



Internal Audit Report

Federal Grant Drawdown Process

Report Number: 2017-06 | Report Date: September 11, 2017

Executive Summary

Audit Report No.: 2017- 06

September 11, 2017

WE AUDITED the current Federal Grant drawdown process to assess the controls in place over timely and accurately drawdowns of federal grants.

AUDIT OBJECTIVE was to determine whether :

- The agency has the effective controls to ensure federal grant drawdowns are timely and accurate in compliance with grant agreements.

The audit examined management controls in place as of May 2017.

WHAT DID WE FIND?

The agency receives federal, state, and local government grant funding for construction and non-construction projects. Approximately 16% of the agency's revenues comes from federal, state and local grants.

Federal funding is available through Federal Transit Administration (FTA), Federal Railroad Administration (FRA), and Federal Highway Administration (FHA) for major construction projects. The agency drew down approximately \$165M in federal grants during calendar year 2016.

The agency has implemented a system of management controls related to grant drawdowns to:

- Maximize cash flows to cover financial obligations
- Effectively and efficiently manage federal funding

The current federal grant drawdown process includes two divisions: Grant Division and Grant Accounting. Grant Division explores grant opportunities, and when a grant is determined to be beneficial to the agency, the division develops, applies and executes a grant agreement. Following grant execution, Grant Accounting manages all grant accounting activities including the preparations and timely submissions of grant reimbursement requests in compliance with applicable requirements.

The audit found that the agency has effective controls to ensure timely and accurate drawdowns of federal grants.



Jack Hutchinson, CPA, CIA, CISA
Internal Audit Director

Table of Contents

Executive Summary.....i

Background.....1

Audit Objectives2

Scope and Methodology2

Conclusion2

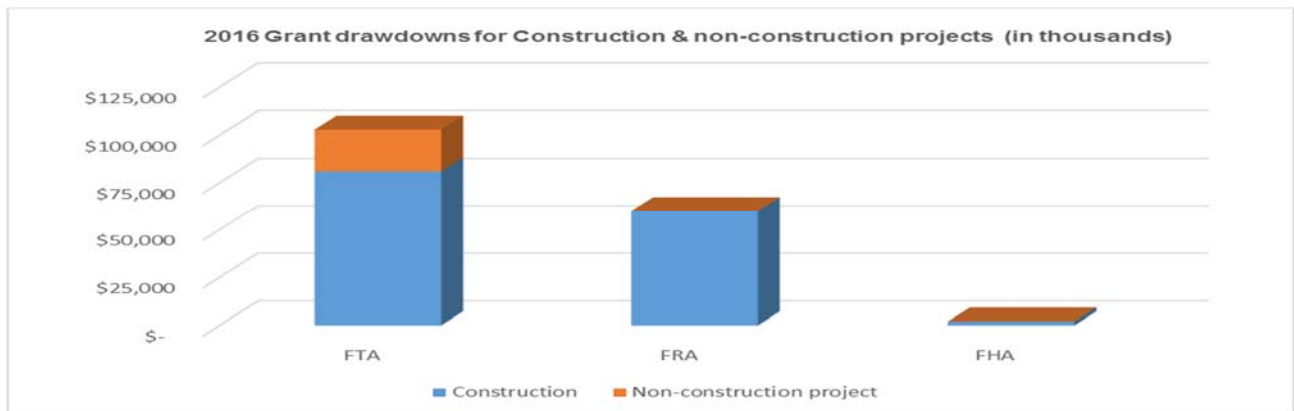
Background

The agency's primary sources of revenue are from passenger fares and local taxes: Sales and use tax, Motor vehicle excise tax, and Rental car tax. In addition, the agency receives federal, state, and local government grant funding for construction and non-construction projects. Approximately 16% of the agency's revenues comes from federal, state and local grants.

Revenue by Source Type (in millions)						
Year	Fares	Taxes	Other	Federal Grant	Local Grant	Total Revenue
2015	\$ 72	\$ 782	\$ 57	\$ 132	\$ 4	\$ 1,183
2016	\$ 86	\$ 839	\$ 42	\$ 143	\$ 60	\$ 1,373

Source: 2016 Single Audit Report

Federal funding is available through Federal Transit Administration (FTA), Federal Railroad Administration (FRA), and Federal Highway Administration (FHA) for major construction projects. The agency has drawn approximately \$143M federal grants as capital contributions and \$22M preventive maintenance federal grants as other revenue during calendar year 2016.



The agency has implemented a system of management controls related to grant drawdowns to:

- Maximize cash flows to cover financial obligations
- Effectively and efficiently manage federal funding

The current federal grant drawdown process includes two divisions: Grant Division and Grant Accounting. Grant Division explores grant opportunities, and when a grant is determined to be beneficial to the agency, the division develops, applies and executes a grant agreement. Following grant execution, Grant Accounting manages all grant accounting activities including the preparations and timely submissions of grant reimbursement requests in compliance with applicable requirements.



Audit Objectives

To determine whether:

- The agency has effective controls to ensure federal grant drawdowns are timely and accurate in compliance with grant agreements.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

We gained an understanding of the federal grants drawdown process through data analyses, documentation reviews, and personnel interviews. We identified risks in the process and assessed management controls in place to mitigate those risks. Based on the assessment of management control effectiveness, we determined to focus on federal grants drawdown for the period January 2016 - May 2017.

We examined the process as of May 31, 2017.

To determine whether the agency has the effective controls to ensure federal grant drawdowns are timely and accurate in compliance with grant agreements, we performed the following procedures:

1. There were 15 monthly drawdowns from Jan. 2016 to May 2017 with total eligible expenditures of \$628M. Of the total, the agency has requested approximately \$215M in drawdowns.

We tested 30 expenditures from 6 drawdowns, totaling \$28M (or 13% of the \$215M total grant drawdowns) to verify the following:

- a. Timely submission
 - b. Vendor payments prior to drawdown
 - c. Cost eligibility
2. For the audit period, there were approximately \$820M in project costs without grant assignment. Grant Accounting recaptures eligible expenditures and assigns a grant ID to prepare in advance for additional funding and back funding opportunities.

We tested 40 expenditures without the grant assignment, totaling ~\$91M (or 11% of \$820M) to verify whether the assignment was complete and accurate.

Conclusion

The agency has effective controls to ensure timely and accurate drawdowns of federal grants.
