



DATE: December 22, 2008

TO: KENNETH HAMM, Director  
Department of Transportation/FAX

THROUGH: RENENA SMITH, Budget Director  
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor  
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SUBJECT: FOLLOW-UP AUDIT – TRANSPORTATION/FAX GRANT NEGATIVE  
INTEREST AUDIT

Attached is the Final Follow-Up Audit Report with the current implementation status of the 14 audit recommendations made in the Transportation/FAX Grant Negative Interest Audit issued March 25, 2008. The follow-up audit was performed in accordance with AO 1-12 and Government Auditing Standards. The Finance Department has also reviewed and concurs with the current status of all recommendations.

Internal Audit has concluded the Implementation Status for the 14 Audit Recommendations as follows:

- 7 – Audit Recommendations Implemented
- 7 – Audit Recommendations In Progress

Thank you for your assistance during the course of this follow-up audit. If you have any questions regarding this matter, please contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachment

cc: Alan Autry, Mayor  
Council Members  
Andrew T. Souza, City Manager  
Bruce Rudd, Assistant City Manager  
Kathleen Healy, Administrative Manager, Transportation/FAX  
Karen Bradley, Interim Finance Director/City Controller  
Vicente Cantu, Budget Analyst, BMSD

# **INTERNAL AUDIT**



## **FOLLOW-UP AUDIT REPORT**

### **Transportation/FAX Department Grant Negative Interest Audit**

**Audit Number 09-0005**

**Performed by:  
Mary Viancourt, Internal Auditor  
Bill Richards, Internal Auditor**

**Issued on December 22, 2008**

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## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **Finding 1 – FAX’s Submission of Grant Information for the City’s Single Audit**

The OMB has issued Circular A-133 pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendment of 1996. The purpose of the Circular is to “set forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. Under this Circular, non-Federal entities that expend more than \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year. The auditee is responsible for: a) Identifying all Federal awards received and expended and the Federal programs under which they were received; b) Maintain internal control over Federal programs to provide reasonable assurance that Federal awards are in compliance with laws, regulations and provisions of contracts or Grant agreements; c) Prepare appropriate financial statements; and d) Follow up and take corrective action on audit findings.”

In preparation for the City’s Single Audit, which is conducted by the City’s external auditors, the City Grant Coordinator has designed an Excel spreadsheet titled “Summary of X Department’s Grants in Progress for Fiscal Year 200X”. This spreadsheet lists all the pertinent Departmental Grant information initially needed for the Single Audit. Per the City’s external auditors, they audit expenditures in the current Fiscal Year to determine compliance with OMB Circular A-133.

The City Grant Coordinator encourages Departments to complete the “Summary of the Department’s Grants in Progress for Fiscal Year 200X” spreadsheet monthly. Completing the Excel Grant spreadsheet monthly assists Departments to stay current on Grants applied for, awarded, expenditures and reimbursements as a monitoring tool and also in preparation for the FY Single Audit.

Internal Audit obtained and commenced fieldwork using FAX’s year-end submission of the “FY07 Grants in Progress For The City of Fresno’s FAX Department” for the Single Audit received by Finance on September 11, 2007. FAX’s spreadsheet showed \$10,178,477 in Receivables due for Prior Years’ Expenditures and \$585,439 in expenditures in FY07. On October 18, 2007, Internal Audit received from the City Grant Coordinator a revised FY07 Grants in Progress For The City of Fresno’s FAX Department which showed \$7,642,577 in Receivables due for Prior Years’ Expenditures and \$12,245,539 in expenditures in FY07. Internal Audit considers FAX’s revised FY07 Grants in Progress For The City of Fresno’s FAX Department as of October 18, 2007 to be an untimely submission of Grant information for both the Internal Audit and the Single Audit.

#### **Audit Recommendation:**

1. The Transportation Director should ensure the “Summary of the Department’s Grants in Progress for Fiscal Year 200X” spreadsheet provided by the City Grant Coordinator is completed monthly but at a minimum quarterly. Frequent updating

of the spreadsheet and communication with Finance will ensure accurate and timely reporting of all Grants and their respective financial information at Fiscal Year end.

## **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 1**

- **Recommendation #1 – Department Response:**
  - The Department has previously implemented quarterly meetings with Finance staff to address issues of communication and clarification between the two Departments. Some key issues discussed:
    - Clarification of what reports are being prepared by Finance.
    - Clarification and follow-up on documents requested by Finance.
    - Confirmation of Finance's receipt and retention of documents that are sent by the Department.
  - Grant information provided by the Department in the spreadsheet is maintained on a monthly or quarterly basis. Through communication with Finance, the Department now has access to reports prepared regularly by Finance. Information in these reports has streamlined the Department's process of maintaining quarterly and monthly grant information.

## **CURRENT STATUS OF RECOMMENDATION 1 - IMPLEMENTED**

The Department continues to meet with Finance quarterly and continues to maintain open communication with Finance.

## **Finding 2 – Grant Records/Information Not Provided to Finance**

Internal Audit initially selected nine Grants for review based upon: a) the status of the Grant (Open, Complete, or Pending); b) the amount expended to date; c) the amount of expenditures in FY07; and d) the remaining non-spent Grant amount. The Grants selected are as follows:

- FY05 Urban Mass Transportation Capital, Planning, Operating Assistance
- FY07 Urban Mass Transportation Capital, Planning, Operating Assistance
  - a. Finance has not received any Grant information from FAX.
- FY05 Federal Transit Capital Investment Grant Bus Facility -(Construct Intermodal Bus Facility)
- FY05 Federal Transit Capital Investment Grant Fresno Bus Program -(6 paratransit, 1 forty ft hybrid bus )
  - b. Finance has not received any Grant information from FAX.
- FY05-06 Elderly and Disabled Transit Program (Purchase 8 Paratransit Vehicles)
- FY05 Urban Mass Transportation Capital, CMAQ
- FY06 Urban Mass Transportation Capital, CMAQ
  - c. Finance has not received any Grant information from FAX.
- FY07 Urban Mass Transportation Capital, CMAQ
  - d. Finance has not received any Grant information from FAX.
- Construction of CNG Fuel Station

Internal Audit revised the audit sample to include all FAX Grants with expenditures in FY07 which encompassed the FY 98 – FY 06 Urban Mass Transportation Capital, Planning, Operating Assistance Grants and the FY05 Urban Mass Transportation Capital, CMAQ Grant. Internal Audit also selected the FY07 Urban Mass Transportation Capital, Planning, Operating Assistance Grant and the FY05 Federal Transit Capital Investment Grant that FAX indicated are Open Grants but had no expenditures as of the start of Internal Audit’s fieldwork. The new sample totaled 14 Grants.

**Audit Recommendation:**

2. The Director of Transportation should direct FAX personnel to notify and send all pertinent Grant documents to Finance (if the Finance Department remains responsible for performing the Draw Downs and recording of payments for FAX Grants). Complete and accurate information in one location enables better tracking, accountability and reporting.

**MANAGEMENT’S ORIGINAL RESPONSE TO RECOMMENDATION 2**

- **Recommendation #2 – Department Response:**
  - The Department of Transportation is proposing to take on the responsibility of performing, tracking, and recording grant draw downs and payments.
    - This transition of responsibility is proposed to take place by the end of September 2008.
  - Through quarterly meetings and frequent communication with Finance, FAX is ensuring that the most recent grant documents are received by Finance. This communication also allows FAX to resubmit any documents that Finance requests.

**CURRENT STATUS OF RECOMMENDATION 2 – IN PROGRESS**

The Department has submitted all current grant documents to Finance, including those listed above, with two exceptions. The FY06 and FY07 Urban Mass Transportation Capital and CMAQ grants are currently being revised. These grant documents will be provided to Finance upon completion of the revision.

**Finding 3 – Untimely/Incomplete Grant Applications**

Section 49 CFR 18 defines a Grant as: “an award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money by the Federal Government to an eligible grantee” and Term of a Grant as: “all requirements of the grant..., whether in statute, regulations, or the award document.” Under 49 CFR 18 and OMB Circular A-102, governmental agencies must use standard application forms or those prescribed by the Grant agency with the approval of the OMB under the Paperwork Reduction Act of 1980 and 5 CFR 1320 Controlling Paperwork Burdens on the Public. The FTA has developed an electronic system called Transportation Electronic Award Management (TEAM-Web). TEAM-Web

“covers the creation, submission, award, and execution of an application, quarterly reporting, close-out, recipient information, and user administration functions.”

Internal Audit was informed FAX uses the Transportation Electronic Award Management (TEAM–Web) for Grant Applications. Internal Audit was unable to observe the TEAM process for review and testing.

For purposes of testing timeliness of submitting Grant Applications for Federal Assistance, Internal Audit used available Grant documents in the Finance FAX Grant Draw Down files.

Internal Audit noted the following:

- Of the 14 FAX Grants selected for review, Finance had no file of documentation or communication from FAX for two of the Grants listed on their “FY07 Grants in Progress For The City of Fresno’s FAX Department” Spreadsheet for the Single Audit on September 11, 2007 (for the FY07 Urban Mass Transportation Capital, Planning, Operating Assistance Grant and the FY05 Federal Transit Capital Investment Grant).
- Three Finance files were missing a copy of the Grant Application for Federal Assistance.
- Internal Audit could not conclude whether the remaining files with Grant Applications for Federal Assistance were complete.
- Three of the initial Grant Applications for Federal Assistance were received by the FTA approximately six months to one year into the term of the Grant.
- The Grant Applications for Federal Assistance in the Finance files did not contain the date FAX prepared or submitted the Applications to the FTA.
- Six Grants Applications did not include when the FTA received the Grant Application.
- Five Grant Applications did not state the term of the Grant.

**Audit Recommendation:**

3. The Transportation Director should ensure that all Grant applications are submitted timely (just prior to or at the beginning of the Grant Term) for approval.

**MANAGEMENT’S ORIGINAL RESPONSE TO RECOMMENDATION 3**

- Recommendation #3 – Department Response:
  - FAX recognizes the timely submittal of grant applications as the most urgent challenge regarding grants. The Department has implemented a number of strategies to resolve this challenge:
    - Recruitment and hiring of the newly created Grant Analyst (Management Analyst II) position. This position will be filled on January 28, 2008.
    - Reorganization of the Department to more equitably spread the workload. This reorganization has been in progress for several months and should be complete by September 2008.

**CURRENT STATUS OF RECOMMENDATION 3 – IN PROGRESS**

The Grant Analyst position has been filled since January of 2008. All grant applications are completed and submitted, except the FY06 and FY07 Urban Mass Transportation Capital and CMAQ grants. These grants have been submitted, but are undergoing technical revisions at the direction of the FTA. It is anticipated that the grant documents will be completed within 60 to 90 days.

**Finding 4 – Grant Approval/Award**

OMB Circular A-87 defines Approval as: “Approval...means documentation evidencing consent prior to incurring a specific cost.”

OMB Circular A-102 (1.e.1) states: “ordinarily awards shall be made at least ten days prior to the beginning of the Grant period.”

Untimely submission of Grant applications to the Grant Term delays the approval and reimbursement processes of the award. Seven of the 12 FAX FTA Applications for Federal Assistance had the Grant Term listed. The remaining five Grant Applications reviewed did not have a Grant Term listed.

One of the 12 FAX Grants reviewed had a signed paper copy of the Execution of Grant Award in the Finance File. Eight of the 12 FAX Grants reviewed had an electronic copy of the Execution of Grant Award in the Finance File. Internal Audit noted the following timing of Grant Awards to Grant Term for the documents located:

<b>FY</b>	<b>Grant Fund Number</b>	<b>FTA Received Grant Application</b>	<b>Grant Term</b>	<b>Date of Execution of Grant Award</b>	<b>FTA’s Confirmation of Obligation Dates</b>	<b>Months Lapsed from the Grant Term to when the FTA Received or Awarded the Grant</b>
1998	43510		11/30/98-11/30/99	6/4/1999	5/26/99	7
1999	43514		7/1/98 - 6/30/99		9/21/2000	27
2000	43515	8/8/2000	7/1/99 - 6/30/01		3/19/01	13
2001	43516		7/1/00 - 12/31/02	3/1/02	2/28/2002	20
2002	43517	8/2/02	7/1/01 – 6/30/03	9/19/02	None	13
2003	43518	6/19/2003	7/1/02 - 6/30/04	7/23/03	7/23/03	12
2004	43523	4/7/2005	7/1/03-6/30/05	5/23/05	5/19/2005	22
2005	43526	7/6/2005 & Unknown	Not Listed	7/14/2005 & 9/6/07	8/31/07	Unknown
2006	43529	8/15/2006	Not Listed	9/18/06	9/14/2006	Unknown
2004	43528	8/8/2006	Not Listed	9/18/06	9/15/06	Unknown

2005	43531		Not Listed	8/25/04		Unknown
2005	43432	Pending	Not Listed			

**Audit Recommendation:**

4. The Transportation Director should ensure all Grant applications are complete, including dates that show Grant preparation, term of Grant, initial submission, additional information submitted (if requested by the Grant Agency), and full signed approval.

**MANAGEMENT’S ORIGINAL RESPONSE TO RECOMMENDATION 4**

- Recommendation #4 – Department Response:
  - The Department works with, and will continue to work with, the Federal Transit Administration (FTA) to submit grants that are complete. The FTA will only approve completed grant applications.
    - The Department will immediately begin using a tracking sheet for each grant file. The tracking sheet will include information mentioned in this audit, but not included in the grant document. Information included in the Department grant file will also be included on the tracking sheet. This information will include the dates information is submitted to the FTA or sent to Finance, approval and transmission dates, dates communication is received from FTA or Finance, updates of terms and lengths of project, and other pertinent information.

**CURRENT STATUS OF RECOMMENDATION 4 - IMPLEMENTED**

The Department continues to work with the FTA and to update electronic TEAM reports regarding progress of grant projects. The Department is now using a grant tracking sheet for each grant that has been prepared within the last year.

**Finding 5 – Pre Award Grant Costs/Spending**

FTA Circular 9030.1C Urbanized Area Formula Program: Grant Application Instructions Chapter III Eligible Grant Activities Section 5 Eligible Project Costs in Advance of Award states under:

a. Blanket Authority Under Formula Program

- a. “...pre-award authority applies to FTA funds and flexible funds provided the conditions in paragraphs (1) and (2) below are met...”
  1. Conditions.
    - 1a. “This pre-award authority is not a legal or moral commitment that the project(s) will be approved for FTA assistance or that FTA will obligate Federal Funds...”

1b. “All FTA statutory, procedural, and contractual requirements must be met at the appropriate time.” ...

1f. “The blanket authority to undertake projects in advance of award runs concurrent with the period of availability of the funds to which the authority applies....”

2. “Environmental, Planning, and Other Requirements. FTA emphasizes that all of the Federal grant requirements must be met for the project to remain eligible for Federal funding. Some of these requirements must be met before pre-award costs are incurred, notably requirements of the National Environmental Policy Act (NEPA) and the planning requirements.”

OMB Circular A-87 (31) states: “pre award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.”

Within the FTA TEAM System, the Grantee can mark pre-award spending requested within the Budget Section of the application. Internal Audit did not have access to TEAM to audit whether FAX had checked Pre Award Spending on the FTA Grants. FAX listed the FY07 Urban Mass Transportation Capital CMAQ Grant as Pending. According to the initial information provided by FAX to Internal Audit, FAX has spent \$6,920,534 (99%) of the potential Grant Award of \$6,983,048. Internal Audit did not find written approval from the FTA for Pre Award expenditures in the Finance Files.

Without a Reserve Account to cover expenses incurred prior to Grant approval and Execution, FAX may have to spend money for products and services and then wait for full Grant approval and Execution to get reimbursed. A Reserve Account would lessen FAX’s Grant Negative Interest.

**Audit Recommendation:**

5. The Transportation Director must obtain written approval from the Grant Agency prior to any Pre Award spending.

**MANAGEMENT’S ORIGINAL RESPONSE TO RECOMMENDATION 5**

- Recommendation #5 – Department Response:
  - The Department will document and include in grant files all authorizations and approvals of pre-award authority, including “Blanket Authority Under Formula Program,” for all grants where pre-award authority is exercised. Please note: the Department has significantly reduced the use of pre-award authority over the last year.

## CURRENT STATUS OF RECOMMENDATION 5 – IMPLEMENTED

The Department has not used pre-award authority, with the exception of FY2009 operating expenses. These expenses are reimbursable under the FTA 5307 grant for FY2009 and are covered under the “Blanket Authority Under Formula Program”. Use of pre-award authority under FTA Circular 9030.1C Urbanized Area Formula Program: Grant Application Instructions Chapter III Eligible Grant Activities Section 5 Eligible Project Costs in Advance of Award will be documented in this grant file.

### **Audit Recommendation:**

6. The Transportation Director in conjunction with the City Manager and Director of Finance should consider establishing a FAX Reserve Grant Fund Account to cover pre-award Grant expenses incurred prior to final Grant Approval and Execution of the Grant Agreement for reimbursement.

## MANAGEMENT’S ORIGINAL RESPONSE TO RECOMMENDATION 6

- Recommendation #6 – Department Response:
  - The Department is actively working again to establish a reserve in the Transit Operating Fund. During the FY2008 budget process, the Department, the City Manager’s Office, and the Budget Office worked together to identify \$1.4 million to begin establishing a reserve by the end of the fiscal year. The Department will continue to work with the City Manager’s Office and the Finance Department to maintain and increase this reserve.

## CURRENT STATUS OF RECOMMENDATION 6 - IMPLEMENTED

The Department continues to work towards establishing a reserve fund. The current economic situation is creating significant challenges for this goal.

### **Finding 6 – Independent Confirmation with the FTA for FAX Grants**

Internal Audit contacted the U.S. Department of Transportation, FTA Regional Administrator, Region 9 on October 5, 2007 and obtained a written, independent confirmation for all FTA Grants awarded to FAX as of June 30, 2007. Following are the results of this independent confirmation:

<b>Grant Number</b>	<b>ID</b>	<b>FTA Records</b>	<b>FAX’s Records</b>	<b>Difference</b>
CA-90-X974-00		\$7,154,640	\$6,712,029	\$442,611
CA-90-Y137-01		Award Pending/On Active List	Award Open	
CA-90-Y595		Not Listed	Award Open	
CA-03-0604-00		Not Listed	Award Complete	

**Audit Recommendation:**

7. The Transportation Director should immediately communicate with the FTA Region 9 Regional Administrator to clarify and rectify conflicting Grant information as reported by FTA and FAX, and also resolve with FTA why some Grant awards are still pending and what FAX must complete to obtain the final Grant award approval.

**MANAGEMENT’S ORIGINAL RESPONSE TO RECOMMENDATION 7**

- Recommendation #7 – Department Response:
  - The Department is continuing to communicate with FTA personnel and utilize the FTA electronic grant system (TEAM). The Department has reviewed the information provided in the table by Internal Audit and has been able to resolve the conflicting information for CA-90-Y595, CA-03-0604-00. The Department is continuing to work with the FTA to resolve the discrepancy in information on CA-90-X974-00 and CA-Y137-01. FTA has been very willing to work with its grantees on any and all issues. The Department expects to be fully in sync with FTA by the end of FY 2008.

**CURRENT STATUS OF RECOMMENDATION 7 - IMPLEMENTED**

The FAX Grant Analyst has queried the FTA Team system and reconciled the remaining discrepancies. The discrepancies related to CA-90-X974 and CA-90-Y137-01 are both related to grant amendments. This issue has been resolved and the Grant Analyst will continue to work with the FTA to ensure that FAX and FTA grant information continues to coincide.

**Audit Recommendation:**

8. The Transportation Director should direct FAX staff to remove all completed Grants from the “FY200X Grants in Progress for the City of Fresno’s FAX Department Report” for accuracy and financial reporting purposes.

**MANAGEMENT’S ORIGINAL RESPONSE TO RECOMMENDATION 8**

- Recommendation #8 – Department Response:
  - The Department will update the current fiscal year spreadsheet with current information regarding the grants listed under Finding 6 above.

**CURRENT STATUS OF RECOMMENDATION 8 - IMPLEMENTED**

The department has updated and submitted the current fiscal year spreadsheet with information that is consistent with the FTA TEAM system.

## **Finding 7 – Untimely Submission of Invoices for Payments by FAX Personnel**

Internal Audit tested the FY2007 Accounts Payable documents to determine the timeliness of Grant Invoice/Voucher submission by FAX to the Finance Department for payment processing. We located and tested 47 of the 73 Invoices/Vouchers for approximately \$1.5 million of Grant expenditures. We were unable to locate 26 invoices/payment vouchers in the Finance A/P files. A post delivery review of the product by FAX on some purchases could also delay submission of an invoice for payment. From our audit tests, we noted:

- 32 of 47 (68%) invoices were submitted by FAX to Finance for payment after the invoice due date. The 32 invoices were submitted an average of 59 calendar days late; ranging from 5 to 153 days; and 17 of the 32 invoices were submitted after the quarterly reimbursement draw down date.
- 9 of 32 invoices were over \$10,000 and submitted an average of 96 days late.
- 6 of 32 invoices were between \$1,000-9,999 and submitted an average of 63 days late.
- 17 of 32 invoices were between \$1-999 and submitted an average of 36 days late.

### **Audit Recommendation:**

9. The Transportation Director should instruct staff to date stamp all vendor invoices received by FAX as well as other correspondence related to Grants, and to forward all invoices and vouchers for payment to Finance within five business days of receipt.

### **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 9**

- **Recommendation #9 – Department Response:**
  - The Department will ensure that all invoices and correspondence are date stamped.
  - Some grant project invoices will continue to be paid late, as invoices are commonly held until the project is satisfactorily completed.
    - Example: Invoices for fixed-route buses or implementation of a software program would not be paid upon receipt, but would be held until all components and features have been delivered, are functioning properly, and are determined to meet the project specifications.

### **CURRENT STATUS OF RECOMMENDATION 9 – IN PROGRESS**

This issue has been resolved. Invoices are paid timely, unless there is an issue with performance or completion of capital projects and purchases.

### **Internal Audit Comment**

Internal Audit reviewed a current sample of invoices and again noted that the invoices were not consistently stamped with the FAX received date and 12 of the 18 invoices reviewed were not timely submitted to AP for payment.

## **Finding 8 – Submission of Grant Draw Downs to the Grant Agency for Reimbursement by Finance Personnel**

FAX is the only City Department that does not perform Draw Downs for their own Grants. The Finance Accountant-Auditor II prepares the ECHO Payment Request Form, which is then reviewed by the Senior Accountant-Auditor and then the Controller who approves the Draw Down submitted to FTA for payment. Currently, the Finance Department performs the Draw Down function for all FAX Grants quarterly if there are paid expenditures for reimbursement.

The Finance Accountant-Auditor II must quarterly query PeopleSoft for expenditures of each FAX Grant Fund. The total amount of the individual Grant Fund expenditures is listed on the ECHO Request For Payment Form which is submitted to the FTA.

Finance can not always perform FAX Draw Downs within the quarter for all invoices received by FAX due to the untimely submission of such invoices for payment processing by the Finance Department (See Finding 7 above). The inability to submit Draw Downs by Finance in a timely manner for invoices received by FAX, but not processed via PeopleSoft, negatively effects interest earnings on FAX Grant Funds.

Per the FTA Region 9 Administrator's Office, a Grantee may submit an ECHO Request For Payment Form for expenditures paid any time (daily, weekly, monthly) for any amount. Per the FTA Administrator's Office, frequent submission of Grant expenditures can/may lessen negative interest.

### **Audit Recommendation:**

10. The Transportation Director should request assistance from the City Controller and the Finance Staff to train the FAX Staff on the process of submitting Grant Draw Downs for reimbursement of expenditures within the quarter the expenditures were incurred, if not sooner.

### **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 10**

- **Recommendation #10 – Department Response:**
  - The Department of Transportation is proposing to take on the responsibility of performing, tracking, and recording grant draw downs and payments. In the meantime, the Department will utilize the experience of the Finance Department staff to train the incoming Department of Transportation Grant Analyst.
    - This transition of responsibility is proposed to take place in early FY2009.

### **CURRENT STATUS OF RECOMMENDATION 10 – IN PROGRESS**

FAX and Finance are currently in the process of transitioning the grant drawdown duties from Finance to FAX. Due to Finance's commitments during the annual CAFR audit full transition of this duty will not occur until January or February of 2009. Until then FAX and Finance will work together on each drawdown, providing the Grant Analyst with valuable training.

**Finding 9 – Grant Agency’s Reimbursement to Finance and/or the FAX Department**

U.S. DOT – FTA Circular C5010.1C Chapter 1 (2) states: “Absent any type of pre-award authority, the grantee may begin to incur project costs as of the obligation date stated in the Notification of Grant Approval.... Requests for reimbursement will not be honored until the grant agreement has been executed by both FTA and the grantee and returned to FTA...”

U.S DOT – FTA Circular C5010.1C Chapter 4 (1a) states: “FTA makes all payments by the Automated Clearing House (ACH)...using two ACH methods:

1. Electronic Clearing House Operation (ECHO) Payment; and
2. Requisition Payment.”

Internal Audit confirmed the Finance Department is using the ECHO Payment System. Internal Audit reviewed eleven ECHO reimbursement payments between the dates of January 24, 2006 through October 15, 2007. The payments were for expenditures or credits for numerous individual FAX Grants.

Internal Audit could not locate documentation for the individual Grant expenditures for an ECHO payment received on April 25, 2006 totaling \$72,928. The FTA did not reimburse the City of Fresno for six Grant expenditures on four individual ECHO payments. Internal Audit was unable to verify why five of those six Grant expenditures had not been paid by FTA and whether they were resubmitted to FTA and received by the City of Fresno.

<b>ECHO Payment Request Form Date</b>	<b>Amount of Payment Requested</b>	<b>Grant Identifying Number</b>	<b>Grant Fund Number</b>	<b>Comment</b>
1/20/06	\$74,426	CA-90-0892	43510	Separate Payment Received
72/7/06	\$12,434	CA-90-8309	43523	
10/9/06	\$22,789	CA-90-0892	43510	
10/9/06	\$179, 867	CA-90-2367	43526	
7/26/07	\$25,656	CA-90-0892	43510	
7/26/07	\$35,221	CA-90-0309	43423	
<b>Total Amount</b>	<b>\$275,967</b>			

**Audit Recommendation:**

11. The Finance Staff, but ultimately FAX, should research and document Grant Draw Downs not received from FTA to ensure payment or rejection of expenses by the Grant Agency for improved accountability and financial reporting.

## **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 11**

- **Recommendation #11 – Department Response:**
  - The Department of Transportation has taken the lead on researching and resolving rejected draw downs. Based on the hiring of the Department's new Grant Analyst on January 28, 2008, it is estimated that it will take two to three months to acquire documentation from Finance and work with Finance to resolve this issue.
    - Based on recommendations included in this report and the Department's responses, all draw down activities, including recordkeeping, documentation, and resolution of draw down issues will become the responsibility of the Department.

## **CURRENT STATUS OF RECOMMENDATION 11 – IN PROGRESS**

The drawdown issues will be addressed as part of the transition of drawdown activities from Finance to FAX. This transition is expected to be completed by January or February of 2009.

### **Audit Recommendation:**

12. Documentation of Grant Draw Downs not received initially but ultimately paid or rejected should be maintained for monitoring, tracking and reporting purposes.

## **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 12**

- **Recommendation #12 – Department Response:**
  - Documentation of grant draw downs not received initially, but ultimately paid or rejected, will be maintained as part of the new Grant Analyst's responsibilities.

## **CURRENT STATUS OF RECOMMENDATION 12 – IN PROGRESS**

This issue is resolved through the transition of grant drawdown responsibilities from Finance to FAX.

### **Finding 10 – Posting of Grant Payments**

Upon receipt of the Grant expense reimbursement, Finance sends a copy of the Daily Receipts Report showing the payment along with a copy of the ECHO Payment Request Form to FAX. FAX must review the individual Grant amounts submitted for payment and approve the pending PeopleSoft Journal Entries to transfer the ECHO payment from the initial FAX Grant Clearing Fund to the specific Grant Fund.

Internal Audit calculated posting of FTA ECHO payments to the individual Grant Funds to cover expenses incurred to determine if negative interest would be charged. The number of calendar days ranged from 3 to 23. More importantly, 18 out of 49 (37%) of the ECHO payments were posted after the month ended.

**Audit Recommendation:**

13. The Transportation Director should request training from the Finance Staff for the FAX Staff on the Grant Draw Down and Posting process. FAX Accounting staff should become responsible for performing the entire Grant process from initiation and submitting Grant Applications to Closure of all Grants including the request and payment processes, as all other City Departments with Grants are performing.

**MANAGEMENT’S ORIGINAL RESPONSE TO RECOMMENDATION 13**

- **Recommendation #13 – Department Response:**
  - As previously detailed, the Department of Transportation will assume the entire grant process for the Department. Training that can bring the Department’s Grant Analyst up to speed quickly will be fully utilized.

**CURRENT STATUS OF RECOMMENDATION 13 – IN PROGRESS**

This issue is resolved through the transition of grant drawdown responsibilities from Finance to FAX.

**Finding 11 – Liquidation of Obligations**

Section 49 CFR 18.23 (a) states: “When a funding period is specified, a grantee may charge to the award only cost resulting from obligations of the funding period unless carryover of unobligated balances is permitted...” 49 CFR 18.23(b) states: “A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.”

FTA Circular C 9030.1C .1.4 Urbanized Area Formula Program: Grant Application Instruction – General Overview – Appropriations states: “Congress appropriates funds for FTA programs annually, and Urbanized Area Formula Program funds are apportioned annually by FTA. Funds apportioned by FTA under the Urbanized Area Formula Program remain available to the recipient for four fiscal years...After four years, funds apportioned but not obligated in grants by FTA will no longer be available for obligation to the urbanized area to which they were originally apportioned. These funds will be added to the amount available to FTA for re-apportionment nationally in the next fiscal year.”

Per a telephone interview with the Region FTA Office staff, the FTA will de-obligate remaining Grant funds per the Grant award documents if the Grantee does not. Future funding could potentially be at risk if the FTA has to de-obligate the funds versus the grantee.

Seven out of the 12 FAX Grant documents reviewed had a Grant Term listed. All seven Grant Terms from 1998 to 2004 have expired. Six out of seven of the FAX Grants have remaining Grant balances ranging from \$995 to \$621,253 individually. Internal Audit was unable to locate/obtain any Grant Agency documents approving the carryover of Grant funds past the Grant Term.

### **Audit Recommendation:**

14. The Transportation Director should immediately review outstanding Grant balances in conjunction with their Grant Term. Outstanding balances for expired Grant terms should be de-obligated by FAX personnel prior to the FTA having to invoke Grant Award terms.

### **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 14**

- **Recommendation #14 – Department Response:**
  - Based on the nature of the FTA grant awards and the involvement of elected officials (US Senate and Congress), both the Department and the FTA are in agreement that all dollars that are applicable to an approved project should be spent on that project, if possible. Towards this goal, and the goal of addressing long-standing grant balances, the Department is doing the following:
    - Reviewing all grant balances and associated grant projects.
    - Working closely with the FTA to utilize all funds available to the Department in coordination with FTA guidelines.
    - Reviewing all Grants on an ongoing basis and to de-obligate and close Grants where projects are completed.
    - Updating the FTA electronic reporting areas of the TEAM system to reflect the project schedule and to explain any delays in project completion (RFP processes, delivery schedules, contract completion, etc.).

### **CURRENT STATUS OF RECOMMENDATION 14 - IMPLEMENTED**

The Department has updated all grant reports in TEAM to explain the status of projects and any delay. Quarterly the Grant Analyst completes the reports in TEAM and the Administration Manager reviews the comments, and modifies them if necessary.