



*Florida Department of Transportation*

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ANANTH PRASAD, P.E.  
SECRETARY

September 30, 2011

Ananth Prasad, P.E.  
Secretary of Transportation  
Department of Transportation  
605 Suwannee Street, MS 57  
Tallahassee, FL 32399-0450

RE: **Auditor General Report No. 2011-167**  
**Federal Awards FY 2009-2010**

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,

A handwritten signature in blue ink, appearing to read "Robert E. Clift".

Robert E. Clift,  
Inspector General

REC:tw

Enclosure

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

# FLORIDA DEPARTMENT OF TRANSPORTATION

## 6-month Follow-up Response to the Auditor General's Statewide Federal Awards for the fiscal year ended June 30, 2010 Report # 2011-167

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**Finding No. 1: Florida Department of Transportation (FDOT) did not have sufficient procedures in place to ensure the performance of during-the-award monitoring of subrecipients.**

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**Criteria:** OMB Circular A-133 §.400(d) Pass-through entity responsibilities OMB Circular A-133.

Compliance Supplement – A pass-through entity is responsible for during-the-award monitoring which includes reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

FDOT Procedure Topic No. 525-010-300-d, Local Agency Program Manual

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**Condition:** During the 2009-10 fiscal year, FDOT provided approximately \$147 million to subrecipients, of which \$87.7 million was provided to Local Agency Program (LAP) subrecipients. Our review of FDOT's LAP Manual disclosed that the Manual did not clearly address procedures for monitoring subrecipients. Specifically, the Manual did not require that during-the-award monitoring be performed or address how FDOT personnel were to perform and document during-the-award monitoring of subrecipients.

In response to our inquiries regarding the procedures performed to monitor subrecipients, FDOT personnel indicated that during the construction of LAP projects, the subrecipient can monitor or hire a consultant engineer inspection firm (CEI) to monitor the project. FDOT provided further that regardless of whether the subrecipient hired a CEI or not, FDOT maintained oversight responsibility and monitored the subrecipients through certifications, project reviews, and project inspections (site visits).

FDOT provided a list of 282 subrecipient projects subject to monitoring during the period July 1, 2009, through June 30, 2010. We requested the monitoring documentation for 25 LAP projects subject to monitoring. For 12 of the 25 LAP projects, FDOT was unable to provide documentation evidencing FDOT's performance of during-the-award monitoring.

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**Cause:** FDOT management indicated that the final inspection met during-the-award monitoring requirements.

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**Effect:** Without adequate procedures in place to monitor subrecipients, FDOT cannot ensure that subrecipients are being properly monitored for compliance with Federal requirements or achievement of performance goals.

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**Recommendation:** We recommend FDOT appropriately monitor subrecipients during the award period. Additionally, we recommend that FDOT enhance its procedures to clearly provide for during-the-award monitoring. FDOT should ensure that procedures address the selection of subrecipients to be monitored, the frequency at which monitoring should be performed, the criteria used during the monitoring, and the documentation to be maintained.

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**Initial Response:** We concur with the recommendation and will develop procedures to address the selection of subrecipients to be monitored, the frequency at which monitoring should be performed, the criteria used during the monitoring, and the documentation to be maintained. Preliminary discussion with the State Construction Office Director and Production Support Office Manager has taken place to determine appropriate actions to be taken.

**Current Response:** The draft procedure, Construction Oversight and Project Reviews, was presented at the Statewide Construction Engineers meeting on September 14, 2011. The Director of Construction requested the inclusion of language related to construction work classifications. The purpose of the inclusion of the construction work classifications provides department inspectors with areas of critical concern during the project reviews. The District Construction Engineers have requested an additional review of the Local Agency Program Construction Oversight and Project Review procedure, with the inclusion of the changes. The anticipated completion date is October 31, 2011.

**Completion Date:** October 31, 2011

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**Finding No. 2: FDOT program managers did not always follow established procedures for receiving and reviewing subrecipient audit reports or maintaining project information in the Florida Single Audit Automated (FSAA) System.**

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**Criteria:** OMB Circular A-133 §\_400(d) Pass-through entity responsibilities; and FDOT Procedure Topic No. 450-010-001-h, Federal and Florida Single Audit Procedures.

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**Condition:** FDOT's Office of Inspector General (OIG) established Federal and Florida Single Audit Procedures to help ensure compliance with Federal requirements regarding the receipt and review of OMB Circular A-133 audit reports. These procedures required FDOT program or project managers to document the receipt and review of subrecipient audit reports by completing a checklist in the FSAA System. The OIG provides listings of the projects for which checklists should be completed to the District Single Audit liaisons twice each year. The District liaisons work directly with the program or project managers to complete the appropriate checklists. Additionally, the OIG reviews the completed checklists for accuracy.

As similarly noted in the prior audit, our tests of 21 subrecipient projects for which 21 audit reports were due to FDOT by no later than June 30, 2009, and for which program managers were to complete a checklist during the 2009-10 fiscal year, disclosed 11 instances of noncompliance with FDOT procedures as described below:

- Seven projects (2 located in FDOT District 4 and 5 located in FDOT District 7) for which checklists had not been entered into the system as of June 30, 2010. The audit reports were received by FDOT between March 20, 2009, and June 10, 2009.
- Two projects (1 located in FDOT District 1 and 1 located in FDOT District 3) for which checklists had not been timely entered into the System. The checklists were completed 37 and 72 days late.
- Two projects (located in FDOT District 4) for which the financial information on the checklist did not agree with that of the subrecipient audit report. For one project, \$2,149,879 was reported under CFDA No. 20.205 on the subrecipient audit report while the same amount was reported as State financial assistance on the checklist. For the other project, the expenditures for CFDA No. 20.205 were understated by \$880,279 on the checklist compared to the audit report. These errors were not detected during the OIG's review of the checklists.

Additionally, our review of 21 subrecipient projects for which 20 audit reports were due to FDOT by no later than June 30, 2010, disclosed that FDOT did not timely receive or properly follow up to timely receive

4 audit reports for 5 projects (3 located in FDOT District 4, and 2 located in FDOT District 6) from the subrecipient. FDOT did not follow up on the 4 audit reports that were received 13 to 96 days late.

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**Cause:** FDOT's procedures did not address the duties and responsibilities of the District Single Audit liaisons. Additionally, for instances where checklists had not been completed, the OIG did not follow up with the District Single Audit liaisons or supervisory staff to obtain the checklists. OIG reviews were not sufficient to detect errors in the preparation of the checklists.

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**Effect:** The failure to follow procedures limited the accountability provided for Federal financial assistance awarded to subrecipients.

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**Recommendation:** We recommend that FDOT revise its procedures to clearly outline the duties and responsibilities of the District Single Audit liaisons. Additionally, the OIG should perform timely follow-up procedures when checklists are not completed and strengthen its review to ensure that errors, if any, are appropriately detected and corrected.

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**Initial Response:** We concur with the findings as reported from the fieldwork of the Federal Awards Audit. FDOT program managers did not always follow established procedures for receiving and reviewing subrecipient audit reports or maintaining project information in the Florida Single Audit Automated (FSAA) System. The OIG has addressed this issue over the past year by conducting five compliance reviews, seven training classes and providing necessary guidance to the districts on an ongoing basis through routine e-mail correspondence and quarterly OIG newsletters. Compliance reviews conducted in the current fiscal year have identified issues regarding checklists not completed, timely receipt and review of financial reporting packages, a lack of reconciliation of FLAIR payments to the expenditures in the audit report and other areas where lack of oversight was noted. District management has been responsive to the compliance reviews and are in the process of implementing corrective actions.

The two checklists identified in District Four are not completed due to discrepancies in the recipients audit report and entries missing or misstated on the Schedule of Expenditures. District staff has actively researched this issue. The OIG has conducted one training class this year at the request of District Seven. The OIG will continue to conduct compliance reviews and training classes throughout FYE 2011 to ensure compliance with state and federal regulation and ensure districts and project/program managers are aware of all single audit requirements. The OIG will also strengthen its current audit steps to ensure errors between checklists and audit reports are detected and corrected by district personnel.

The department's Single Audit Procedure goes through a complete review and update every two years. The current procedure was approved by the Secretary in August 2009 and is scheduled for a review and update this summer. The procedure will be updated to include specific responsibilities of the district single audit liaisons. Currently, the role of the single audit liaisons is as representatives between the OIG and the district project/program managers. They assist with communications and distribution of materials to the districts.

**Current Response:** The department's Single Audit Procedure has been reformatted and revised to include duties and responsibilities of the district Single Audit Liaisons. The Single Audit Procedure is being reviewed and the anticipated completion date is October 31, 2011.

The Office of Inspector General's (OIG) Single Audit Coordinator is working with district Single Audit Liaisons and Program/Project Managers on timely submission of checklists. Districts were provided with lists of all the department's federal/state object codes for comparing with the Catalog of Federal Domestic Assistance/Catalog of State Financial Assistance numbers entered into the Single Audit System. The lists have been published on the OIG's Single Audit website as well. A monthly spreadsheet of checklists not

completed with inconsistencies highlighted is sent to district Single Audit Liaisons and Program/Project Managers who are making every effort to correct errors. Additionally, at the request of district Program/Project Managers, the OIG Single Audit Coordinator has been corresponding with subrecipients who have not submitted their audit reports timely.

**Completion Date:** October 31, 2011

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**Finding No. 3: Controls were not sufficient to ensure that amounts paid by Florida Agency for Health Care Administration (FAHCA) to the Commission for Transportation Disadvantaged (CTD) or amounts paid by CTD to transportation providers under a Medicaid transportation program were reasonable.**

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**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 FAHCA and FDOT to consult together to 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.

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**Condition:** Effective June 7, 2001, United States Department of Health and Human Services granted FAHCA the authority to implement a coordinated NET program. FAHCA contracted with the Commission for the Transportation Disadvantaged (CTD), which is administratively housed within FDOT, to manage the NET Program. Effective November 2004, CTD began subcontracting with counties to provide services. The county providers include governmental entities and private entities, referred to as subcontracted transportation providers (STPs). The allocation of NET funds to the STPs was based on a formula which considered factors such as: county population density, estimated Medicaid trips, and 2002-03 fiscal year Medicaid payments. FAHCA renegotiated the NET contract with CTD effective December 1, 2008, however in negotiating the contract amount and in the allocation of that amount to the STPs, FAHCA did not maintain sufficient documentation to demonstrate that current actual costs of the CTD and STPs were considered. During the 2009-10 fiscal year, FDOT records indicated CTD received payments from FAHCA totaling \$70,870,997.17. During this period, CTD payments to STPs totaled \$64,691,870.

In addition, as noted in report No. 2011-002, FAHCA's files related to the December 2008 contract did not contain sufficient information to document that fees paid for providing NET services were reasonable. Our report also stated that FAHCA's monitoring of the NET contract was not sufficient to ensure contractual compliance and evaluate the performance of CTD and the STPs.

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**Cause:** Procedures did not require that CTD demonstrate, using current data, the reasonableness of the amounts to be paid and allocated under the contract.

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**Effect:** Without a current cost analysis, FAHCA was unable to determine that NET payments were reasonable.

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**Recommendation:** We recommend that current transportation costs be summarized and used to evaluate the reasonableness of the total contract amount as well as the amounts allocated to STPs and to the CTD for administrative costs. FAHCA should also conduct appropriate monitoring to evaluate CTD and STP compliance with governing laws, regulations, and contract terms.

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**Initial Response:** The Commission for the Transportation Disadvantaged will be providing the FAHCA with administrative costs audits for FY 2009/2010 to aid in determining the reasonableness of costs for future contracting purposes. FAHCA will receive audits for FY 2009/2010 and FY 2010/2011 in accordance with OMB Circular A-133 and the Florida Single Audit Act. The audits will allow the FAHCA to determine the reasonableness of funding and if the allocation is sufficient for providing services. Onsite surveys of two transportation providers were conducted by FAHCA in July 2010 and an onsite survey of the CTD and selected transportation providers is to be conducted by FAHCA in the near future.

**Current Response:** There have been several management changes within CTD since the initial response. The CTD will be obtaining the services of an outside firm to conduct audits of the FAHCA contract for FY 2009/2010 and FY 2010/2011 to allow the FAHCA to determine the reasonableness of funding and if the allocation is sufficient for providing services.

In addition, the CTD has begun evaluating the current transportation costs and has, in consultation with FAHCA and DOT, developed several allocation methodologies for consideration that will equitably distributed transportation funds. Statewide workshops are being held to review and receive input on these methodologies. It is anticipated that a final summary will be complete by December 2011. CTD will work with FAHCA as they conduct any onsite surveys of the CTD or selected transportation providers.

**Completion Date:** January 2012