



INTERNAL AUDIT REPORT

Grants Management Follow-Up

R-17-3

March 21, 2017

Executive Summary

Introduction

A follow-up of the 2016 Grants Management Internal Audit has recently been completed. This report contains the results of the follow-up audit.

Objectives and Scope

The primary objective of the follow-up audit was to determine the status of management actions to address the findings reported in the 2016 audit report, reference R-16-6. The period of the follow-up audit was from October 1, 2016, through December 31, 2016.

The following areas were reviewed:

- Grant Application Approval
- Grant Payments
- Grant Reporting
- Grant Contracting/Procurement
- Grant Drawdown
- Grant Closeout

Controls that were evaluated as adequate and effective in 2016, were excluded from the scope of this audit and were assumed to be operating as they had at the time of the 2016 audit.

Audit Conclusion

Audit Report Rating*	
<p>The overall rating has been determined based on the follow-up audit results.</p> <p>The audit revealed that the scope, role, and authority of the grants management process had been assigned and documented in a corporate policy. Additionally, the roles and responsibilities of the grants management team and the other departments with direct accountability for grants management have been outlined in a set of procedures, with input from other departments involved in the process.</p> <p>While this report details the results of the follow-up audit based on limited sample testing, the responsibility for the maintenance of an effective system of internal control and the prevention and detection of irregularities and fraud rests with management.</p>	

*Rating is defined in Appendix 2

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

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1. Scope, role and authority of the grants management process

Finding R-16-6-1		HIGH
<p>The current Grants Development and Management Standard Operating Procedure (SOP) does not incorporate the following:</p> <ul style="list-style-type: none"> • The scope, role and authority of the grants management process; and • 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. 		
Recommendation		
<ul style="list-style-type: none"> • Executive management should formally define the scope, role and authority of the grants management process as a Corporate Policy for Grants Management. • Management should incorporate the oversight and facilitation of the entire life-cycle of all grants received by UTA in the SOP. 		
Management Agreement	Owner	Target Completion Date
Yes	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 process.</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 SOP.</p>		

Final Status		Implemented
<p>The Chief Development Officer drafted and proposed a corporate policy that defined the scope, role and authority of the grants management process. The Grants Management Corporate Policy was formally approved and implemented by the Authority.</p> <p>An overall grants management structure has been defined and documented in the Corporate Policy and the SOP. The SOP also includes an updated grants management work flow and roles and responsibilities</p>		
Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

2. Grant approval

Finding R-16-6-2		HIGH
<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>		

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Recommendation		
A Corporate Policy for Grants Management should be developed and should include the communication compliance requirements of the Grant Pursuit Decision Process.		
Management Agreement	Owner	Target Completion Date
Yes	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 SOP and into the proposed Corporate Policy for Grants Management.		

Final Status	Implemented	
The SOP was developed by the Senior Program Manager and includes the requirement for each proposed grant to go through the Go/No Go decision process prior to application.		
Internal Audit Observation: Due to the UTA reorganization, the governing body which previously approved grant applications is no longer active. When UTA management designates who the governing body for the Go/No Go process will be, the Chief Development Officer should submit a revised Grants Management Corporate Policy, and the Senior Program Manager should revise the SOP to reflect the change in the approval process.		
Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

3. Preventative maintenance grants

Finding R-16-6-3	MEDIUM
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:	
<ul style="list-style-type: none"> • The preventative maintenance grants were not actively managed by the grants management process during the period under review. • 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. • There was no formal process or procedure to identify qualifying expenses against the preventative maintenance grant. 	
Recommendation	
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,	

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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.		
Management Agreement	Owner	Target Completion Date
Yes	Senior 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 SOP.		

Final Status	Implemented	
The SOP incorporates guidance for the process of identifying qualified expenses for and drawing down against preventive maintenance grants, as well as references to internal and external documents with additional details.		
Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

4. Closing a grant

Finding R-16-6-4	MEDIUM	
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. 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.		
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.		
Recommendation	Management should incorporate in the SOP a formal process for grant closure that includes documented agreement/approval from responsible parties.	
Management Agreement	Owner	Target Completion Date
Yes	Senior 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 SOP.		

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Final Status		Implemented
The SOP includes the required steps, documentation and individuals responsible for proper grant close out.		
Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

5. P-Card Charges

Finding R-16-6-5		HIGH
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.		
Recommendation		
Accounting should redirect any P-Card charges against grants back to their originating departments instead of accounting for them against a grant.		
Management Agreement	Owner	Target Completion Date
Yes	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.		

Final Status		Implemented
The follow-up audit revealed that the controls implemented to restrict P-Card expenses from being charged against grant projects were operating effectively.		
Management Agreement	Owner	Target Completion Date
N/A	N/A	N/A
N/A		

6. FFR and MPR Review

Finding R-16-6-6		HIGH
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.		

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Based on audit testing performed, the following issues were noted:

- The processes for reviewing the quarterly FFR and reconciling the FFR and MPR were not adequately designed or formally documented.
- The FFR was not reviewed prior to its submission on TrAMS for Q1.
- The FFR and MPR were not reconciled prior to submission in TrAMS for Q1.

No documentation (including the FFR and MPR) is retained to evidence quarterly FTA reporting or final closeout submissions.

Recommendation

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.

Management Agreement	Owner	Target Completion Date
Yes	Senior Program Manager	10/31/2016

The process for reconciling the quarterly financial reports with the milestone progress reports will be documented and incorporated into the updated SOP.

Final Status

Implemented

The SOP now documents the process for reconciling the quarterly financial reports with the milestone progress reports.

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

N/A

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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	Adequate and effective management action taken to address the finding noted in the audit report.

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DISTRIBUTION LIST			
Name	For Action¹	For Information	Reviewed prior to release
President/CEO		*	*
General Counsel		*	
Vice President of Operations, Capital & Assets		*	
Director of Capital Projects		*	*
Vice President of Finance		*	*
Comptroller		*	*
Senior Program Manager		*	*
Senior Supply Chain Manager		*	
Manager of Procurement Grants and Contracts		*	

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