the recommendation.</p> <p>We have revised our closing procedures to ensure that all funds on the project, not just the federal funds, are reconciled to the total expenditures on the project before the final project data is reported to the FHWA and the project is closed in FHWA's project records.</p> <p>We have also made a programmatic change to our Federal Authorization Management System (FAMS) which will automatically adjust the final project</p>

transaction to report the final expenditure amount, consistent with the revised closing procedure. We are currently in the process of correcting the 8 sample projects where the Federal matching requirement was not met by applying additional toll credits (as soft match) to satisfy the identified shortfalls. We are also reviewing all projects closed during the last three years to determine the total number of projects where the Federal matching requirement might not have been met. We will work with the FHWA Florida Division Office to make additional corrections if any are found (in addition to the 8 already identified) that did not meet the Federal matching requirements.

#### Six-Month Update

Federal Aid Management Office (FAMO) has revised closing procedures to ensure that all funds on a project, not just federal funds, are reconciled to the total expenditures on the project before the final project data is reported to FHWA. The Office has also made programmatic changes to FAMS which will automatically adjust the final project transaction to report the final expenditure amounts consistent with this revised closing procedure. The Office has also corrected the 8 sample projects by adding additional toll credits, as soft match, to satisfy the identified shortfall. The Office is currently reviewing all projects that closed over the past several years to determine the cumulative shortfall in required matching due to previous overstatements of associated hard match funds. The FAMO anticipates having preliminary reports available for discussion with FHWA by the end of October 2016.

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<b>Finding Number</b>	<b>2015-011</b>
<b>Finding</b>	The FDOT did not always obtain a Job Guide Schedule (JGS) as required by the Quality Assurance Program for Construction (QAPC) approved by the Federal Highway Administration (FHWA). As a result, the FDOT could not provide documentation demonstrating that required sampling and testing had been performed.
<b>Criteria</b>	<p>23 CFR 637.207 – <i>Quality assurance program</i></p> <p>FDOT QAPC – Materials incorporated into any highway construction project are to be subject to verification sampling and testing and, as required, quality control sampling and testing, in accordance with the JGS.</p> <p>FDOT Standard Specifications for Road and Bridge Construction – Contractors were to submit a final JGS to the FDOT that included all materials used on a project.</p> <p>FDOT Section 5.4 Final Project Material Certification Procedures</p>
<b>Condition</b>	<p>During the 2014-15 fiscal year, the FDOT closed 201 Highway Planning and Construction Cluster funded construction contracts. Prior to closing a contract and issuing a materials certification, the FDOT Materials Office was to review the final contractor-prepared JGS specifying the total quantity of each material used. The FDOT Materials Office then prepared a Project Material Certification Letter which certified that all materials were sampled and tested in accordance with the applicable requirements and listed all known exceptions.</p> <p>Our examination of documentation for 25 closed construction contracts disclosed 6 instances where the FDOT prepared a Project Material Certification Letter, but was unable to provide the associated JGS. As a result, the FDOT could not demonstrate the total quantity of each material used by the contractor, information needed to evaluate whether appropriate sampling and testing had been conducted.</p>
<b>Cause</b>	The FDOT Materials Office did not always obtain from contractors the final JGS as specified by the FHWA-approved quality assurance program.
<b>Effect</b>	Absent the receipt of a JGS, the FDOT cannot demonstrate that the appropriate sampling and testing was conducted based on the total quantity of materials used by the contractor. In addition, the FDOT is not in compliance with the FHWA-approved QAPC.
<b>Recommendation</b>	We recommend that the FDOT obtain a JGS for each construction contract as specified by the QAPC.

**State Agency Response**

FDOT agrees with this finding as well as the recommendation. The finding and recommendation will be reviewed with District Materials and District Construction staff. It will also be reviewed with representatives of the Florida Transportation Builders Association as the JGS must be provided and updated by the contractor on Design Build and Lump Sum projects. All parties will be reminded of the specification requirements concerning the JGS. Additional focus will be placed on acquiring and updating this document during the course of the project. A review will be conducted of all current projects. Any deficiencies regarding the status of the JGS will be brought into compliance. A new materials database program (MAC) coming on-line in the June 2016 time frame will also help eliminate this issue. It will require a JGS to be generated for every project, for all materials.

**Six-Month Update**

Complete.

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**Finding Number** 2015-012

**Finding** The FDOT did not report program income amounts in quarterly Federal Financial Reports (FFRs). In addition, FDOT management did not always review the FFRs submitted to the Federal Transit Administration (FTA).

**Criteria** The FTA requires recipients to report financial facts, including program income amounts, as part of quarterly FFRs.  
 FDOT Transit Office Federal Grants Manager Federal Financial Report Process Procedures

**Condition** The FDOT received program income from the lease of property acquired with grant funds and from advertising activities. The following table shows the amount of program income earned.

Quarter Ended	Program Income Earned
6/30/14	\$ 449,610.78
9/30/14	32,960.64
12/31/14	949,081.44
3/31/15	915,008.96
<b>Total</b>	<b><u>\$2,346,661.82</u></b>

Our examination of all FFRs submitted to the FTA during the 2014-15 fiscal year for the FL-03-0323-04 and FL-03-0323-05 grants disclosed that, although program income was generated by the grant project, the FDOT did not report it in the FFRs.

In addition, FDOT procedures effective for FFRs submitted to the FTA after January 20, 2015, specified that review and approval from the FDOT's Comptroller's Office, District 5 Office, and the Transit Office Grants Administrator was to be obtained prior to the FFR being submitted to the FTA for all 5309 grants (CFDA No. 20.500). However, according to FDOT staff, this procedure was only followed for the FFRs submitted for the FL-03-0323-04 and FL-03-0323-05 grants. As a result, the FDOT was unable to provide documentation supporting the review and approval of the FFRs submitted to the FTA for the following grants:

- FL-04-0133-00 and FL-04-0049-02 – CFDA No. 20.500 – Federal Transit – Capital Investment Grants
- FL-04-0174-00 – CFDA No 20.525 – State of Good Repair Grants Program
- FL-95-X012-01 – CFDA No. 20.507 – Federal Transit – Formula Grants

**Cause** The FDOT did not appropriately consider all program income required to be reported for FTA grants FL-03-0323-04 and FL-03-0323-05. Additionally, FDOT procedures did not require FDOT staff to document, for all grants, the review and approval of FTA.

<b>Effect</b>	The FFRs submitted by the FDOT to the FTA did not include all applicable financial data. In addition, the FDOT has reduced assurance that the FFRs submitted to the FTA include complete and accurate data.
<b>Recommendation</b>	We recommend that the FDOT take appropriate steps to ensure that program income is appropriately reported on quarterly FFRs and that the FDOT revise procedures to require documentation of the review and approval of all FFRs submitted to the FTA.
<b>State Agency Response</b>	<p>FDOT agrees with this finding as well as the recommendation. The FDOT Comptroller and Transit Offices revised the FFR report procedure to ensure that all FFRs are filed in a timely manner with all applicable financial data.</p> <p>The revised process will be implemented with the FFY Q2 FFR due on April 30, 2016. Each quarterly report will be filed using the revised process from that date forward.</p>
<b>Six-Month Update</b>	Complete.