MEMORANDUM

To: Leslie Browder, Chief Financial Officer

From: Caroline Beyer, VP, Internal Audit & Paula Bishir-Jensen, Internal Audit Project Manager

Date: September 11, 2014

Re: Grant Consulting Engagement Results Memo

INTRODUCTION

This project was originally classified as an assurance audit in the approved FY2013-2014 Internal Audit Services Plan. However, as documented in the May 6, 2014, planning memo, there were a number of recent and pending changes to the grants administration function that changed this approach. For example, the Grants function now organizationally reports directly to the Chief Financial Officer instead of the Director of Financial Planning. In addition, a second Grants Coordinator has been hired. When implemented, the new financial system, Microsoft Dynamics AX, will require further changes to the grants processes. As a result, Internal Audit and Finance management jointly concurred that a consulting engagement rather than a conventional assurance audit would reflect the best use of internal audit resources. As a result, Internal Audit has attended and will continue to attend selected ERP implementation grant related meetings and provide real time feedback on control structures for the grant processes as they are being developed.

CONSULTING ENGAGEMENT OBJECTIVE & SCOPE

As of June 2014, the Authority had 17 active capital and operating grants totaling $134,213,953. The engagement focused on the following primary objective:

• Research and identify recommendations to management for a grants control framework and supporting procedures and processes to effectively manage business risks associated with federal grants.

The scope of this engagement included:

• Reviewing and/or documenting the current grant management and sub-recipient monitoring process to determine if there are any gaps
• Analyzing available data which can and should be reported to management
• Following up on the grant related findings from the FY2013 A-133 Single Audit to ensure the corrective action plans have been or are being implemented

SUMMARY RESULTS

A summary of Internal Audit’s assessment of the Authority’s grant processes appears in Table 1 below. In addition, three flowcharts: Pre-Award; During-the-Award; and Post-Award, show the entire grant management process and were used to identify any control gaps. These flowcharts are attached as Appendix B, C, D and supplement the summary table below.
Table I – Grant Management and Sub-recipient Monitoring Processes

<table>
<thead>
<tr>
<th>Pre-Award Phase Appendix B</th>
<th>Responsibility and authority for applying for and negotiating discretionary grants is not documented. This includes establishing a signature delegation matrix.</th>
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<tr>
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<td>Capital Metro sub-recipient contracts include the federally required data elements which must be conveyed to the sub-recipient at time of award.</td>
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<td>Proposed grant funded projects are included in the STIP¹ prior to FTA contract execution.</td>
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<td>New OMB guidance requires the Authority to perform a sub-recipient risk assessment prior to awarding sub-grants.</td>
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<tr>
<td>Grant Administration (During the Award) Appendix C</td>
<td>New OMB guidance requires mandatory disclosure of all violations of federal law related to fraud, waste, and abuse affecting the federal award by any party.</td>
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<td>New OMB guidance requires non-federal entities to maintain Conflict of Interest (COI) policies that pertain to Capital Metro as a whole, as well as COI policies for procurements with parent, affiliate, or subsidiary organizations.</td>
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<td>New OMB guidance expands the federal purchasing requirements for grant funded contracts.</td>
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<td>New OMB guidance provides greater flexibility by allowing administrative salaries (usually an indirect cost) to be directly charged to the grant in certain circumstances.</td>
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<td>New OMB guidance makes Time and Effort reporting less prescriptive on documentation requirements.</td>
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<td>Grant drawdown spreadsheet has been modified to include subtotals that agree to federal draws and the filed federal reports.</td>
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<td>Required quarterly federal financial reporting to the FTA is submitted on a timely basis.</td>
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<td>Required quarterly federal performance reporting to the FTA is being submitted on a timely basis.</td>
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<td></td>
<td>A process for monitoring sub-recipient compliance is not fully developed or documented.</td>
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<tr>
<td>Post-Award (Grant Close-out) Appendix D</td>
<td>Remaining funding has been de-obligated and returned to FTA for closed grants.</td>
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<td>A policy or process for returning federal funding when fixed assets are sold in excess of $5,000 does not exist.</td>
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</tbody>
</table>

Legend: Green = Process in place, Yellow = Process gap, Blue = Future upcoming changes may require management actions.

¹ Statewide Transportation Improvement Program. A statewide prioritized listing/program of federally funded transportation projects covering a period of four years that is consistent with the long-range statewide transportation plan, [http://www.fta.dot.gov/documents/FINAL_FTA_circular9030.1E.pdf](http://www.fta.dot.gov/documents/FINAL_FTA_circular9030.1E.pdf)
RECOMMENDED MANAGEMENT ACTIONS

Develop a Grants Policy. The Authority does not have a formal Grant Policy but recognizes this need, and the recently hired Grants Coordinator is currently researching grants guidance. An effective grants policy would provide guidance to staff on associated processes and procedures in order to maximize grant benefits and mitigate/address associated risks. For example, the policy should formally assign and document grant seeking and negotiation responsibilities. In the past, Government Relations and Planning Departments have both independently applied for and negotiated discretionary grants without Grants/Finance involvement until after decisions are made and an agreement has been finalized. In one case it created a sub-recipient relationship with the city that generated some unbeknownst additional monitoring requirements.

Develop and document grant sub-recipient monitoring processes. Grants staff perform desk reviews and site visits when monitoring sub-recipients. While desk reviews are formally documented, the results of site visits and follow-up corrective actions have historically not been documented. This is an opportunity for improvement and is currently being addressed by staff. Additionally, the new OMB Super Circular places increased monitoring responsibilities on the pass-through entity. For example, effective 12/26/2014, sub-recipient monitoring must now include reviewing/reporting financial and programmatic information, follow-up and ensure timely and appropriate actions on deficiencies, and issue a management decision for audit findings.

Sub-recipient contracts have already been modified to include the required sub-award information. However, the standard contract templates could be further improved by specifying the source of federal and local funding as there may be more then one source of funding (e.g. Capital Metro and City of Austin).

Future OMB changes for federal award guidance. The Office of Management and Budget (OMB) is the organization that establishes federal regulations for federal funding. In 2014, OMB consolidated and streamlined eight previous federal regulations into comprehensive guidance codified at 2 CFR 200 Sub-Parts A – F, the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, dubbed the “Super Circular.”

Substantive regulatory changes, as highlighted in Table I on page 2, may require future management action to ensure compliance and/or take advantage of new opportunities. It will be the responsibility of management to ensure that Capital Metro’s current processes are reviewed against the new guidance and modified, if necessary, to comply with new requirements. All federal entities, including FTA, were required to issue related draft implementation regulations by the end of June 2014 for OMB review, but it is not known when the program specific guidance from the various federal entities will be issued. Regardless of lead-in time provided, all OMB changes require implementation by December 26, 2014.

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**Reporting.** Currently there are quarterly financial and milestone reports which are required by FTA. The Grants Coordinator reports this information quarterly to FTA via Transportation Electronic Award Management System (TEAM). The Deputy Chief Executive Officer also receives a quarterly report that matches the financial information in TEAM. (See Appendix A for the balance as of June 2014.) This report shows the grant award amount and remaining balance by grant but not by project for which multiple such projects may track to each grant.

Besides the required financial and programmatic reporting, there is an opportunity for additional sub-recipient management reporting. The results of sub-recipient monitoring, e.g., site visits including any findings, needed corrective actions and their implementation, should be reported.

**2013 Single Audit Findings Corrective Action Implementation Status Follow-up**

There were three grant related findings in the 2013 Single Audit Report.

**Track and Report Sales of Federally Funded Assets**

MOSTLY COMPLETE. The Fixed Asset Accountant is now recording all VIN information directly from the invoice. Ongoing, the monthly grant draw sheets are reviewed, and, when applicable, the fixed asset records in Oracle include the corresponding grant numbers. Additionally, older fixed assets are still being similarly matched against previously-closed grants. A general ledger fixed asset “Deferred Grant Revenue” account has been designated by the Grant Coordinator to track and communicate to the FTA of any grant funded fixed asset which have been subsequently sold. The new ERP system requirements will include a designation flag to identify all grant funded fixed assets regardless of when procured or current status. The Grant Coordinator stated that management has decided that all proceeds exceeding $5,000 from the sale of fixed assets will be returned to FTA instead of reinvested in a similar asset due to tracking complications.\(^3\) The proposed Grants Policy should include this as part of its policy statement.

**Include Required Federal Procurement Clauses in Federally Funded Contracts**

COMPLETE. A manual verification process to ensure required federal clauses are included in grant funded contracts was put in place as of November 2012. The new financial system currently being implemented will automate the verification process. A designation in the procurement module will flag grant funded contracts that must include the required federal clauses. As a result, when performing a draw, the Grants Coordinator can readily identify what contracts are eligible for reimbursement. This will assist Grants in ensuring that all federal grant funded contracts contain the federal clauses in the contract.

**Identify Federal Expenditures and make Timely Updates to the Master Tracking Spreadsheet**

COMPLETE. The Grant Coordinator and the external Grant Consultant updated and organized the master tracking spreadsheet\(^4\) in January 2014. However, spreadsheet updates are still performed

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3 The amount to be returned is based on the percentage of the grant that paid for the asset.

4 The manually updated excel spreadsheet functions as the general ledger for federal fund accounting as it tracks expenses per grant from inception to close, matching provisions, and earmarking considerations. The spreadsheet is also used to generate cash draws and the source of information for all federal reporting.
manually. The new financial system’s grants module should lessen, but not fully eliminate, manual processes to link grants with associated projects. The system implementation is still underway, and it is unknown which processes can be managed within that new system. However, required FTA reporting and reimbursement processes will still remain beyond the new financial system since that information must be reported through official FTA systems.5

**METHODOLOGY**

This engagement was conducted in conformance with the Institute of Internal Auditors’ *Standards for the Professional Practice of Internal Auditing*. To meet the objectives of this project, Internal Audit attended the grant related ERP implementation meetings and provided ongoing input regarding current and potential future grant processes and how they relate to the new financial system.

We also used the following evidence gathering techniques:

- Reviewed control frameworks and best practices for grants management,
- Reviewed a variety of federal grant guidance,
- Reviewed applicable policies and procedures,
- Interviewed Capital Metro management and staff,
- Reviewed the new OMB guidance 2 CFR 200 Sub-Parts A – F and participated in several webinars related to these changes.

cc: Terry Mitchell, Chair, Finance, Audit & Administrative (FAA) Committee
    Mike Martinez, Member, FAA Committee
    Julie Word, Member, FAA Committee
    Wade Cooper, Member, FAA Committee
    Linda Watson, President / CEO
    Elaine Timbes, Deputy Chief Executive Officer / Chief Operations Officer
    Kerri Butcher, Chief Counsel
    Gerardo Castillo, Sr. VP, Chief of Staff
    Leslie Browder, Chief Financial Officer

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5 FTA’s web-based electronic system, commonly known by the acronym “TEAM.” is still required to be used to apply for grants, inquire about the status of grants, file the required financial status and milestone progress reports, and submit annual Certifications and Assurances.