

**DEPARTMENT OF TRANSPORTATION**  
**STATE FINANCIAL ASSISTANCE,**  
**INNOVATIVE CONSTRUCTION TECHNIQUES,**  
**AND PRIOR AUDIT FOLLOW-UP**

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Operational Audit

July 2006 through February 2008



## SECRETARY OF THE DEPARTMENT OF TRANSPORTATION

Pursuant to Section 20.23(1)(a), Florida Statutes, the Secretary of the Department of Transportation is appointed by the Governor and subject to confirmation by the Senate. The Secretaries who served during the audit period are shown below:

| Secretary               | Dates of Service                |
|-------------------------|---------------------------------|
| Denver J. Stutler, Jr.  | July 2006 through December 2006 |
| Stephanie C. Kopelousos | From January 2007               |

The audit team leaders were Helen Baek, CPA, and Linda Gardner, CPA, and the audit was supervised by Michael E. McCloskey, CPA. Please address inquiries regarding this report to David R. Vick, CPA, Audit Manager, by e-mail at [davidvick@aud.state.fl.us](mailto:davidvick@aud.state.fl.us) or by telephone at (850) 487-4494.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

## DEPARTMENT OF TRANSPORTATION

State Financial Assistance,  
Innovative Construction Techniques,  
and Prior Audit Follow-Up

### SUMMARY

This operational audit of the Department of Transportation (Department) focused on the Department's administration of its responsibilities under the Florida Single Audit Act (FSAA) and the Department's compliance with Section 337.025, Florida Statutes, which governs the Department's use of innovative construction techniques. Our audit of the period July 2006 through February 2008, and selected actions through June 2008, also included a follow-up on prior audit findings related to the Department's utilization of the MyFloridaMarketPlace and People First Systems, Central Office monitoring, and other administrative matters. Our audit disclosed:

#### FLORIDA SINGLE AUDIT ACT

**Finding No. 1:** Improvements were needed in the Department's administration of its responsibilities under the FSAA.

#### INNOVATIVE CONSTRUCTION TECHNIQUES

**Finding No. 2:** The Department needs to enhance the procedures used to ensure its compliance with the statutory \$120 million annual cap established for innovative construction techniques. While the procedures should be enhanced, we did find that the Department had not exceeded the annual cap amount.

#### OTHER MATTERS

**Finding No. 3:** Department procedures did not ensure timely deletion of Florida Accounting Information Resource Subsystem (FLAIR) user access for terminated employees.

### FINDINGS AND RECOMMENDATIONS

#### State Financial Assistance

State Financial Assistance (SFA) is financial assistance provided from State resources to non-State organizations to carry out a State project. As shown by Exhibit A, during the audit period, Department records indicate that the Department provided SFA totaling in excess of \$838 million to non-State entities.

SFA is to be administered in accordance with the Florida Single Audit Act (FSAA).<sup>1</sup> The purposes of the FSAA are to:

- Establish uniform State audit requirements for SFA provided by State agencies to non-State entities to carry out State projects.
- Promote sound financial management, including effective internal controls, with respect to SFA administered by non-State entities.
- Promote audit economy and efficiency by relying to the extent possible on already required audits of Federal financial assistance provided to non-State entities.
- Provide for identification of SFA transactions in the State's accounting records and recipient organization records.

<sup>1</sup> Section 215.97, Florida Statutes.

- Promote improved coordination and cooperation within and between affected State agencies providing SFA and non-State entities receiving State assistance.
- Ensure, to the maximum extent possible, that State agencies monitor, use, and follow up on the results shown by audits of SFA.

The FSAA identifies the responsibilities of various entities involved in the FSAA process, including those of the Department of Financial Services (DFS) and the State agencies that award SFA to recipients. One of the responsibilities assigned to State awarding agencies, such as the Department, is the maintenance of accurate and complete accounting records showing the amounts of SFA disbursed to non-State agencies. Other significant responsibilities are those relating to the review of recipient Financial Reporting Packages (FRPs)<sup>2</sup> to determine whether Department provided SFA has been accounted for and reported by the non-State entity and whether timely and appropriate corrective action has been taken with respect to audit findings and recommendations.

### **Finding No. 1: Florida Single Audit Act**

The Department assigned the responsibility for administering SFA in accordance with Florida law to Project Managers. Project Managers were responsible for ensuring that Department accounting records accurately identify SFA disbursed to non-State entities, all FRPs were timely received and reviewed, and required corrective actions were appropriately monitored.

We performed various reviews and analyses of Department records applicable to the Department's administration of its FSAA responsibilities. Our audit disclosed the following:

- To identify SFA disbursed to non-State entities, DFS and Department procedures required that SFA be classified by Catalog of State Financial Assistance (CSFA) number and by expenditure object code (75XX). Our audit disclosed that the Department did not have effective controls in place to ensure that SFA was appropriately recorded in Department accounting records. For example, as shown by Exhibit A, \$126.9 million of the \$838.4 million recorded to a CSFA number during the period July 2006 through February 2008 (15 percent) was not recorded in expenditure object code 75XX. Adherence to a uniform coding structure is important because it provides a means to readily identify and report the amount of SFA provided to a non-State entity. Inconsistent use of uniform SFA accounting conventions prevents the accurate determination of the amount of SFA provided to non-State entities and, therefore, may limit the Department's ability to fully discharge its responsibilities under the FSAA.
- FRPs are due within 12 months of the recipients' fiscal year end. Department procedures require that FRPs be reviewed by Project Managers within 6 months of receipt. Untimely receipt and review reduces Department assurance that SFA has been properly administered by recipients and any deficiencies in legal compliance and controls are timely identified and resolved. Our testing of 33 FRPs received by the Department disclosed the following:
  - Twelve of 33 FRPs were not timely reviewed. The number of days late ranged from 28 to 266 days. Department records indicated that SFA related to these 12 FRPs totaled approximately \$55 million.
  - Three of the 33 FRPs were not timely received from recipients and the Department did not document its efforts to obtain the reports. These 3 FRPs were received 115, 183, and 299 days late, respectively. Department records indicated that SFA related to these FRPs totaled approximately \$21 million.

Similar findings were noted in audit report No. 2005-097.

<sup>2</sup> Section 215.97(2)(e), Florida Statutes, requires that, at a minimum, the FRP should include the recipients' financial statements, Schedule of Expenditures of SFA, auditor's reports, management letter, auditee's written responses or corrective action plan, and correspondence on follow-up of prior years' corrective actions taken.

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**Recommendation:** We recommend that the Department take steps to ensure the proper recording of SFA in Department accounting records and the timely receipt and review of FRPs.

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| <b>Innovative Construction Techniques</b> |
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Section 337.025, Florida Statutes, authorizes the Department to establish a program for highway projects demonstrating innovative techniques for highway construction, maintenance, and finance that have the intended effect of controlling time and cost increases on construction and maintenance projects. Such techniques may include, but are not limited to, state-of-the-art technology for pavement, safety, and other aspects of highway construction and maintenance; innovative bidding and financing techniques; accelerated construction procedures; and those techniques that have the potential to reduce project life cycle costs. Section 337.025, Florida Statutes, provides that the Department may enter into no more than \$120 million in such contracts annually.

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| <b>Finding No. 2: Annual Cap</b> |
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As discussed above, Section 337.025, Florida Statutes, allows the Department to enter into contracts that total no more than \$120 million each year for highway projects using innovative techniques. The law also provides that this annual cap on contracts is not applicable to turnpike enterprise projects. The law provides the Department flexibility in that it allows the Department's use of nontraditional techniques, when those techniques may save time and money in relation to the traditional techniques already authorized by Florida law.

In response to our inquiries, the Department indicated that compliance with the \$120 million annual cap was documented within the Department's Tentative Work Program using estimated construction cost amounts. The Department did not have procedures in place providing for a comparison of the total of the amounts of the contracts entered into annually to the \$120 million annual cap. Although, the Department did not have the necessary procedures in place, based on our analysis of actual contracts entered into by the Department, for fiscal years 2003-2004 through 2006-2007, the Department had not exceeded the \$120 million annual cap.

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**Recommendation:** We recommend the Department revise its procedures for determining compliance with the \$120 million annual cap. Such procedures should specify that the annual amount for innovative projects be determined using actual contract amounts, rather than estimated construction costs.

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| <b>Other Matters</b> |
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| <b>Finding No. 3: FLAIR Access</b> |
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The Department had established policies and procedures for the deletion of FLAIR access for employees who terminate employment. When an employee terminated employment his or her supervisor (or designee) was responsible for notifying the FLAIR Security Coordinator that the employee's user access was to be deleted. Upon receipt of such notification, the terminated employee's FLAIR user name was to be immediately placed in a delete status. In addition, the FLAIR Security Coordinator was to monitor a terminated employee listing, prepared on at least a monthly basis, to identify FLAIR users for which access should be deleted.

During the period April 2006 through February 2008, 110 Department employees terminated who had FLAIR access. We noted that FLAIR access for 41 of the 110 terminated employees was not timely deleted. For these 41 terminated employees, FLAIR access was not deleted until 33 to 495 days after termination.

In response to our inquiry, FLAIR Security staff indicated the untimely access deletion generally resulted from terminated employees not timely appearing on the terminated employee listing, late notification by employee supervisors of employee terminations, or FLAIR Security staff erroneously not timely removing access.

In order to protect the integrity of Department accounting records, the FLAIR Security Coordinator should ensure that access privileges for terminated employees are timely removed.

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**Recommendation:** We recommend that the Department more closely monitor staff compliance with established procedures for deleting FLAIR access for terminated employees.

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### PRIOR AUDIT FOLLOW-UP

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Except as discussed in the preceding paragraphs, Department staff had taken corrective actions for the applicable findings included in our report Nos. 2005-097, 2007-056, 2007-076, and 2007-087.

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### OBJECTIVES, SCOPE, AND METHODOLOGY

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The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders, unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the Department's administration of its responsibilities under the FSAA and the Department's compliance with Section 337.025, Florida Statutes, which governs the Department's use of innovative construction techniques. The overall objectives of the audit were:

- To evaluate the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To determine whether management had corrected, or was in the process of correcting, all applicable deficiencies disclosed in prior audit report Nos. 2005-097, 2007-056, 2007-076, and 2007-087.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period July 2006 through February 2008, and selected actions through June 2008. In conducting our audit we:

- Interviewed selected Department personnel.
- Obtained an understanding of selected Department processes and related internal controls and performed procedures to evaluate the effectiveness of those processes and controls.

- Analyzed Department information regarding highway construction and maintenance contracts entered into during the period July 2003 through February 2008 to determine Department compliance with the provisions of Section 337.025, Florida Statutes.
- Tested 32 highway construction and maintenance contracts entered into by the Department during the period July 2006 through February 2008, and traced to supporting documentation to verify the recorded construction technique.
- Performed various analyses of Department accounting records using expenditure data for the period July 2006 through February 2008 to determine whether SFA was properly recorded and if the Department was in compliance with DFS Florida Single Audit Act Rules.
- Tested 36 of the 494 contracts with assigned CSFA numbers that were identified in the FLAIR Contracts and Grants Subsystem with contract beginning dates during the period July 2006 through February 2008 to determine whether the contracts contained the required Section 215.97(5), Florida Statutes, language.
- Tested 36 of the 1,117 contracts assigned a CSFA number and with recorded expenditures during the 2006-07 fiscal year to determine whether the Department performed appropriate monitoring of non-State entities.
- Tested documentation related to 36 recipients of SFA that, based on Department records, received \$500,000 or more in SFA during their fiscal year ending in 2006, to determine whether the Department timely received required FRPs and timely performed required reviews and appropriate correction action follow-ups.
- Performed various other audit procedures as necessary to accomplish the objectives of the audit.

**AUTHORITY**

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA  
Auditor General

**MANAGEMENT'S RESPONSE**

In a response letter dated January 12, 2009, the Secretary of the Department provided a response to our findings and recommendations. The Secretary's response is included as Exhibit B.



**EXHIBIT A**  
**STATE FINANCIAL ASSISTANCE PROVIDED BY THE DEPARTMENT**  
**DURING THE PERIOD JULY 2006 THROUGH FEBRUARY 2008**

| <b>Amounts Provided by Catalog of State Financial Assistance (CSFA) Number</b>                            |  |                              |
|---|--|------------------------------|
| <b>CSFA Number</b>  | <b>Description</b>   | <b>Amount</b>                |
| 55.001  | Commission For The Transportation Disadvantaged Trip And Equipment Grant Program | \$ 55,095,455                |
| 55.002  | Commission For The Transportation Disadvantaged Planning Grant Program           | 2,071,013                    |
| 55.003  | Florida Highway Beautification Council Grants                                    | 1,685,273                    |
| 55.004  | Aviation Development Grants  | 166,446,777                  |
| 55.005  | Seaport Grants   | 32,610,497                   |
| 55.006  | Seaport Transportation And Economic Development Program                          | 127,984                      |
| 55.007  | Commuter Assistance/Rideshare Grants   | 4,860,960                    |
| 55.008  | County Incentive Grant Program   | 77,524,098                   |
| 55.009  | Small County Outreach Program  | 50,172,485                   |
| 55.010  | Public Transit Block Grant Program   | 71,954,368                   |
| 55.011  | Park And Ride Lot Program  | 569,539                      |
| 55.012  | Public Transit Service Development Program                                       | 7,556,487                    |
| 55.013  | Transit Corridor Program   | 11,999,090                   |
| 55.014  | Intermodal Development Program   | 81,351,810                   |
| 55.015  | Seaport Access   | 770,335                      |
| 55.016  | Small County Road Assistance Program   | 41,507,672                   |
| 55.017  | New Starts Transit Program   | 3,588,536                    |
| 55.018  | Tri-Rail Operating And Capital Assistance Program                                | 20,704,366                   |
| 55.019  | Toll Facilities Revolving Trust Fund   | 4,766,911                    |
| 55.020  | State Infrastructure Bank  | 133,287,458                  |
| 55.021  | Rail Development Grants  | 1,290,863                    |
| 55.022  | Transportation Outreach Program  | 22,489,788                   |
| 55.023  | State Highway Project Reimbursement  | 217,185                      |
| 55.026  | Transportation Regional Incentive Program  | 45,793,589                   |
| <b>Total SFA Recorded by CSFA Number</b>  |  | <b><u>\$ 838,442,539</u></b> |
| <b>SFA Recorded by Expenditure Object Code</b>  |  |                              |
| <b>Object Code</b>  | <b>Description</b>   | <b>Amount</b>                |
| 13XX  | Personal Service-Independent Contractors   | \$ 16,177,055                |
| 24XX  | Repairs and Maintenance  | 379,394                      |
| 26XX  | Current Charges-Travel   | 14,640                       |
| 56XX  | Real Property  | 37,399,179                   |
| 75XX  | State Financial Assistance   | 711,540,662                  |
| 79XX  | Grants and Distributions-Other   | 72,930,740                   |
| 89XX  | Other Nonoperating   | 869                          |
| <b>Total SFA Recorded by Expenditure Object Code</b>  |  | <b><u>\$ 838,442,539</u></b> |
| <b>Total SFA Recorded to a CSFA Number but not Recorded to Expenditure Object Code 75XX</b>               |  | <b><u>\$ 126,901,877</u></b> |
| <b>Percentage of Total SFA Recorded to a CSFA Number but not Recorded to Expenditure Object Code 75XX</b> |  | <b><u>15.14%</u></b>         |

Source: Department records.

**EXHIBIT B  
MANAGEMENT'S RESPONSE**



*Florida Department of Transportation*

CHARLIE CRIST  
GOVERNOR

605 Suwannee Street  
Tallahassee, FL 32399-0450

STEPHANIE C. KOPELOUSOS  
SECRETARY

January 12, 2009

Mr. David W. Martin, CPA  
Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Mr. Martin:

I am pleased to respond to the preliminary and tentative audit findings and recommendations concerning the operational audit of:

State Financial Assistance, Innovative Construction Techniques  
and Prior Audit Follow-Up  
for the period July 2006 through February 2008

As required by Section 11.45(4)(d), Florida Statutes, our response to the finding is enclosed.

I appreciate the efforts of you and your staff in assisting to improve our operations. If you have any questions, please contact our Inspector General, Ron Russo, at 410-5800.

Sincerely,

A handwritten signature in blue ink that reads "SKopel".

Stephanie C. Kopelousos  
Secretary

SCK:hmt

Enclosure

cc: Ron Russo, Inspector General

**EXHIBIT B (CONTINUED)  
MANAGEMENT'S RESPONSE**

**FLORIDA DEPARTMENT OF TRANSPORTATION**

**Response to the Auditor General's  
Preliminary and Tentative Audit Findings and Recommendations  
State Financial Assistance, Innovative Construction Techniques,  
and Prior Audit Follow-up  
July 2006 through February 2008**

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**Finding No. 1: Florida Single Audit Act (FSAA)**

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Improvements were needed in the Department's administration of its responsibilities under the FSAA.

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**Recommendation:** We recommend that the Department take steps to ensure the proper recording of State Financial Assistance (SFA) in Department accounting records and the timely receipt and review of Financial Reporting Packages (FRPs).

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**Management Response:** We concur. Before this audit took place, we became aware of the object code misclassifications and were taking steps to rectify the situation. The department's single audit procedure is being updated to better explain the encumbering process. Our system administrator is updating the automated checklist so project managers are required to input a Catalog of State Financial Assistance (CSFA) or Catalog of Federal Domestic Assistance (CFDA) number before the system will accept the checklists.

In an effort to receive Financial Reporting Packages (FRPs) more promptly, we are creating a standard "reminder" letter that project managers can forward to recipients. This will document our attempts of securing FRPs from each recipient.

To ensure timely review of FRPs, we have established single audit liaisons in each district. We periodically provide the district liaisons status information of audit reports not yet reviewed. Since beginning this process, we have seen a significant increase in timely reviews of FRPs.

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**Finding No. 2: Innovative Construction Techniques – Annual Cap**

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The Department needs to enhance the procedures used to ensure its compliance with the statutory \$120 million annual cap established for innovative construction techniques. While the procedures should be enhanced, we did find that the Department had not exceeded the annual cap amount.

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**Recommendation:** We recommend the Department revise its procedures for determining compliance with the \$120 million annual cap. Such procedures should specify that the annual amount for innovative projects be determined using actual contract amounts, rather than estimated construction costs.

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**Management Response:** We concur. The State Construction Office is in the process of writing a procedure to address the use of innovative construction techniques and ensure there is compliance with the statutory \$120 million annual cap statewide.

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**Finding No. 3: Other Matters – FLAIR Access**

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Department procedures did not ensure timely deletion of Florida Accounting Information Resource Subsystem (FLAIR) user access for terminated employees.

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**Recommendation:** We recommend that the Department more closely monitor staff compliance with established procedures for deleting FLAIR access for terminated employees.

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**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Management Response:** We concur. To encourage supervisors' timely notification of employee terminations, we are pursuing a modification to the Department's Notice of Separation/Resignation form 250-005-25. A link to the FLAIR Access Request form 350-090-15 will be added to facilitate notification of termination.

Effective January 6, 2009, all FLAIR Access Control records will be updated to reflect the Employee's People First User ID and Employee Name. The Department will modify its FLAIR Security Procedure to require completion of these new fields on the FLAIR Access Request form. A weekly systematic match will be performed of the People First User ID in the FLAIR Access Control file with the People First User ID in a file of terminated employees. This will catch those employees for whom we did not receive notification of termination.