Florida Department of Transportation

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ANANTH PRASAD, P.E.
SECRETARY

September 24, 2013

Ananth Prasad, P.E.
Secretary
Department of Transportation
605 Suwannee Street
Tallahassee, Florida 32399-0450

**RE: Auditor General Report No, 2013-161- 6-month Follow-up
Audit of State of Florida Compliance and Internal Controls Over Financial Reporting and Federal Awards-Department of Transportation Financial Statements, Highway Planning and Construction Cluster, Federal Transit Cluster and Medicaid Cluster
FY 2011-2012**

Dear Secretary Prasad:

As required by Section 20.055(5) (h), Florida Statutes, attached is the six month status report for the subject audit. The report details the implementation or current status of each recommendation.

If you have any questions, please call me at 410-5823.

Sincerely,

Robert E. Clift,
Inspector General

RC: cm

Enclosure

cc: Kathy Dubose, Staff Director
Joint Legislative Auditing Committee
JLAC@leg.state.fl.us

FLORIDA DEPARTMENT OF TRANSPORTATION
6-month Follow-up to the
Office of the Auditor General's Audit of
State of Florida Compliance and Internal Controls Over Financial Reporting and Federal Awards-Department of Transportation
Financial Statements, Highway Planning and Construction Cluster, Federal Transit Cluster and Medicaid Cluster
FY 2011-2012
Report #: 2013-161

Finding No. 1: FS 12-007: Proceeds of Financing Agreements- The procedures followed by the FDOT during the fiscal year-end closing process did not address all of the accounts and disclosures impacted by public-private partnership agreements with deferred payment arrangements.

Criteria: Generally accepted accounting principles require recording the economic substance of long-term financing agreements, including the acquisition of assets, the incurrence of long-term debt, and the source and use of funds. The Statewide Financial Reporting Section (SFRS) has established guidance to assist agencies in reporting this type of arrangement.

With respect to disclosures, GASB Codification Section 1500.118 requires that debt obligations be disclosed by displaying a schedule of principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter.

Condition: During the 2009-10 fiscal year, construction began pursuant to FDOT public-private partnership agreements (agreements) for the design, build, finance, operations, and maintenance of the I-595 and Port of Miami Tunnel projects. The FDOT utilized a new financing structure (i.e., deferred payment format) for the construction costs associated with the two agreements which requires the FDOT to make scheduled payments over the life of the agreement, with the first payment being made several years after the start of construction.

The FDOT's initial submission of financial statement information to the SFRS on August 17, 2012, did not include financial activity related to construction work completed by the contractors for these two projects. Upon discovery of these omissions, FDOT staff reviewed the two agreements to determine the liability for construction costs incurred to date by the contractors. The FDOT determined a liability and capitalized assets for both agreements should be recognized and submitted revised financial statement information to the SFRS.

The revised information was based on prior period financial activity to reflect the asset and liability values as of June 30, 2011, plus the cost of the two contractors' construction activities during the 2011-12 fiscal year. Upon subsequent discussion with the SFRS, the FDOT also submitted revised information to record the prior period adjustments.

However, the revisions made by the FDOT did not include adjustments to record the applicable portion of the deferred financing as other financing sources or the applicable expenditure amounts. In addition, the revisions omitted applicable note disclosures.

Cause: The public-private partnership agreements contained financing arrangements for which the FDOT had not fully considered the accounting and disclosure requirements.

Effect : Prior to audit adjustments, the following accounts were understated: Proceeds of financing agreements ($648,106,333), Expenditures-Current ($592,194,751) and Expenditures-Capital outlay ($55,911,582) in the Transportation Government Fund. Capital assets, net, for Governmental Activities was understated by $17,318,788. Additionally, subsequent to audit adjustments, $38,499,939 was recorded as a decrease to beginning net assets for Governmental Activities on the Statement of Activities.

Also, prior to adjustment, financial statement note disclosures did not include the required disclosures for the debt associated with these two public-private partnership agreements, and the note disclosure displaying changes in long-term liabilities (Note 10) did not separately identify debt associated with public-private partnership agreements.

Recommendation: We recommend that the FDOT establish procedures to ensure the proper recording of public-private partnerships with deferred payment arrangements and the proper reporting of the applicable disclosures in the notes to the financial statements.

Initial Response: We concur. Written procedures will be developed to ensure that deferred payment arrangements are appropriately recorded. In addition, a task will be added to the Department's fiscal year-end calendar to record these entries by fiscal year-end closing.

6-month Follow-up Response: Written procedures have been developed to ensure that deferred payment arrangements are appropriately recorded. In addition, a task has been added to the Department's fiscal year-end calendar to record these entries by fiscal year-end closing.

Completion Date: April 30, 2013

Finding No. 2: FA 12-011: FDOT procedures did not ensure that Highway Planning and Construction Cluster subaward data was properly and timely reported in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS).

Criteria: 2 CFR 170 *Reporting Subaward and Executive Compensation Information*

Condition: FFATA regulations required the FDOT, as a recipient, to report in the FSRS key data elements regarding its subawards. FSRS is a reporting tool used to capture and report subaward and executive compensation data and make it available to the public via a single, searchable Web site. FFATA reporting is required for grants or cooperative agreements exceeding $25,000, effective on or after October 1, 2010, and made with a new Federal Assistance Identification Number on or after that date. Pursuant to Federal regulations, the FDOT should have reported, by the end of the month following the month in which an obligation was made, the key data elements for such grants. During the period July 1, 2011, through June 30, 2012, FDOT made 144 subawards totaling $100,620,724 to 81 entities. Our tests of 14 subawards disclosed that:

- The FDOT reported 10 2011-12 subawards ranging from 1 to 391 days late. Additionally, due to an oversight, the FDOT inaccurately reported the amount for 1 subaward. The FDOT corrected the subaward amount subsequent to audit inquiry.

- One subaward was not reported because the award had not been established in the FSRS by the Federal cognizant agency.

We also noted that the FDOT had not made attempts to contact the Federal cognizant agency when awards were not timely established in the FSRS.

Cause: FDOT procedures required staff to enter subaward data by the end of the month following the month that the primary award information was entered by the Federal cognizant agency rather than during the month in which the subaward obligation was made. Additionally, FDOT procedures did not ensure that appropriate action was taken when the Federal cognizant agency had not established the award in the FSRS, preventing the FDOT from entering the subaward data.

Effect : FDOT subaward data was not always accurately and timely reported in the FSRS as required by FFATA.

Recommendation: We recommend that the FDOT enhance its procedures to ensure that required key data elements are reported accurately and timely in the FSRS. In those instances in which a Federal award has not been established, the FDOT should document its requests to the Federal cognizant agency to establish the award in the FSRS.

Initial Response: The FDOT is precluded from entering subaward data until after the Federal Cognizant Agency establishes awards in the FSRS. In many instances, the Federal Cognizant Agency failed to establish the award in the FSRS in a timely manner, if at all. As a result, the FDOT was unable to enter subaward data in a timely manner in these instances.

As recommended, the FDOT is developing a process to monitor and compare the Federal Cognizant Agency establishment of awards in the FSRS against the obligation dates. FDOT will submit inquiries related to awards expected to be established in the FSRS but not found. FDOT has also amended its Partnership Agreement with the FHWA adding a performance measure that awards be established in the FSRS by the FHWA within 30 days. Furthermore, FDOT procedures are being revised to reflect that subaward information should be entered by the end of the month following the month of obligation.

6-month Follow-up Response: As recommended, the FDOT has developed a process to monitor and compare the Federal Cognizant Agency establishment of awards in the FSRS against the obligation dates. FDOT submits inquiries related to awards expected to be established in the FSRS but not found. FDOT has also amended its Partnership Agreement with the FHWA adding a performance measure that awards be established in the FSRS by the FHWA by 5th calendar day of the month following the award/authorization. Furthermore, FDOT procedures have been revised to reflect that subaward information should be entered by the end of the month following the month of obligation.

Completion Date: September 6, 2013

Finding No. 3: FA 12-012: FDOT procedures were not sufficient to ensure that the Federal Financial Reports (FFRs) were properly completed. As a result, the FDOT submitted FFRs during the 2011-12 fiscal year that were inaccurate or incomplete.

Criteria: The Federal Transit Administration (FTA) requires recipients to quarterly report Federal awards expenditures, cash receipts, and cash disbursements.

Condition: Our review of the four quarterly reports submitted during the 2011-12 fiscal year disclosed that:

- The FDOT omitted the Federal Cash Receipt and Cash Disbursement cumulative amounts (lines B and C) on all four quarterly reports. The cumulative total as of March 2012 was approximately $27.1 million. The FTA reviewer noted the omission in the Remarks and Certification section of the December 2011 quarterly report.

- The FDOT incorrectly reported the quarterly and cumulative Federal Share of Expenditures (line F) amounts. Specifically:

  - The amount on the December 2011 report was understated by $1,320,802 or 17.4 percent.

  - The amount on the March 2012 report was understated by $2,318,121 or 30.6 percent.

  - The cumulative total as of March 2012 was understated by $3,638,923 or 11.8 percent.

- The FDOT incorrectly reported the quarterly and cumulative Recipient Share of Expenditures (line G) amounts. Specifically:

  - The amount on the June 2011 report was understated by $16,888,984 or 66.9 percent.

  - The amount on the September 2011 report was overstated by $13,194,328 or 95.4 percent.

  - The amount on the December 2011 report was overstated by $1,533,734 or 24.7 percent.

  - Expenditures totaling $17,280,990 which should have been reported on the March 2012 report were omitted.

  - The cumulative total as of March 2012 was understated by $15,078,231 or 30.3 percent.

- As a result of the errors and omissions related to lines F and G, the calculated amounts for Total Expenditures (line H) were also incorrect. The cumulative total as of March 2012 was understated by $18,717,154 or 23.3 percent.

- The FDOT omitted the Federal and Recipient Share of Unliquidated Obligations amounts (lines I and J) on all four quarterly reports. The FTA reviewer noted the omission in the Remarks and Certification section of the September 2011 quarterly report.

Cause: FDOT District Office staff who completed the June and September 2011 reports did not properly extract the information from the financial reports used to prepare the FFRs. Upon transferring FFR responsibility to Central Office staff, a different financial report was used that adequately summarized the data necessary for reporting. However, the FFRs continued to be submitted with errors and omissions. The FDOT did not have written procedures for reporting nor did the FDOT require supervisory review and approval prior to FFR submission. FDOT staff indicated that they relied upon the FFR instructions and training provided by the FTA.

Effect : The FDOT submitted inaccurate and incomplete data to the FTA.

Recommendation: We recommend that the FDOT submit revised reports that are accurate and complete. We also recommend that the FDOT develop written procedures that include a requirement that reports be reviewed and approved prior to submission.

Initial Response:

1. We concur with the recommendation to submit a revised report. However, since the reports in the Federal Financial Report (FFR) system are locked down after the end of reporting cycle there is not a mechanism to resubmit a revised report in the system. This was confirmed through a review of Chapter Eight of the TEAM-Web User Guide that addresses Federal Financial Reports. Although it is not possible to directly resubmit the revised report into FFR, we have submitted a revised report to the Federal Transit Administration for their review and use.

2. We also concur with the recommendation to develop written procedures. These procedures have been written and will be used for all future reporting cycles. The procedures are available upon request.

6-month Follow-up Response: Procedure was developed and implemented with quarterly Milestone Progress Reports (MPRs) and Federal Financial Reports (FFRs). The Grant Manager works with Federal drawdown staff and District personnel to assure all data reported is correct. Submissions approved by supervisor.

Completion Date: March 8, 2013.

Finding No. 4: FA 12-058 : Controls were not sufficient to ensure that amounts paid by the FAHCA to the Commission for the Transportation Disadvantaged (CTD), or amounts paid by the CTD to transportation providers under a Medicaid transportation program, were reasonable.

Criteria: OMB Circular A-87, Attachment A, Section C. – Costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. In determining reasonableness of a given cost, consideration shall be given to the restraints or requirements imposed by such factors as sound business practices; arms-length bargaining; Federal and State laws; the market prices for comparable goods or services; and significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's costs.

The Centers for Medicare and Medicaid Services Non-Emergency Transportation (NET) Waiver authorizes the coordinated NET Program and includes provisions requiring FAHCA to demonstrate the cost-effectiveness of the program.

Section 427.013(28), Florida Statutes, requires that the CTD, in consultation with the FAHCA and the FDOT, develop an allocation methodology that equitably distributes transportation funds. The methodology shall separately account for Medicaid beneficiaries. The methodology shall also consider such factors as the actual costs of each transportation disadvantaged trip based on prior-year information.

Florida Medicaid Transportation Coverage, Limitations, and Reimbursement Handbook

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Condition: Effective June 7, 2001, the U.S. Department of Health and Human Services (USDHHS) granted the FAHCA the authority to implement a coordinated NET program. The FAHCA contracted with the CTD, which is administratively housed within the FDOT, to manage the NET Program. Effective November 2004, the CTD began subcontracting with county providers for services. The county providers include both governmental entities and private entities and are referred to as subcontracted transportation providers (STPs). The allocation of NET Program funds to the STPs was based on a formula which considered factors such as: county population density, number of estimated Medicaid trips, and 2002-03 fiscal year Medicaid payments. The FAHCA renegotiated the NET Program contract with the CTD effective December 1, 2008; however, documentation was not available to demonstrate that, in negotiating the contract amount and in the allocation of that amount to the STPs, the FAHCA considered the current actual costs of the CTD and STPs. For the 2011-12 fiscal year, State accounting records reflected FAHCA payments to the CTD totaling $61,209,557.60.

Our review of the administration of NET Program funds also disclosed weaknesses in the monitoring of the CTD and STPs. Specifically, while the FAHCA indicated that a monitoring visit of CTD had been completed in April 2012, the results of the monitoring visit were not provided to the CTD. In addition, according to CTD staff, no monitoring visits were made to the STPs during the 2011-12 fiscal year. During the 2011-12 fiscal year, FDOT records indicated that the CTD made payments totaling $53,930,865.12 to the STPs.

Cause: The FAHCA's procedures did not require that the CTD demonstrate, using current cost data, the reasonableness of the amounts to be paid and allocated under the contract. FAHCA staff indicated that the documentation supporting the April 2012 CTD monitoring visit was of poor quality and, therefore, they decided to perform another monitoring visit, rather than report the results of the April 2012 monitoring visit. The CTD had not established STP monitoring procedures.

Effect : Without a current cost analysis, the FAHCA was unable to determine that NET Program payments were reasonable. In addition, absent the performance of adequate onsite monitoring procedures, the FAHCA has limited assurance that CTD operations are in compliance with the NET Program contract. Absent communication of the monitoring results, the CTD cannot take the necessary actions to correct any noted deficiencies. Further, absent adequate monitoring of the STPs, the CTD has limited assurance that the STPs' operations are in compliance with the contracts between the CTD and STPs.

Recommendation: We again recommend that current transportation costs be summarized and used to evaluate the reasonableness of the total NET Program contract amount, as well as the amounts to be allocated to the to the CTD and STPs for administrative costs. We also recommend that the FAHCA establish adequate monitoring procedures that include the performance of periodic monitoring of the CTD, timely provision of the results of the monitoring activities, and follow-up on any deficiencies noted during monitoring. In addition, the CTD should establish monitoring procedures to require the periodic review of STP operations, provision of the monitoring results to the STPs, and follow-up on any deficiencies noted during monitoring.

Initial Response: The Commission for the Transportation Disadvantaged (FCTD) submitted the Independent Auditors Report to the Agency for Health Care Administration on July 24, 2012.

6-month Follow-up Response: The FCTD has, in consultations with FAHCA and FDOT, developed and fielded an equitable distribution methodology for transportation funds, effective June 30, 2012.

Completion Date: July 24, 2012.