UTA

INTERNAL AUDIT REPORT

Transit Oriented Development Management

R-17-14

November 22, 2017

Executive Summary

Introduction

Internal Audit (IA) has been directed by the Board to perform an internal audit on the Transit Oriented Development (TOD) Management to determine if controls are designed adequately and operating effectively to ensure compliance with Utah Transit Authority (UTA) policy and goals. The preliminary stage of the audit was concluded on November 17, 2016 and the audit report was finalized in October 2017.

Objectives and Scope

The primary objective of the audit was to assess whether adequate controls are in place and have been operating effectively for the following areas:
- Policy
- Standard operating procedures (SOP)
- Roles and responsibilities

The period of the preliminary audit was from August 1, 2015 through July 31, 2016 with completion of the audit work focusing on the period of March 1, 2017 through August 31, 2017.

Audit Conclusion

Audit Report Rating*	
The audit revealed that a draft TOD Policy and SOP have been created, which include roles and responsibilities, best practices, and a format which allows users to track activities from the initiation to the end of a project. The comprehensive, step by step documentation of the critical steps in the TOD process has addressed many of the risks initially identified.	

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Internal Audit recommends that the conflict of interest (COI) declaration request process and subsequent COI retention requirements be more formalized. Providing clear guidance for TOD staff regarding requirements, adequacy, and completeness of COI declarations would reduce a key risk. We also recommend formalizing an annual risk assessment process as well as establishing and documenting key performance indicators for TOD personnel.

Audit-related TOD activity was limited during the audit completion period. Therefore, Internal Audit focused its work on governance matters rather than the effectiveness of controls.

While this report details the results of the audit, the responsibility for the maintenance of an effective system of internal control and the prevention and detection of irregularities and fraud rests with management.

*Rating is defined in Appendix 2

Internal Audit would like to thank the management and staff for their co-operation and assistance during the audit.

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1. Policies and Procedures

Finding R-16-8-1	High
No comprehensive set of Policies and Procedures exist for the TOD process, including but not limited to: • A documented process flow of all the required activities, related documents, required approvals. • The treatment of documents, with specific reference to classification protocols for sensitive or classified information. • A policy on the ownership and management of TOD contractual agreements. • Performance of an annual risk assessment by the TOD team. • The Legal Department's review documented and understood as to what the review consists of.	

Recommendation
• The TOD Manager should work with the TOD Project Specialist to design, document and implement a corporate policy, including roles and responsibilities, and a set of standard operating procedures (SOP) for the TOD process. • The TOD Manager should meet with the Legal Department to develop a formal set of standards for Legal Department's review of TOD documents and document these standards in the recommended SOP.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
The TOD department has been working with the UTA executives and board to formulate a comprehensive policy and associated operating procedures to help improve the TOD process and mitigate potential risks. This process will address several shortcomings of past procedures, including those listed above and throughout this audit.		

Final Status	Low
Management has overseen the development of a draft TOD Corporate Policy and an SOP which includes roles and responsibilities. Although the SOP noted that UTA Legal is to review and approve all agreements involved in the Development Framework, it is unclear what the Legal Department's review or approval consists of. The requirement of an annual risk assessment was not included in the SOP.	

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	December 31, 2017
TOD Management will meet with Legal Department to understand what assurance the Legal review provides and will document the critical aspects in an SOP. A requirement for an annual risk assessment is being included in the SOP for the TOD System Plan. It describes the risk assessment being performed concurrently with the annual report. Key findings may be included in the annual report on an as-needed basis.		

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2. Approval Matrix

Finding R-16-8-2	High

The approval processes were not consistent between projects and did not contemplate processes yet to be required such as:
- TOD System Plan
- Station Readiness Calculator/Ranked Station List
- Station Area Plan
- Conceptual Plan
- Master Plan
- Site Plan
- Master Development Agreement
- Financial Plan and Operating Agreement
- Property Disposal
- Monthly TOD reporting
- TOD Status Report to the Board

The abovementioned include approvals by the Chief Development Officer, Executive Team, Corporate Staff, Planning and Development Committee, Board, and/or FTA.

From the audit sample selected, it was found that approvals were inconsistently obtained and evidenced throughout the TOD process.

Recommendation

The TOD approval matrix should be documented in a corporate TOD policy to be developed (Refer to Finding 16-8-1). The approval matrix should incorporate the responsibility, review, approval, and/or recommendation for each TOD activity and by whom before the project can move forward into the next sub-process.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017

The proposed process, referenced in the action plan for Preliminary Finding R-16-8-1, contemplates the sequence of tasks and related approvals as listed above. There will be an operating procedure to address the audit's recommendation.
The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be adopted. Therefore, although this finding is rated as "High", the process will not allow it to be fully resolved in the recommended three-month timeframe.

Final Status	Implemented

An Approval Matrix which corresponds to the critical elements of the TOD process has been included in the SOP. Additionally, within each SOP section for the critical TOD process steps, the requisite reviews and approvals, as well as their required order, has been documented and visually agrees to the Matrix.

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Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

3. Checklist

Finding R-16-8-3	High
No control was in place to track the completeness of all documentation and required actions.	

Recommendation	
The TOD Manager should create a standardized checklist "checklist" for all TOD projects and monitor progress against the checklist. The standardized checklist should be included in the recommended SOP.	

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
The recommended checklist will be created to track the new approval process and will track all necessary reviews, approvals, and documentation. The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be adopted. Therefore, although this finding is rated as "High", the process will not allow it to be fully resolved in the recommended three-month timeframe.		

Final Status	Implemented
A formal checklist was not identified in the SOP, but the SOP document was arranged in such a way as to guide users through the standard TOD process and each section included the critical steps, in order, that are required for completion. Additionally, the Approval Matrix may also be used as a checklist for the required reviews and approvals necessary to complete each step in the process.	

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

4. Master Development Agreement

Finding R-16-8-4	High
There was limited control in place to manage UTA's future commitments to developers prior to necessary reviews and approvals.	

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Recommendation
The requirement for a Master Development Agreement, as well as a phase-specific Operating Agreement, should be added to the recommended SOP and project checklist.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
This control is already in practice, but will be documented in the new policy. The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be adopted. Therefore, although this finding is rated as "High", the process will not allow it to be fully resolved in the recommended three-month timeframe.		

Final Status		**Implemented**
Noted the inclusion of a "Standard Operating Agreement" section of the SOP, which documented the requirement that all financial plans be formalized by an Operating Agreement, assignment of roles and responsibilities, and required approvals. Also noted the inclusion of a "Master Development Plan" section in the SOP, which notes that the Master Development Agreement is the end product of the Master Development Plan process. The Operating Agreement and the Master Development Agreement with the required approvals were also included in the Approval Matrix.		

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

5. Stakeholder Map

Finding R-16-8-5		**High**
TOD management had a limited view on the stakeholders that should be considered during the TOD process, resulting in the risk that important information may not be shared or obtained.		

Recommendation
TOD Manager should create a stakeholder map template to identify all internal and external stakeholders for a TOD project. The stakeholder map should track and document all of the internal and external stakeholder responsibilities and signoffs. The stakeholder map should be included in the recommended SOP.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
Stakeholder maps will be included in the SOPs.		

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The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be adopted. Therefore, although this finding is rated as "High", the process will not allow it to be fully resolved in the recommended three-month timeframe.

Final Status		**Implemented**
The SOP included a Project Role Map which identifies internal and external stakeholders and describes their respective roles within the TOD sub processes, including their responsibilities and signoffs.		

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

6. Conflicts of Interest

Finding R-16-8-6		**High**
From the sample of two TOD projects selected for audit testing, the following concerns were identified: • COI declarations were not solicited from staff and consultants involved in the process. • TOD management did not request that COI declarations be solicited prior to Corporate Staff approval or recommendation for approval. Nor did TOD confirm that the COI declaration request be documented in the minutes. • TOD management did not request COI declarations be solicited prior to Board approval nor did TOD confirm that the COI declaration request be documented in the minutes.		

Recommendation
• The TOD Manager should request and document COI declarations from UTA staff and external consultants involved in the TOD process. • The TOD manager should request that the meeting Chair solicit COI declarations from Corporate Staff and Board at TOD presentations where approvals or recommendations for approval are sought. Additionally, the TOD Manager should review the related meeting minutes prior to finalization to confirm that the COI solicitation and results are documented. • The TOD manager should document the COI solicitation process in the recommended SOP. • Evidence of the COI declarations should be retained in the project file in accordance with the recommended policy on document management.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
This control is already being put into practice and will be documented in future policy or SOPs. The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be		

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adopted. Therefore, although this finding is rated as "High", the process will not allow it to be fully resolved in the recommended three-month timeframe.

Final Status	**High**
The SOP does document the need for internal staff involved with the TOD process to provide the Sr Manager- Real Estate and TOD with a statement regarding conflicts of interest (COI) at the onset of a project, but it did not document any additional requirements for COI declarations or the process to solicit and retain them. Management should consider identifying all potential roles, both internal and external, for which COI declarations may be required at all points in the TOD process. It would also be advisable to document the expected format, responsibility for solicitation, and retention process for all the requisite COI declarations identified in an SOP or checklist.	

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	December 31, 2017
The SOP will be revised to include additional direction concerning COI declarations as suggested above.		

7. Reports and Presentations

Finding R-16-8-7	**Medium**

TOD reporting and presentation to management is not standardized, with reference to:
• Procedures outlining collection, processing, review and approval not documented
• A standardized template for reporting on the following stages have not been created:
    o Master Plan
    o Site Plan
    o Financial Plan	

Recommendation
TOD management should create standardized templates for the different types of management reports and presentations.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
A standardized template for management reports will be created within the applicable SOP.		

Final Status	**Medium**
No standardized management reporting template was identified in the SOP or through inquiry.	

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	December 31, 2017

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The SOP will be revised to give more detail on the standard information to be presented for board consideration.

8. Design Review Committee

Finding R-16-8-8	**Medium**

The Design Review Committee's (DRC) responsibilities and objectives of meetings were not adequately documented, including but not limited to:
- The date of the meeting was not always documented
- Members that attended the meetings were not always identified
- Member roles in terms of the TOD Guideline requirement were not always documented
- Member responsibilities not identified:
  - Aligning Master Plan to Station Area and Conceptual Plans
  - Aligning Master Plan to TOD Guidelines
  - Aligning Site Plan to TOD Guidelines and Station Design Criteria

Recommendation

The TOD Manager should standardize the Design Review Committee recommendation records to include the meeting date, identification of the members and their departmental roles, and what the objectives of the Design Review Committee recommendations serve.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017

This practice will be in place at all future Design Review Committee meetings and will be documented in the applicable SOP.

The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be adopted. Therefore, although this finding is rated as "Medium", the process will not allow it to be fully resolved in the recommended six-month timeframe.

Final Status	**Low**

The SOP does indicate that the DRC review of master plan proposals is performed "to ensure that they comply with the standards set during the Planning Stage of the Development Framework, as well as other UTA standards" and the DRC review of site plan proposals is performed "to ensure that they comply with the standards defined in a respective master plan, as well as other UTA standards."

No standardized Design Review Committee (DRC) recommendation format was noted in the SOP including meeting date as well as participants by name and role.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	December 31, 2017

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SOP will be revised to include a standardized method of examining master plans to ensure compliance with their respective station-area and conceptual plan, and a format for recording DRC meetings and recommendations.

9. Third party assurance

Finding R-16-8-9	Medium

From the two TOD projects selected for audit testing, it was found that third party needs and responsibilities were not always documented, being:
- Third party reports did not include copies of all documents being reviewed
- A third party market analysis was not performed during the Conceptual Plan phase
- Third party Financial Plan and Operating Agreement review reports did not document the following responsibilities:
    - Financial Plan and Operating Agreement evaluated against Market Conditions
    - Financial Plan and Operating Agreement aligned Development Plan and Site Plan
    - That all aspects of the Financial Plan agree with each other

Recommendation

Management should include in the recommended SOP a set of third party reporting requirements. Additionally, third party reports should include the draft documents being reviewed.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017

Initial third-party reviews focused mainly on the legal structure of UTA's TOD agreements. Recent reviews have also covered the legal structure but have included a more robust analysis of market conditions and assumptions to help mitigate UTA's risk. The future SOP will include standardized reporting requirements, and reports will be required to include copies of the reviewed documents.

The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be adopted. Therefore, although this finding is rated as "Medium", the process will not allow it to be fully resolved in the recommended six-month timeframe.

Final Status	Implemented

Inspection of the SOP found reference to third party reporting requirements at various stages of the TOD process.

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A

N/A

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10. Special Warranty Deed

Finding R-16-8-10	Medium
For one of the TOD projects selected for audit testing, it was found that a Special Warranty Deed was not signed by the UTA Legal Department.	

Recommendation
The TOD Manager should incorporate in the recommended SOP that all legal documents must be reviewed and signed off by the Legal Department.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017

The SOP will require legal review and signature of all legal documents.

The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be adopted. Therefore, although this finding is rated as "Medium", the process will not allow it to be fully resolved in the recommended six-month timeframe.

Final Status	Implemented
Management addressed this concern by including in the SOP the requirement that all legal documents must be reviewed and approved by the Legal Department. With regard to the standard of the Legal Department's review, please refer to Finding 1.	

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A

N/A

11. Accounting

Finding R-16-8-11	Medium
A formal process does not exist to inform Accounting of fund inflows and provide Accounting with adequate details on how to account for TOD transactions, which includes the timing of accruals and actual receipt of cash. TOD funds have not been identified, segregated, and tracked separately as required by the FTA.	

Recommendation
TOD management should develop and document a formal process with the Accounting Department to report TOD transactions which includes the timing of accruals and actual receipt of cash. The methodology of identifying, segregating and tracking TOD funds should also be included in the recommended SOP.

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Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017

An SOP will be created to address how TOD funds will be handled.

The new TOD policy and SOPs are an on-going process that will require an extensive public outreach program (as encouraged by the UTA board and executive team). It is anticipated that that outreach will extend into mid-2017, after which, the policy and related operating procedures will be adopted. Therefore, although this finding is rated as "Medium", the process will not allow it to be fully resolved in the recommended six-month timeframe.

Final Status	**Implemented**

The SOP documents that TOD staff is to coordinate with the UTA Accounting Department to set up a unique general ledger (GL) code for project cash flows at the onset of the development phase.

Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A

N/A

12. Key Performance Indicators

Finding R-16-8-12	**Low**

TOD management identified a risk during the Internal Audit risk assessment that projects may not achieve the objectives set in the Financial Plan.

Recommendation	

TOD Manager should track the measured operating results against project objectives and goals, and assess the project performance. The process for measuring and monitoring key performance indicators should be included in the recommended SOP.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017

An SOP will be created to monitor TOD performance indicators.

Final Status	**Low**

No process for measuring and monitoring TOD key performance indicator (KPI) was noted in the SOP nor were any KPI's identified.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	December 31, 2017

The management SOP will be revised to include KPI's and process for monitoring.

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13. Zoning and/or CDA Designation

Finding R-16-8-13		**Low**
UTA may not be capturing all potential value for its properties because it does not participate in processes such as obtaining zoning and/or CDA designation changes.		
Recommendation		
The TOD Manager should develop a process to identify and obtain zoning and/or CDA designation changes during the Conceptual Plan phase and document it in the recommended SOP.		
Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
The new TOD process will enable UTA to work with local municipalities to identify zoning needs and funding opportunities. An SOP will be created to guide that process.		

Final Status		**Implemented**
The responsibility to identify and obtain zoning and/or Community Development Area designations favorable to UTA during the Conceptual Phase has been documented in the TOD Policy.		
Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

14. Spreadsheet Controls

Finding R-16-8-14		**Low**
TOD management has not defined critical spreadsheet controls, including: • Restricting access to appropriate users for changes to spreadsheet data • Regularly scheduled backup of spreadsheets • Version control • Change log		
Recommendation		
TOD Manager should establish a process for spreadsheet controls, and include the process in an SOP.		
Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
There will be an SOP to address spreadsheet and document control.		

Final Status	**Low**
Neither spreadsheet, nor other electronic document controls, were identified in the SOP.	

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Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	December 31, 2017
The SOP will be revised to include provisions for document controls		

15. TOD Team and Property Management

Finding R-16-8-15	**Low**
The TOD team and property management team meet periodically to determine TOD viability of properties but did not document their meetings.	

Recommendation
When meetings with the property management team occur to determine TOD viability of property, the results of the meetings should be documented and retained in the project folder.

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	July 31, 2017
Results of meetings will be documented and incorporated into the new TOD System Plan.		

Final Status	**Low**
Per inquiry with TOD management no meetings occurred with the property management team to determine TOD property viability.	

Management Agreement	Owner	Target Completion Date
Yes	Sr Manager- Real Estate and TOD	June 30, 2018
Results of meetings will be documented and incorporated into the new TOD System Plan. The System Plan is anticipated to be complete mid-2018.		

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* REPORT RATING MATRICES

OVERALL REPORT RATING

The overall report ratings are defined as follows, applicable to the audit scope as defined

Descriptor	Guide
Fully effective	Controls are as good as realistically possible, both well-designed and operating as well as they can be.
Substantially effective	Controls are generally well designed and operating well but some improvement is possible in their design or operation.
Partially effective	Controls are well designed but are not operating that well. OR While the operation is diligent, it is clear that better controls could be devised.
Largely ineffective	There are significant gaps in the design or in the effective operation of controls – more could be done.
Totally ineffective	Virtually no credible controls relative to what could be done.

DETAILED FINDING PRIORITY RATING

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.
Implemented	Management action has been taken to address the risk(s) noted in the audit finding.

APPENDIX 3

DISTRIBUTION LIST			
Name	**For Action¹**	**For Information**	**Reviewed prior to release**
President/CEO		*	*
General Counsel		*	
Vice President of Finance	*		*
Sr Mgr- Real Estate and TOD	*		*
TOD Project Specialist 1	*		*

¹For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.