



Internal Audit

## 2016 Grants Management Internal Audit Report

A handwritten signature in black ink, appearing to read 'Riana de Villiers', is positioned above a horizontal line.

Approved: \_\_\_\_\_

Riana de Villiers

August 25, 2016

Report Reference: R-16-6

## **Executive Summary**

### **Introduction**

Internal Audit has been directed by the Audit Committee to perform an internal audit to determine if controls are designed and operating effectively to ensure that grants management is administered in accordance with federal requirements. The Utah Transit Authority (UTA) uses several funding sources to construct, operate and maintain its public transportation system. The Federal Transit Administration (FTA) provides grants to local public transit systems to partner with state and local governments in enhancing and expanding public transportation systems. UTA received roughly \$60 million in funding in 2015 from federal grants.

### **Objectives and Scope**

The period of the audit was from January 1, 2016, through May 31, 2016 for new controls implemented in 2016. The period of review for the remaining controls covered the 12 months ending May 31, 2016.

The primary areas of focus within grants management included:

- Approval to Apply for Grants
- Grant Contracting/Procurement
- Grant Payments
- Grant Drawdown
- Grant Reporting
- Grant Closeout

Procedures performed on each process in this review included inquiries of functional management and personnel to understand the business processes and control framework, review of process and procedural documentation, and inspection of management documentation for a sample of UTA grants to determine whether the identified controls have been implemented and are functioning as intended.

### **Audit Conclusion**

The responsibility for the Grants Management process was transitioned from the Planning department to the Development department at the end of 2015 and a new manager was appointed to oversee the process. Since the change in organizational structure, new controls have been introduced with the intent of improving the process but the scope, role, and authority of the Grants Management function have not yet been clearly defined or formally documented. There has been no end-to-end monitoring or management of grant related activities across departments over the life of each grant to assure compliance with UTA policies and FTA requirements. It is recommended that executive management clearly define the role and responsibilities of Grants Management. It is also recommended that the Grants Manager establish a policy and update the standard operating procedures to oversee and facilitate the entire life-cycle of all grants received by UTA. Overall, the control environment was not designed and operating effectively to ensure that grants management is performed consistently.

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The following are the planned actions that UTA Management has drafted in response to the Grants Management findings and recommendations proposed by Internal Audit.

<b>1. Scope, role and authority of the Grants Management function</b>			
<b>Finding</b>	<p>The current Grants Management standard operating procedure (SOP) does not incorporate the following:</p> <ul style="list-style-type: none"> <li>• The scope, role and authority of the Grants Management function; and</li> <li>• A procedure for the end-to-end monitoring and management of grant related activities across departments over the life of each grant, to assure compliance with UTA policies and Federal Transit Agency (FTA) requirements.</li> </ul>		
<b>Recommendation</b> R-16-6.1	<ul style="list-style-type: none"> <li>• Executive management should formally define the scope, role and authority of the Grants Management function as a Corporate Policy for Grants Management.</li> <li>• Management should incorporate the oversight and facilitation of the entire life-cycle of all grants received by UTA in the SOP.</li> </ul>		
<b>Action Plan</b>	<b>Mgt. Agreement</b>	<b>Owner (Name and Title)</b>	<b>Target Completion Date</b>
	Yes	Steve Meyer (Chief Development Officer)	10/31/2016
	<p>Chief Development Officer will draft and propose a Corporate Policy that formally defines the scope, role and authority of the Grants Management function.</p> <p>Grants Management staff will work with Procurement, and Accounting staff as well as with their Executives to develop an overall grants management structure. This will be used to update the work flow and roles and responsibilities in the Grants Management Procedures Manual.</p>		

<b>2. Grant approval</b>			
<b>Finding</b>	<p>The Grant Pursuit Decision Process was instituted on April 12, 2016 whereby Corporate Staff approves the pursuit of any grants prior to application for the grants. It was noted that one grant was applied for during the first week of the implementation of the new process without the approval of Corporate Staff.</p>		
<b>Recommendation</b> R-16-6.2	<p>A Corporate Policy for Grants Management should be developed and should include the communication compliance requirements of the Grant Pursuit Decision Process.</p>		
<b>Action Plan</b>	<b>Mgt. Agreement</b>	<b>Owner (Name and Title)</b>	<b>Target Completion Date</b>
	Yes	Steve Meyer (Chief Development Officer)	10/31/2016

	The Grant pursuit decision process (Go/No Go Decision) which was approved by Corporate Staff will be incorporated into the updated Grants Management Procedures Manual and into the proposed Corporate Policy for Grants Management.
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**3. Preventative maintenance grants**

<b>Finding</b>	<p>On an annual basis UTA receives “formula funds” for preventative maintenance expenses from the FTA. The funds are requested in the form of a grant which typically stays open for several years while qualifying preventative maintenance expenses are identified and utilized to drawdown against the grant. The following issues were noted during the audit:</p> <ul style="list-style-type: none"> <li>• The preventative maintenance grants were not actively managed by the Grants Management function during the period under review.</li> <li>• Expenses to be drawn down against the preventative maintenance grant were identified by the same Assistant Comptroller who submits the drawdown without any additional review and in some instances, without supporting documentation.</li> <li>• There was no formal process or procedure to identify qualifying expenses against the preventative maintenance grant.</li> </ul>
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<b>Recommendation R-16-6.3</b>	Management should include in the SOP a set of processes and procedures for the administration and accounting of preventative maintenance grants. The processes and procedures should include, at a minimum, steps to identify authorized expenses in accordance with grant and federal requirements and a review of expenses identified to assure that the expenses have been selected accordingly.
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<b>Action Plan</b>	<b>Mgt. Agreement</b>	<b>Owner (Name and Title)</b>	<b>Target Completion Date</b>
	Yes	Mary DeLoretto (Sr. Program Manager)	10/31/2016
	Grants Management staff will work with the accounting staff (comptroller and assistant comptroller) to develop a process for identifying and drawing down qualified preventive maintenance expenses. The process will be incorporated into the updated Grants Management Procedures Manual.		

**4. Closing a grant**

<b>Finding</b>	On a monthly basis the responsible parties for the Grants Management process from the Procurement, Accounting and Grants Management departments attend a Grants Status Meeting that is led by the Grants Management Department.
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	<p>During the meeting active grants are assessed for progress and reviewed for dormancy potential as well as to determine if they need to be closed with the FTA.</p> <p>There is no policy and SOP documentation to specify which individual(s) have authority to decide to close a grant in the Monthly Grant Status Meeting.</p>		
<b>Recommendation</b> R-16-6.4	Management should incorporate in the SOP a formal process for grant closure that includes documented agreement/approval from responsible parties.		
<b>Action Plan</b>	<b>Mgt. Agreement</b>	<b>Owner (Name and Title)</b>	<b>Target Completion Date</b>
	Yes	Mary DeLoretto (Sr. Program Manager)	10/31/2016
	Grants Management staff will work with the accounting staff to document the grant close out process. The process will be incorporated into the updated Grants Management Procedures Manual.		

<b>5. P-Card charges</b>			
<b>Finding</b>	The UTA policy, No.1.2.3 “Purchase Card (“P-Card”) Policy, stipulates that P-Card charges should not be applied against grants. However, it was found that P-Card charges were applied to three of the grants tested—one journal entry against the preventative maintenance grant included over \$171,000 in P-Card charges.		
<b>Recommendation</b> R-16-6.5	Accounting should redirect any P-Card charges against grants back to their originating departments instead of accounting for them against a grant.		
<b>Action Plan</b>	<b>Mgt. Agreement</b>	<b>Owner (Name and Title)</b>	<b>Target Completion Date</b>
	Yes	Danyce Steck (Comptroller)	Completed
	P-Card expenses will no longer be charged against grant projects. Any P-Card charges being directed toward grant project accounts will be redirected to an account in the originating department.		

<b>6. FFR and MPR review</b>			
<b>Finding</b>	On a quarterly basis for all active grants, as well as at the closing for individual grants, UTA files a Federal Financial Report (FFR) and a Milestone Progress Report (MPR) to the FTA in TrAMS. The FFR is used to report the amount spent and drawn down to date and the MPR is used to report narrative details including the progress made against grant goals as well as budget and schedule changes.		



	<p>Based on audit testing performed, the following issues were noted:</p> <ul style="list-style-type: none"> <li>• The processes for reviewing the quarterly FFR and reconciling the FFR and MPR were not adequately designed or formally documented.</li> <li>• The FFR was not reviewed prior to its submission on TrAMS for Q1.</li> <li>• The FFR and MPR were not reconciled prior to submission in TrAMS for Q1.</li> <li>• No documentation (including the FFR and MPR) is retained to evidence quarterly FTA reporting or final closeout submissions.</li> </ul>		
<p><b>Recommendation</b> R-16-6.6</p>	<p>Management should establish and include in the SOP processes and procedures for the review of the FFR to supporting documentation and the reconciliation of the MPR to FFR prior to submission into TrAMS for both quarterly and closeout reporting. A document retention policy should also be included to evidence the timing and content of reporting.</p>		
<p><b>Action Plan</b></p>	<p><b>Mgt. Agreement</b></p>	<p><b>Owner (Name and Title)</b></p>	<p><b>Target Completion Date</b></p>
	<p>Yes</p>	<p>Mary DeLoretto (Sr. Program Manager)</p>	<p>10/31/2016</p>
	<p>The process for reconciling the quarterly financial reports with the milestone progress reports will be documented and incorporated into the updated Grants Management Procedures Manual.</p>		

## Report Distribution

<b>DISTRIBUTION LIST</b>			
<b>Name</b>	<b>For Action<sup>1</sup></b>	<b>For Information</b>	<b>Reviewed Prior to Release</b>
Jerry Benson Interim President/CEO			*
Jayne Blakesley General Counsel		*	
Steve Meyer Chief Development Officer	*		*
Robert Biles Vice President of Finance		*	
Danyce Steck Comptroller	*		*
Mary DeLoretto Senior Program Manager	*		*
Todd Mills Senior Supply Chain Manager		*	
Janalee Hansen Manager of Procurement Grants and Contracts		*	

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

### Audit Team Members

Auditors assigned to this project were Riana de Villiers and Brian Ledbetter.