
Office of Inspector General

Audit Report

FTA HAS NOT FULLY IMPLEMENTED KEY INTERNAL CONTROLS FOR HURRICANE SANDY OVERSIGHT AND FUTURE EMERGENCY RELIEF EFFORTS

Federal Transit Administration

Report Number: ST-2015-046

Date Issued: June 12, 2015





Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** FTA Has Not Fully Implemented Key
Internal Controls for Hurricane Sandy Oversight
and Future Emergency Relief Efforts
Federal Transit Administration
Report Number ST-2015-046

Date: June 12, 2015

From: Thomas E. Yatsco
Assistant Inspector General
for Surface Transportation Audits

Reply to
Attn. of: JA-30

To: Acting Federal Transit Administrator

In October 2012, Hurricane Sandy caused widespread damage to the transportation infrastructure in the mid-Atlantic and northeastern sections of the United States.¹ In response, the President signed the Disaster Relief Appropriations Act (DRAA),² appropriating more than \$10 billion to the Federal Transit Administration's (FTA) Public Transportation Emergency Relief Program (ERP).³ The ERP was established to provide funds for states and public transportation systems to protect, repair, or replace assets damaged in an emergency, such as a natural disaster. The program was also intended to improve coordination between the Department of Transportation (DOT) and the Department of Homeland Security (DHS) by expediting assistance to public transit providers in times of a major disaster or emergency. When Hurricane Sandy occurred, FTA was still developing its ERP to respond to emergencies. DRAA also directed our office to review FTA's oversight of Hurricane Sandy relief funds. We issued our initial assessment in December 2013, which focused on FTA's DRAA compliance, oversight plans and procedures, and plans for finalizing new ERP procedures.⁴

¹ The President subsequently declared a major disaster in 12 States and the District of Columbia.

² Pub. L. No. 113-2 (January 29, 2013).

³ The ERP was established by the Moving Ahead for Progress in the 21st Century Act, Pub. L. No. 112-141 (July 6, 2012).

⁴ *Initial Assessment of FTA's Oversight of the Emergency Relief Program and Hurricane Sandy Relief Funds*, (OIG Report Number MH-2014-008), Dec. 3, 2013. OIG reports are available on our Web site: <http://www.oig.dot.gov>.

For this follow-up audit, we focused on DRAA's requirement for Federal agencies, including FTA, to employ internal control plans. The Office of Management and Budget (OMB) issued guidance for these plans, which stressed the need for rigorous oversight of Hurricane Sandy funds beyond standard business practices. DOT's internal control plan identified FTA's strategies for mitigating potential risks for its new ERP. FTA also developed an ERP Grant Making and Grants Management Toolkit (ERP Toolkit), which included a Hurricane Sandy Oversight Plan. Accordingly, our audit objectives were to (1) determine if FTA has fully implemented the processes, including internal controls, it established to award and oversee projects receiving Hurricane Sandy funds; (2) determine whether FTA has effective controls in place to reduce the risk of it duplicating payments that Hurricane Sandy grantees receive from DHS's Federal Emergency Management Agency (FEMA) and insurance companies; and (3) identify any issues that may have an impact on timely obligation and expenditure of FTA's Hurricane Sandy funds.

To conduct our work, we focused on assessing FTA's emergency relief efforts for compliance with the processes it developed, including internal controls, for grant-making and management, and oversight related to the grant applications and awards, based on the notifications issued in 2013,⁵ for three categories of eligible expenses.⁶ We analyzed FTA and grantee documents and data and interviewed staff from FTA Headquarters in Washington, DC, FTA's Regional and Hurricane Sandy Recovery Offices in New York, NY,⁷ and FEMA Headquarters in Washington, DC. We also interviewed staff from 5 of the 16 Hurricane Sandy grantees and contacted other key stakeholders. We conducted our work in accordance with generally accepted Government auditing standards. Exhibit A contains further details on our scope and methodology.

RESULTS IN BRIEF

FTA has not fully implemented the processes and internal controls it established for the award and oversight of Hurricane Sandy funds, in response to DRAA and Federal guidelines. For example, FTA's ERP Toolkit included checklists specifically tailored to reviewing Hurricane Sandy grant applications and grant awards and stated that all necessary documentation to support the grant is to be

⁵ Notifications of availability and allocation of emergency relief funds were dated February 6, 2013; March 29, 2013; and May 29, 2013.

⁶ Category One reimburses eligible expenses that were incurred and disbursed on or before January 29, 2013, in preparation for or in response to Hurricane Sandy; Category Two funds existing contractual commitments and contracts for which a request for proposals or invitation to bid for hurricane response and recovery projects was issued on or before January 29, 2013; and Category Three funds ongoing force account work for hurricane response and recovery for which a recipient can submit documentation showing the expense was in the recipient's budget on or before January 29, 2013. Force account work is the grantee's use of its own labor forces to carry out projects.

⁷ FTA's regional offices in New York, NY; Boston, MA; and Philadelphia, PA, cover the areas most affected by Hurricane Sandy and are primarily responsible for local oversight of DRAA funds.

attached in the Transportation Electronic Award Management (TEAM) system.⁸ However, our review of documentation within the TEAM system showed staff did not consistently implement or adequately document its Hurricane Sandy grant application and award review processes. We also found that FTA awarded Category Three Force Account funds that did not comply with its requirements because FTA accepted grantee support that did not meet the timeframes established in its notice of funding availability. In addition, FTA's risk-based oversight process was not adequately documented or consistently applied because it neither fully documented its decision-making nor developed objective criteria to assign risk levels. Furthermore, while FTA's internal control plan stated that FTA will require Hurricane Sandy grantees to provide monthly grant-related Federal Financial Reports (FFRs) and Monthly Progress Reports (MPRs), a third of the reports we examined lacked evidence of FTA review in TEAM, and nearly half of the required reports showed missing or incorrect information. These issues occurred because FTA chose to rely on existing review processes, did not require staff to use the checklists and document their decisions in TEAM, and stated that its oversight actions were sufficient. In addition, technical problems in TEAM affected grantee reporting and evidence of FTA review, and FTA did not ensure that grantees submitted accurate reports. As a result, FTA has not taken sufficient action to strengthen its processes and internal controls for Hurricane Sandy relief and future emergencies, including ensuring that key decisions are documented.

FTA established some controls to reduce the risk of duplicating FEMA funding and insurance reimbursements. While FTA has informally coordinated with FEMA to identify instances of duplicate funding, it has not formalized this process, which will be necessary to ensure effective coordination in the event of future emergencies. FTA implemented formal reporting and tracking procedures for insurance proceeds that grantees receive but faces years of ongoing monitoring before settlements are reached that could impact the final amount of Hurricane Sandy funds grantees are entitled to receive. Due to the length of time that may be required to resolve these issues, sustained management attention will be critical to ensure that FTA mitigates the future risks of grantees receiving duplicate payments.

FTA has allocated most of the \$10.2 billion in DRAA funds, but several factors have slowed the pace of fund awards and grantee expenditures. Almost all of FTA's ERP funding was made available for Hurricane Sandy efforts when, in November 2014, FTA announced it had allocated funds for the projects selected under its competitive resilience program. As of April 30, 2015, FTA awarded 28 Hurricane Sandy grants, totaling approximately \$3.8 billion—the 16 grantees had drawn down approximately \$938.6 million. The factors contributing to the

⁸ TEAM is FTA's electronic system for grant application submission, review, approval, and management of all grants. FTA plans to replace TEAM with TrAMS (Transit Award Management System) in 2015.

pace of FTA’s awards and grantee expenditures include FTA’s review process, which grantees described as requiring more information than normally called for; FTA’s decision to competitively award several billion dollars in Hurricane Sandy grants; and other external factors. For example, a grantee that was awarded funds in June 2014 to purchase locomotives has estimated that it will not receive the equipment until April 2017, in part due to bid process delays. The final drawdown of Hurricane Sandy funds for this equipment may not occur until the delivery has been accepted.

We are recommending a series of actions to further develop and implement the processes FTA has established and to document the actions it will take in regard to its Hurricane Sandy funding and future ERP-related activities.

BACKGROUND

In January 2013, DRAA provided the first funds for FTA’s ERP—\$10.9 billion, which was reduced by \$545 million (5 percent) as a result of the Budget Control Act of 2011 (Pub. L. 112-25).⁹ A summary of the status of the DRAA funds, as of April 30, 2015, is shown in table 1.

Table 1. Summary of Hurricane Sandy Funds Allocated, Awarded, and Disbursed (in millions)^a

Purpose	Allocated	Awarded	Disbursed
Response, Recovery, and Rebuilding (Categories One, Two, Three)	\$4,379.0	\$3,324.7	\$864.1
Locally Prioritized Resilience	1,300.0	379.6	74.5
Competitive Resilience	3,591.9	122.8	--
Subtotals	\$9,270.9	\$3,827.1	\$938.6
Additional Recovery	817.0	--	--
Totals	<u>\$10,087.9</u>	<u>\$3,827.1</u>	<u>\$938.6</u>

^a For purposes of this report, “Allocated” reflects the funds assigned by FTA to a public transportation provider from which grants may be awarded. “Awarded” reflects the amount of Hurricane Sandy funds obligated by FTA to a grantee. “Disbursed” reflects the amount of FTA payments that have been made to a grantee.

Source: OIG analysis

FTA issued an ERP Toolkit on April 12, 2013, for FTA staff to use as a reference to ensure successful obligation and expenditure of relief funds. These tools stress increasing grantee reporting requirements from quarterly to monthly, performing

⁹ After sequestration, the \$10.4 billion in DRAA funds appropriated to FTA were further reduced by the following: \$76.2 million (\$80 million pre-sequestration) in funds appropriated for FTA’s administrative expenses and program management oversight, \$5.7 million (\$6 million before sequestration) transferred to our office for oversight, and \$185 million transferred to the Federal Railroad Administration. The amount remaining, available to FTA for Hurricane Sandy projects, was \$10,088 million.

grantee risk assessments (GRA) and project risk assessments (PRA), enhancing oversight that is tailored to risk, following improper payment protocols, reviewing grantee payments (drawdowns), and requiring grantees to hire independent integrity monitors. Further, FTA's Hurricane Sandy Oversight Plan outlined a risk-based oversight framework to provide additional oversight tools for projects and grantees beyond its typical oversight process to assist in allocating its oversight resources.

Our initial report recognized that FTA responded quickly and effectively to Hurricane Sandy by assessing the damage, assisting impacted transit agencies, and developing oversight plans. FTA also faced time and resource constraints in developing its ERP, while also immediately addressing the allocation and obligation of relief funds. However, we noted that FTA's Hurricane Sandy Oversight Plan lacked specificity in key areas, and that moving forward, FTA needed to put into practice its Hurricane Sandy Oversight Plan's risk-based framework and ensure that relief funds are properly distributed and spent to maximize the stewardship of Federal funds.

FTA HAS NOT FULLY IMPLEMENTED THE INTERNAL CONTROLS IT ESTABLISHED FOR HURRICANE SANDY FUNDS

FTA has not fully implemented the processes and internal controls it established for the award and oversight of Hurricane Sandy funds, in response to DRAA and Federal guidelines. Although FTA's ERP Toolkit included checklists specifically tailored to reviewing Hurricane Sandy grant applications and grant awards and indicated that all necessary documentation to support the grant should be attached in the TEAM system, FTA management stated that its staff was not required to use these checklists. Our review of documentation within the TEAM system showed staff did not consistently implement or adequately document its Hurricane Sandy grant application and award review processes. We also found that FTA awarded Category Three Force Account funds that did not comply with its requirements because FTA accepted grantee support that did not meet the timeframes established in its notice of funding availability. In addition, the risk-based oversight process was not adequately documented or consistently applied because FTA neither fully documented its decision-making nor developed objective criteria to assign risk levels. Furthermore, many Hurricane Sandy reports from grantees lacked evidence of FTA review or showed missing or incorrect information.

FTA Has Not Consistently Implemented or Adequately Documented Its Hurricane Sandy Grant Application and Award Review Processes

FTA developed processes, in its ERP Toolkit, to ensure Hurricane Sandy grant applications and awards were complete but did not consistently implement them. In particular, the ERP Toolkit checklists—tailored specifically for reviewing Hurricane Sandy grant applications and approving/awarding Hurricane Sandy grants—have not been used effectively. According to the ERP Toolkit, the checklists outlined the elements required to ensure an application is complete and a Hurricane Sandy grant is ready for award, including that necessary documentation to support a grant application be included in TEAM.

We expected to see FTA using these checklists as part of its internal controls because the ERP Toolkit stated that the checklists outline key and critical required elements for a complete application package and ensure the grant is complete and ready for award. In addition, the ERP Toolkit stated that all necessary information to support the grant is to be attached in TEAM. Accordingly, documenting evidence in TEAM that FTA’s reviews were aligned with the checklist elements would help meet these requirements. However, FTA management emphasized that FTA staff had been trained to identify grant elements and was not required to document all of the reviewed items in TEAM. To assess whether FTA staff was adhering to all review elements, even without formally using the checklists, we analyzed whether there was any evidence in TEAM of FTA review or confirmation, and FTA completion for all 50 elements in the grant application (43) and award/approval (7) reviewer checklists. We found that, for five Hurricane Sandy executed grants awarded by three different FTA regions,¹⁰ the FTA grant application and award review processes were neither consistently carried out by the regional offices nor adequately documented in TEAM. The issues we noted in our findings are contrary to the Government Accountability Office’s (GAO) Standards for Internal Control in the Federal Government guidance, which calls for all transactions and significant events to be clearly documented, with the support “readily available,” and describe internal control as “a continuous built-in component of operations.”¹¹

Specifically, based on our review of the five grants, we found:

- **FTA reviews were inconsistent across regional offices.** For example, Region 1 TEAM documents contained evidence to support only 25 of the 50 application and award checklist elements, while the Region 3 TEAM

¹⁰ Region 1- Massachusetts Bay Transportation Authority (MBTA), Region 2- New York Metropolitan Transportation Authority (MTA), Port Authority Trans-Hudson (PATH), New Jersey Transit (NJT), and Region 3-Southeastern Pennsylvania Transportation Authority (SEPTA).

¹¹ GAO/AIMD-00-21.3, Standards for Internal Control in the Federal Government, Nov. 1999 and GAO-01-1008G, Internal Control Management and Evaluation Tool, Aug. 2001. GAO issues standards for internal control in the Federal government as required by 31 U.S.C. 3512(c) & (d).

documents contained evidence supporting only 9 of the 50 elements. Furthermore, grants from two of the three FTA regions contained evidence that FTA had reviewed or confirmed that grant application milestones and estimated completion dates were reasonable, while the third regional office did not. Without consistent reviews of grant documents, FTA has less assurance that grant applications will be complete.

- **FTA reviewer actions were inadequately documented.** Reviewers did not record many of their actions taken, although GAO's internal control standards guidance calls for all significant transactions to be clearly documented and readily available. The grant application checklist includes an element for the reviewer to ensure TEAM contains the supporting documentation, such as the Grants.gov submissions, used to determine the eligibility of an activity. We found only one of the three regions included this documentation in TEAM. In addition, the grant application checklist contained nine budget elements for reviewers to examine, including that the budget balances and the Federal/local match ratios are correct. However, none of the five grants we examined had evidence that all nine items were reviewed or confirmed by FTA. Furthermore, none of the five grants had evidence of FTA review or confirmation for all seven reviewer actions in the grant award/approval checklist. For example, there was no evidence that FTA confirmed that all required internal sign-offs had been completed before it awarded the initial Hurricane Sandy grant to the New York Metropolitan Transportation Authority (MTA) for approximately \$193.9 million. Overall, documentation in TEAM did not fully reflect the work performed by its staff in reviewing applications and awarding Hurricane Sandy funds to grantees. Without supporting documentation, FTA cannot demonstrate that its staff properly followed grant review and award processes.

Based on our analysis, FTA's processes for reviewing applications and awarding grants in TEAM are not adequate substitutes for using the ERP Toolkit checklists to ensure that FTA staff comprehensively review Hurricane Sandy grant applications and awards for completeness and accuracy. For example, the Hurricane Sandy grant application checklist includes checking the funding reservation as part of a reviewer's "final sign-offs." Although the executed Hurricane Sandy grant awarded to the Rhode Island Public Transit Authority (RIPTA) included an FTA reviewer comment that the accounting code was correct, FTA staff used the incorrect accounting code during the fund reservation step of the award process to RIPTA. In response to our inquiries, FTA confirmed that the code required correction and then it de-obligated and re-obligated the executed RIPTA grant award with the correct accounting code. If left unresolved, FTA would have inaccurately reported its disbursement information. Furthermore, FTA's reliance on application review and grant approval processes in TEAM is questionable, as our office's financial statement audit recently identified internal

control weaknesses with FTA's information technology systems, including TEAM—such as inappropriate user access to applications and inadequate monitoring of access.¹²

FTA Did Not Comply With Its Category Three Force Account Requirements

FTA awarded Category Three Force Account funds that did not comply with its requirements because FTA accepted grantee support that did not meet the timeframes established in its notice of funding availability. FTA communicated its requirements to affected local transit agencies on what were needed to support Category Three Force Account funding. However, the guidance did not detail the specific type of applicant documentation required (OIG emphasis added below):

- In its February 6, 2013, Notice of Availability of Relief Funding, FTA stated that Category Three projects will fund ongoing force account work for hurricane response and recovery for which the recipient can submit documentation, *such as* Board approval or budget documents, showing the expense was in the recipient's budget *on or before January 29, 2013*.
- In responding to frequently asked questions (FAQ) on its Web site, FTA defined "budgeted" as "an amendment to your budget that shows a line item for hurricane response, *or something* that shows you've moved staff off of regular tasks to hurricane response (Board meeting minutes, *etc.*)" and that the expense needed to be budgeted *prior to January 29, 2013*.

Based on a review of documentation for the five grantees who received Category Three Force Account funding, we found that three of the five grantees' force account submissions did not meet FTA's timeframe requirements. For example, force account work documentation for one grantee, New York City Department of Transportation (NYCDOT), was insufficient to support the Category Three Force Account activities in the executed grant. One of the supporting documents FTA used as the basis for awarding funds for these costs in the grant identified NYCDOT's expenses as being incurred *before* Hurricane Sandy (pre-October 30, 2012) through completion of recovery, restoration, and repair (October 30, 2012, to January 29, 2013). Therefore, Category One is applicable to the funds, rather than Category Three. Furthermore, one of the Port Authority of New York and New Jersey's (Port Authority) World Trade Center and the Port Authority Trans-Hudson's (PATH) force account-related documents that FTA provided to us should not have been considered an amendment related to expenses budgeted on or before the FTA-established deadline. Specifically, FTA accepted the Board's "Port Authority Response to Hurricane Sandy and Resumption of

¹² *Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2014 and 2013, Department of Transportation* (OIG Report Number QC-2015-011), Nov. 17, 2014.

Facility Operations and Essential Agency Functions,” which was dated February 6, 2013—1 week after FTA’s deadline for Category Three.

FTA’s actions are in contrast to GAO’s internal control standards guidance, which cites control activities as necessary to prevent invalid transactions and other events. Developing clear force account funding requirements will improve future emergency relief efforts by reducing confusion about the type of support required for grantees to receive force account funds. Future FTA ERP funds for force account work may not be classified into “categories” like it was for Hurricane Sandy, but future disaster relief efforts will likely include funds for force account work, requiring FTA to clearly define its funding requirements and ensure grantee support meets its requirements.

FTA Has Not Adequately Documented or Consistently Applied Its Risk-Based Oversight Process

We found weaknesses in FTA’s risk assessment process, which was inadequately documented and inconsistently applied. FTA staff did not follow through to fully document its decision-making or develop objective criteria to assign risk levels. DOT’s internal control plan for Hurricane Sandy funds stresses that FTA would use two key tools, GRAs and PRAs, and tailor its oversight activities to the appropriate risk level. FTA conducts a GRA to measure each grantee’s management and technical capacity and provide FTA with an assessment of the grantee’s project management readiness.¹³ A PRA is performed after the GRA and evaluates the riskiness of a grantee’s particular Hurricane Sandy project and assigns a project risk rating.

Although FTA’s Hurricane Sandy Oversight Plan calls for linking the results of the GRAs with PRAs, FTA did not consistently do so. For example, FTA’s New Jersey Transit Corporation (NJT) GRA reviewer cited 7 of the 10 risk areas as “high”-level risks. In a proposed oversight strategy, the reviewer noted that six separate risk areas would need to be re-examined when FTA completed a project-level assessment. Yet, the PRA completed for NJT’s first Hurricane Sandy grant concluded there were no significant risks that required additional oversight in any of the six risk areas and did not provide sufficient explanations for that conclusion. According to FTA, the assessments’ conclusions were based on reviewer opinion and internal FTA discussion, neither of which was normally documented. We requested that FTA provide a “crosswalk” between the GRA and PRA for the second NJT Hurricane Sandy grant. This crosswalk provided more detailed written explanations of FTA’s risk evaluation process but is not a substitute for adequately documenting its decision-making when analyzing risks.

¹³ This assessment establishes a 1-year “grantee risk rating,” which remains unchanged unless a significant change in a grantee’s technical capacity is noted.

In addition, FTA's PRAs contained limited explanations on how FTA reached its rating determinations of low, medium, or high project risk. Contrary to GAO's internal control standards guidance, FTA did not develop objective criteria for the risk assessors to use in assigning risk levels. Without definitive criteria for assessing risk and documenting its staffs' analysis and decision-making for risk determinations, FTA documentation lacks transparency in how the analysis was performed. Fully documenting its efforts in future grantee and project risk assessments would provide greater assurance that FTA's analysis was thorough and its proposed oversight strategies were sufficient to mitigate risks on Hurricane Sandy projects. A more defined process as part of its ERP would also be beneficial in any future emergency relief efforts.

Many Hurricane Sandy Grant Reports Lacked Evidence of FTA Review, and Information Was Missing or Incorrect

Our review of FFRs and MPRs on Hurricane Sandy projects identified many reports in TEAM lacking evidence of FTA review or reflected missing or incorrect information. FTA's lack of review evidence and missing or incorrect information stem from FTA inadequately documenting its reviews of reports and not ensuring that grantees submit accurate reports. In addition, prior to the start of our audit, FTA experienced technical problems¹⁴ in TEAM. A key component of the Department's OMB-required internal control plan, as applicable to FTA, is that grantees are required to submit monthly FFRs and MPRs. According to FTA's Hurricane Sandy Oversight Plan, this enables FTA to closely monitor grantee activity and progress.

Our review of 151 FFRs and MPRs¹⁵ on Hurricane Sandy projects identified many reports that showed missing or incorrect information or lacked evidence of FTA review. For the purposes of our audit, we considered "evidence of FTA review" to be based on whether the FTA reviewer's comments or the reviewer's sign-off were recorded in the TEAM system. Table 2 summarizes the issues we found with FFRs and MPRs.

¹⁴ FTA referred to the TEAM system's technical problems as "glitches" and explained that they affected grantee reporting and evidence of FTA review. FTA identified that the technical problems related to recording staff reviews were addressed late in 2013.

¹⁵ We examined all available FFRs and MPRs covering the periods through September 2014 and December 2013, respectively. We performed a limited examination of the 2014 MPRs; therefore, the results of our reviews were not included in table 2.

Table 2. Summary of OIG Reviews of Grantees' FFRs and MPRs

Report	Totals	Missing Information		Incorrect Information		Evidence of FTA Review	
		Yes	No	Yes	No	Yes	No
FFRs ^a	109	56	53	9	100	80	29
MPRs ^b	<u>42</u>	<u>5</u>	<u>37</u>	Not verified		<u>20</u>	<u>22</u>
Totals	<u>151</u>	<u>61</u>	<u>90</u>	<u>9</u>	<u>100</u>	<u>100</u>	<u>51</u>

^a FFRs covering the period from April 2013 through September 2014.

^b MPRs covering the period from April 2013 through December 2013.

Source: OIG-developed based on reviews performed

During the period FTA's Region 2 was experiencing the technical problems, it used a spreadsheet, covering the period April 2013 through December 2013, to document its FFR and MPR reviews. However, the spreadsheet was limited to report submission and review dates and did not identify who conducted the reviews or whether the reviewer had any comments—both of which would typically be documented in TEAM. Furthermore, we found some instances of contradictory submission and review information between the spreadsheet and TEAM.

Specifically, we found that:

- FTA-reviewed FFR and MPR reports in TEAM had missing information.** Thirty-eight of the 100 FTA-reviewed FFR and MPR reports we reviewed did not include all required information. For example, for the period April 2013 through September 2014, 20 of the 23 FFRs for 2 separate MTA grants, and 10 of the 11 FFRs for a NYCDOT grant were missing information on Federal cash receipts and disbursements.¹⁶ FTA guidance calls for FTA regional staff to review FFRs to ensure grantees are not overdrawing Federal funds.¹⁷ However, FTA could not immediately identify whether grantees were drawing down excess funds without taking the additional step of accessing the Electronic Clearing House Operation (ECHO-web) system to check a grantee's drawdowns during the reporting period. In addition, PATH's June 2013 MPR was incomplete, as an activity line item was missing status information.
- FTA-reviewed FFRs in TEAM contained incorrect information.** Eight of the 80 FTA-reviewed FFRs in TEAM did not have correct information. For example, our analysis of the FTA-reviewed Port Authority FFRs included an incorrect Federal share of expenditures from the previous month. Because

¹⁶ After discussion with FTA Region 2 staff, MTA began providing this information in its September 2014 FFR. However, NYCDOT had not corrected the FFR problem as of its September 2014 monthly report.

¹⁷ A grantee must disburse payments received from FTA within 3 business days. If not disbursed within 3 days, funds become excess funds and must be returned to FTA with interest.

DRAA identified Hurricane Sandy funds as susceptible to improper payments and FTA's Hurricane Sandy oversight approach includes close monitoring of progress made using Federal funds, it is critically important that grantee expenditure information is accurate.

- **FFRs and MPRs had insufficient evidence of FTA review in TEAM.** Our review concluded that 51 out of the 151 FFRs and MPRs from April 2013 through September 2014 lacked evidence of FTA review. In contrast, FTA's Hurricane Sandy Oversight Plan requires grantees to submit monthly reports, rather than quarterly reports, "so that FTA can closely monitor their activities and progress in implementing the activities being funded by the grant(s)." Furthermore, FTA's standard operating procedures emphasize the responsibility of FTA's regional office staff to review both FFRs and MPRs.
- **Other FFR and MPR reports without evidence of review in TEAM were incomplete or contained incorrect information.** For the FFR and MPR reports identified in the spreadsheet that Region 2 used to track its review of grantee documents during TEAM's technical problems, we found that errors still existed in these reports indicating that the reports were not thoroughly reviewed. For example, NJT's June 2013 FFR was incomplete, as TEAM did not bring forward the previous month's Federal share of expenditures. We also found that PATH's June 2013 MPR had a fare collection system work completion date that was extended from November 14, 2012—a date which made the work eligible for 100 percent Federal funding—to September 2014, which reduced eligibility to only 90 percent according to FTA's criteria. In response to our inquiries in 2014, FTA provided internal communications establishing that it was aware of this issue and had determined that the grant would need to be adjusted for this work to 90 percent eligibility, reducing Federal funds provided from \$3,600,000 to \$3,240,000. PATH is working to reallocate its reimbursement to 90 percent.

FTA ESTABLISHED SOME CONTROLS TO REDUCE THE RISK OF DUPLICATE REIMBURSEMENTS

FTA established some controls to reduce the risk of duplicating Hurricane Sandy reimbursements by informally coordinating with FEMA. However, it has not yet formalized its process for identifying duplicate FEMA funding. In addition, FTA implemented formal reporting and tracking procedures for insurance proceeds that grantees receive, but faces years of ongoing monitoring before settlements are reached that could impact the final amount of Hurricane Sandy funds that grantees are entitled to receive. Due to the length of time that may be required to resolve these issues, sustained management attention will be critical to ensure FTA mitigates the future risks of grantees receiving duplicate payments.

FTA and FEMA Signed a Memorandum of Agreement for Tracking Emergency Funding Requests

In March 2013, FTA and FEMA signed a Memorandum of Agreement (MOA), committing both agencies to establishing a joint tracking system for emergency funding requests to prevent duplicate reimbursements to grantees. While this was an important step, FTA has not formalized its control process with FEMA, which will be necessary to ensure effective coordination for Hurricane Sandy grants and any future major disaster or emergency.

However, we did find evidence of informal FTA/FEMA coordination to identify duplicate FEMA funding. Specifically, FTA developed an approach in which FTA staff reviews FEMA grantee requests for funding and provides information to FEMA on FTA's executed grant awards, with both agencies using spreadsheets to track their respective Hurricane Sandy-related transit funding requests. For example, in one instance, after FEMA issued a grant to a transit agency for Hurricane Sandy-related damages, it contacted FTA to inquire whether these damages could be covered by FTA's ERP. FTA and FEMA determined that FTA would award a grant for the damage, and FEMA subsequently de-obligated its grant award.

Both FTA and FEMA officials indicated that a specific approach for the joint tracking system was not envisioned during the MOA development process. FEMA staff informed us that Hurricane Sandy occurred before the MOA was completed and characterized the current approach as "ad hoc." This is in contrast with GAO internal control standards guidance, which advises that agency internal control activities should be clearly documented in policies and manuals.

FTA provided us with an unsigned, undated description of the FTA/FEMA coordination process, demonstrating the informal nature of the process. FTA views this process as sufficient and informed us it will likely remain unchanged after FTA publishes the ERP Final Rule.¹⁸ GAO's recent work is consistent with ours in that it recommended that FTA work with FEMA to determine how the MOA's program and protocol will be monitored, evaluated, and reported—instead of relying on informal communication.¹⁹ Without formalizing the current process between FTA and FEMA that establishes specific control activities, FTA has reduced assurance that this process will help prevent duplicate funding²⁰ or be effective in the long term.

¹⁸ FTA's ERP Final Rule was published in October 2014.

¹⁹ *Emergency Transportation Relief: Agencies Could Improve Collaboration Begun During Hurricane Sandy Response* (GAO-14-512), May 28, 2014.

²⁰ FTA's ERP Final Rule states that FTA will not fund projects that FEMA has funded, which highlights the need for formalizing the coordination process.

FTA Established Formal Controls To Account for Insurance Recoveries

FTA established formal controls to reduce the risk of duplicate reimbursements to grantees because of Hurricane Sandy-related insurance settlements. In its February 2013 Notice of Funding Availability and in the ERP Final Rule, FTA stated that recipients who obtained insurance payments before they received their FTA funds would need to reduce their FTA funding request; likewise, grantees would need to reimburse FTA if they received insurance settlements after receiving FTA funding.

In February 2014, FTA issued a formal policy regarding the treatment of settlements involving damaged transit assets and how FTA will work with grantees to determine and document how they should apply the pro-rated share of insurance proceeds to FTA's ERP. To implement these procedures, FTA required its project management oversight contractor (PMOC) to retain an insurance consultant to provide specialized insurance oversight services for FTA's Hurricane Sandy grantees.

Our review of the annual financial statements for four grantees (MTA, Port Authority, PATH, and NJT) found that they accurately reported to FTA the insurance proceeds they received. Further, the insurance consultant has been tracking Hurricane Sandy grantee insurance issues. The consultant's reports indicate that these grantees have been working with their insurers to settle claims. Finally, there is evidence that the process to reimburse FTA is occurring as well. For example, NJT reimbursed approximately \$3.3 million of its Hurricane Sandy grant funds from insurance proceeds received to FTA in September 2013.

FTA staff, Hurricane Sandy fund grantees, and the insurance consultant all stated that it can take years for insurance claims to be settled, which will require long-term FTA monitoring. According to the insurance consultant, final settlements may take up to 5 years for the major grantees, given the complexities of the adjustment and restoration processes.

FTA HAS ALLOCATED ALMOST ALL DRAA FUNDS, BUT SEVERAL FACTORS HAVE IMPACTED THE PACE OF FUND AWARDS AND GRANTEE EXPENDITURES

FTA has made most of its \$10.2 billion in DRAA funding available for public transportation agencies to apply for grants for response, recovery, rebuilding, and resilience efforts. However, factors including FTA's review process and its decision to establish a competitive resilience program of several billion dollars in

Hurricane Sandy grants have slowed the pace of relief fund awards and grantee expenditures.

FTA Made Almost All DRAA Funds Available to Grantees, but Its Grant Award Process and Outside Factors Slowed Fund Awards

By November 5, 2014, FTA made available almost all of the \$10.2 billion in Hurricane Sandy funds. Of these funds, as of April 30, 2015, FTA awarded 28 Hurricane Sandy grants to 16 transit agencies, totaling approximately \$3.8 billion. To make its initial allocations, FTA assessed and validated detailed damage estimates of transit infrastructure submitted by grantees. Staff from different grantees described rigorous aspects of the FTA review process for these grants and told us that the process resulted in long lead times between their grant applications and FTA approval. For example, staff at one transit agency stated that FTA expected all related work to be well-documented and undergo a validation process, while staff at another grantee stated FTA required more details to be included in the grant application document and performed a more rigorous application review than it normally did.

FTA's decision to establish a competitive resilience program for the first time also impacted the pace of awards. We did not examine the merits of the competitive grant program, which according to the former FTA Administrator, "allows project sponsors across the impacted region...to advance their best and most important projects to protect the region's transit infrastructure."²¹ However, the decision resulted in a time-intensive process from qualification through award. FTA announced the Hurricane Sandy competitive resilience program on December 26, 2013, and it required interested agencies to participate in an FTA training session on Hazard Mitigation Cost Effectiveness as a prerequisite to qualify for the competitive resilience funds. Interested agencies could then submit their proposed projects to FTA for evaluation by March 28, 2014. On September 22, 2014, following a review of 61 proposals seeking a total of over \$6.6 billion, FTA announced the 40 competitive resilience projects it selected to be awarded approximately \$3.6 billion in Hurricane Sandy funds. FTA's first competitive resilience grant was awarded to the City of Nashua, New Hampshire on March 4, 2015—almost a year after FTA's deadline for submission of resilience project proposals. Staff at grantee agencies informed us that the competitive resilience application process required the assistance of consultants to complete, and staff at one agency described the process as complicated.

In addition, provisions within the DRAA legislation impacted the pace of grant awards by limiting the amount of funds FTA could make available until 60 days

²¹ "Statement of the Honorable Peter Rogoff, Federal Transit Administrator, Before the Committee on Banking, Housing and Urban Affairs Banking Subcommittee on Housing, Transportation, and Community Development, U.S. Senate Hearing on Hurricane Sandy," Sept. 18, 2013.

after its enactment and by requiring FTA to enter into the MOA with FEMA. Further, DRAA did not mandate a deadline for FTA to award the Hurricane Sandy funds.

FTA Disbursements Have Been Lower Than Estimated, and External Factors Have Slowed the Pace of Disbursements

As of April 30, 2015, FTA had disbursed approximately \$938.6 million to Hurricane Sandy grantees. Our analysis of the actual Hurricane Sandy fund disbursements determined that, to date, they have been lower than FTA initially estimated. Specifically, in its request for a waiver from OMB of DRAA's 24-month expenditure requirement, FTA estimated that \$10 billion in its ERP would be disbursed to grantees over approximately 8 years, consistent with the President's fiscal year 2014 budget rates—which span fiscal year 2013 to fiscal year 2020.²² Using these estimates, FTA's disbursements would have been approximately 10 percent and 25 percent of the total funds over fiscal years 2013 and 2014, respectively.²³

Conversely, the Congressional Budget Office (CBO) estimated that FTA's outlays would extend beyond this 8-year period, with approximately 3 percent and 12 percent of the funds disbursed in fiscal years 2013 and 2014, respectively.²⁴ FTA's actual disbursements for these 2 fiscal years have been closer to the CBO estimates—2 percent and 5 percent of the funds, respectively (see table 3).

²² "FTA Action Memorandum - Request OMB Waiver of 24-Month Requirement for Grantee Expenditure of Obligated Disaster Recovery Funds," April 24, 2013.

²³ In our analysis we used the estimates FTA included in the OMB waiver request. Subsequent Presidential budgets significantly reduced the estimated outlays for fiscal years 2014 through 2016.

²⁴ "CBO Estimate of the Disaster Relief Appropriations Act, 2013, as Posted on the Web Site of the Senate Committee on Appropriations on December 12, 2012."

Table 3. President’s Fiscal Year 2014 Budget Estimated Outlays, Congressional Budget Office Estimated Outlays & FTA’s Actual Disbursements by Fiscal Year

Fiscal Year	Fiscal Year 2014 President’s Budget: Estimated Outlays (Percentage of Total)	CBO: Estimated Outlays (Percentage of Total)	FTA: Actual Disbursements (Percentage of Total) ^a
2013	10%	3%	2%
2014	25%	12%	5%
2015	25%	15%	9% ^b
2016	20%	15%	TBD
2017	10%	14%	TBD

^a For total funds, the amount used (approximately \$10.2 billion) reflects the effects of sequestration, and the transfers to the Federal Railroad Administration and Office of Inspector General. The disbursements per fiscal year amounts include outlays to both Hurricane Sandy grantees and PMOCs. To calculate the fiscal year 2013 percentage, \$209 million was divided by \$10,164 million; to calculate the fiscal year 2014 percentage, \$540 million was divided by \$10,164 million.

^b As of April 30, 2015.

Note: CBO and Department outlay estimates of Sandy funds continue beyond 2017.

Source: OIG analysis

Several factors have slowed the pace of relief fund disbursements. In July 2013, DOT received a waiver from OMB of the DRAA requirement that grantees expend funds awarded within the 24-month period following obligation. This original DRAA requirement provided an incentive to expedite expenditures. Yet, the waiver reflected the likelihood that many FTA-funded projects could not be completed within 24 months of obligation. According to FTA, a number of factors within its Hurricane Sandy program could impact fund expenditures up to several years, including the following:

- Projects that require an extensive planning and execution process prior to the commencement of manufacture or construction.
- Competitive resilience projects that require several years to complete due to their complexity.

Based on our document reviews and interviews with key stakeholders, other key factors that have slowed disbursements include the following:

- The time it would take to settle Hurricane Sandy-related insurance claims—which may take up to 5 years.
- Long lead-time for procuring assets. For example, a grantee who was awarded funds in June 2014 to purchase locomotives has estimated that it will not receive the equipment until April 2017, in part due to bid process delays. The

final drawdown of Hurricane Sandy funds for this equipment may not occur until the delivery has been accepted.

- The time required to complete funded recovery and local resilience activities. For example, MTA's fourth Hurricane Sandy-related grant, in the amount of approximately \$788 million, was awarded and executed in February 2015, but the grant's activities were not expected to end until July 2025.
- Grantee internal accounting processes that, prior to making a drawdown of Hurricane Sandy funds, required review to verify the accuracy of costs before grantees were able to draw down funds.

CONCLUSION

Recognizing the urgency and significant work required to award and oversee Hurricane Sandy funds, FTA responded by developing processes to carry out these tasks. However, FTA did not fully follow or adequately document its decisions in implementing these processes and did not always adhere to GAO's internal control standards guidance when allocating and awarding Hurricane Sandy funds. In addition, FTA has yet to formalize its coordination with FEMA to effectively handle funds needed for any future transit emergencies and disasters. As FTA moves forward with awarding the approximately \$6 billion remaining in Hurricane Sandy funds, and grantees continue to spend and report on their expenditures and progress, FTA needs to strengthen its processes and internal controls including documenting its decision-making. Doing so will help to ensure that FTA's regional offices more consistently follow Agency requirements for Hurricane Sandy funding in the coming years. FTA must also develop more robust policies and internal control processes with an eye toward building an effective ERP that will be well-positioned to deal with any future transit-related emergencies.

RECOMMENDATIONS

We recommend that the Federal Transit Administration:

1. Implement enhanced review processes for ERP grant applications and grant award approvals that are aligned with the ERP Toolkit's checklists and require documentation in FTA's grant management system in accordance with Federal internal control standards guidance.
2. Enhance internal control processes for future force account funding by establishing clear funding criteria for future emergency relief efforts, which include the specific types of applicant documentation required to receive this funding.

3. Improve FTA's risk assessment process for future grantee and project risk assessments by:
 - a. establishing criteria for assigning low, medium, and high risks, and
 - b. requiring documentation that allows others to understand how these criteria inform specific risk assessment ratings and, if applicable, the reason(s) and decision-making for different risk levels assigned to grantee risk assessments and the grantees' project risk assessments.
4. Develop and implement enhanced controls to ensure that monthly ERP FFR and MPR review processes, as outlined in the ERP Toolkit, are fully implemented by regional office personnel and documentation is aligned with Federal internal control standards guidance.
5. Formalize FTA's process for coordination with FEMA to avoid duplicative payments in providing emergency and disaster-related assistance.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided FTA with our draft report on April 17, 2015. We met with FTA on April 29, 2015, to discuss FTA's comments on our draft report, and on May 8, 2015, FTA provided its technical comments, which we incorporated as appropriate. We received FTA's formal management response on May 18, 2015, which is included as an appendix to this report. FTA fully concurred with four of our five recommendations and provided appropriate actions and completion dates. FTA partially concurred with one recommendation.

For recommendations 1, 3, 4, and 5, FTA agreed to implement as written the actions required by December 31, 2015. FTA partially concurred with recommendation 2, which related to future force account funding. As a result of FTA's comments, we revised recommendation 2 to clarify the action needed to improve internal controls for future force account funding. Therefore, we are requesting FTA's response to the revised recommendation.

ACTIONS REQUIRED

We consider recommendations 1, 3, 4, and 5 as resolved but open pending completion of the planned actions. We request that FTA provide our office with information documenting its completion of the planned actions for these recommendations. In accordance with DOT Order 8000.1C, we request FTA provide us with a response on the revised recommendation 2 within 30 days of the

date of this report. If you concur with the recommendation, please provide specific planned actions and the target date for completion.

We appreciate the courtesies and cooperation of Federal Transit Administration representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5630 or Anthony Zakel, Program Director, at (202) 366-0202.

#

cc: FTA Audit Liaison, TBP-30
DOT Audit Liaison, M-1

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this performance audit from February 2014 through April 2015 in accordance with generally accepted Government auditing standards. 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.

To meet our DRAA-mandated oversight responsibilities, our audit objectives were to (1) determine if FTA has fully implemented the processes, including internal controls, it established to award and oversee projects receiving Hurricane Sandy funds; (2) determine whether FTA has effective controls in place to reduce the risk of it duplicating payments that Hurricane Sandy grantees receive from DHS' FEMA and insurance companies; and (3) identify any issues that may have an impact on timely obligation and expenditure of FTA's Hurricane Sandy funds.

To evaluate the implementation of FTA's award and oversight process for projects receiving Hurricane Sandy funds, we interviewed FTA Headquarters staff in Washington, DC, as well as FTA Regional Office and Hurricane Sandy Recovery Office staff in New York City. As the ERP Toolkit checklists were tailored for Hurricane Sandy grants, we conducted an analysis to determine if the application review and grant award activity documentation in TEAM reflected the checklists' elements and was an adequate internal control. We also examined both the supporting cost documentation that the five grantees receiving Hurricane Sandy Category Three Force Account funds provided to FTA and FTA's validation analysis of those documents to determine its Hurricane Sandy funding allocations. Furthermore, we evaluated all 151 Hurricane Sandy grantee FFRs and MPRs and the evidence of FTA's review in its TEAM system, for reports covering the periods between April 2013 and September 2014 and April 2013 and December 2013, respectively. We evaluated all 14 Hurricane Sandy grantee risk assessments and all 17 project risk assessments FTA prepared for grantees that received funding as of February 2015.

To assess the controls to prevent duplicate payments to Hurricane Sandy grantees, we met with both FTA and FEMA staff in Washington, DC, to discuss how the MOA and joint tracking system were developed and reviewed FTA and FEMA joint tracking system documentation. FEMA was provided an outline of our finding related to its coordination with FTA and had no comments. We also reviewed grantee financial statements and compared reported insurance proceeds amounts to what was reported to FTA and evaluated insurance recovery reports.

To identify issues that may have impacted the obligation and expenditure of Hurricane Sandy funds, of the 16 Hurricane Sandy grantees receiving funding, we interviewed staff from the 5 grantees that were the most severely impacted and received the most funds: the New York Metropolitan Transportation Authority, NY; the Port Authority of New York and New Jersey, NY; Port Authority Trans-Hudson, NJ; New Jersey Transit Corporation, NJ; and New York City Department of Transportation, NY. We also reviewed FTA documentation, including its Federal Register notices related to Sandy funds and DOT's waiver request for the OMB 24-month expenditure requirement. We analyzed the President's Fiscal Year 2014 Budget Estimated Outlays and the Congressional Budget Office's Estimated Outlays and compared the disbursement forecasts in those documents to FTA's actual disbursements from FTA's TEAM system for fiscal years 2013 and 2014.

FTA was not always timely in providing documentation and scheduling interviews between FTA staff and OIG auditors, which caused a minor delay but did not impact the scope of this audit. We look forward to increased timeliness on future audits in which cooperation includes, but is not limited to, providing information and assistance consistent with the terms of the IG Act, 5 U.S.C. App. 3 § 6 as noted by the Secretary of Transportation in his January 23, 2015 "*Ongoing Cooperation with the Office of Inspector General*" Memorandum.

**EXHIBIT B. HURRICANE SANDY RECOVERY FUNDS AWARDED
AND DISBURSED AS OF APRIL 30, 2015**

Name of Recipient	Date(s) Awarded/Amended	Funds Awarded	Funds Disbursed
City of Nashua	Mar-2015	\$ 25,781	0
Connecticut Department of Transportation	Apr-2013	53,073	\$ 53,073
Connecticut Department of Transportation	Mar-2015	40,478,750	0
Greater Bridgeport Transit Authority	May-2013	21,738	21,738
Milford Transit District	Jun-2013	5,352	5,352
Massachusetts Bay Transportation Authority	Apr-2013	344,311	344,311
New Jersey Transit Corporation	May-2013	144,416,559	110,119,417
New Jersey Transit Corporation	Jun-2014/Mar-2015	213,888,532	25,284,910
Port Authority Trans-Hudson Corporation	Jun-2013	159,720,171	83,547,097
Port Authority Trans-Hudson Corporation	Jun-2014/Mar-2015	478,517,126	8,045,822
City of Long Beach	Apr-2013	518,364	518,364
City of Long Beach	Feb-2015	2,745,841	2,425,698
Nassau County	Oct-2013	45,214	45,214
New York City Department of Transportation	Jun-2013	21,889,326	13,985,261
New York City Department of Transportation	Feb-2015	2,454,993	0
New York Metropolitan Transportation Authority	Apr-2013	193,893,898	182,774,876
New York Metropolitan Transportation Authority	Jan-2014	886,237,329	436,514,219
New York Metropolitan Transportation Authority	Sep-2014	684,543,043	25,388,385
New York Metropolitan Transportation Authority	Feb-2015	787,616,472	112,864
Westchester County Department of Transportation	Apr-2013	317,200	317,200
Port Authority of New York and New Jersey	Jun-2013	54,243,826	30,174,531
Port Authority of New York and New Jersey	Mar-2015	783,423	0
Port Authority of New York and New Jersey	Mar-2015	69,230,700	17,719,932

Exhibit B. Hurricane Sandy Recovery Funds Awarded and Disbursed as of April 30, 2015

Name of Recipient	Date(s) Awarded/Amended	Funds Awarded	Funds Disbursed
Southeastern Pennsylvania Transportation Authority	Apr-2013	1,192,568	1,192,568
Southeastern Pennsylvania Transportation Authority	Mar-2015	66,329,500	0
Washington Metro Transportation Authority	Apr-2015	16,001,250	0
Rhode Island Public Transit Authority	May-2013	1,179	1,179
Rhode Island Public Transit Authority	Sep-2014	<u>1,602,000</u>	<u>0</u>
Totals		<u>\$3,827,117,519</u>	<u>\$938,592,011</u>

**Exhibit B. Hurricane Sandy Recovery Funds Awarded and Disbursed, as of
April 30, 2015**

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

Name	Title
Anthony Zakel	Program Director
George Lavanco	Project Manager
Luke Brennan	Senior Analyst
Joseph Tschurilow	Auditor
Rosa Scalice	Auditor
Michael Dzandza	Auditor
Amy Berks	Senior Counsel
Andrea Nossaman	Senior Writer-Editor



U.S. Department
of Transportation
**Federal Transit
Administration**

Memorandum

Subject: INFORMATION: Management Comments – Office of
Inspector General (OIG) Draft Report on Implementation
of Internal Controls for Hurricane Sandy Oversight and
Future Emergency Relief Efforts

Date: May 18, 2015

From: Therese McMillan
Acting Administrator
Federal Transit Administration

Reply to
Attn. of:

To: Thomas E. Yatsco
Assistant Inspector General for Surface Transportation Audits

In just over two years following Hurricane Sandy, the Federal Transit Administration (FTA) has successfully implemented its new Public Transportation Emergency Relief Program and Disaster Relief Appropriation Act (DRAA) of 2015. During this period FTA:

- Completed damage assessments with the affected agencies.
- Allocated approximately \$9.3 billion – including \$3.6 billion allocated through a competitive process.
- Established a Memorandum of Agreement with the Federal Emergency Management Agency.
- Published an Interim Final Rule and Final Rule on the Emergency Relief Program Requirements.
- Published an Emergency Relief Manual.
- Implemented a robust grant review process for the DRAA funds.
- Implemented a risk-based oversight approach with heightened scrutiny for the DRAA funds, including examining risks associated with each grantee and every grant or project.

Currently, 100% of funds for emergency response and recovery, and 76% percent of allocated recovery and rebuilding funds have been obligated. Of this \$4.38 billion, approximately 20% has been disbursed.

The FTA has reviewed the draft report and offers the following comments in response to the OIG's findings and recommendations. In response, FTA:

- Uses separate systems for funding allocations and grant obligations, which is necessary to ensure clarity and consistency between two distinct decision making processes.
- Made its allocation decisions based on actual damage assessments for Hurricane Sandy, closely reviewing the submitted materials, and further reaching out to applicants for additional documentation when necessary. Going forward our requirements for the documentation

necessary to make funding allocations are clearly defined in the Emergency Relief Program Final Rule and Emergency Relief Manual.

- Review of grant applications for obligation was thorough, robust, and in accordance with internal control standards. As the report notes, grantees have described this process to the OIG as “more rigorous,” and have stated that FTA expects “work to be well-documented.” The TEAM system has controls and error checking mechanisms to prevent many of the type of potential budget formation errors, also described by the OIG.
- Has established enhanced oversight for the Hurricane Sandy program, reflecting the unique circumstances attached to these funds. To achieve this, FTA:
 - Conducted grantee risk assessments for all grantees and project risk assessments for all grants awarded under the program;
 - Updated its triennial review program to include elements specific to Hurricane Sandy Grants, and will also review these grants as part of procurement system reviews and financial management reviews;
 - Requires all grantees receiving over \$100M to assign an integrity monitor to monitor for waste, fraud and abuse;
 - Requires all projects over \$500M and other projects with particular risks to have Construction Grant Agreements;
 - Undertakes random reviews of payments, and is using a risk-based approach to review force account plans and change orders; and
 - Requires grantees to submit federal financial reports and milestone progress reports on a monthly, rather than quarterly basis, and meets with them quarterly for follow-up as well.
- Reviewed almost all of the Federal Financial Reports (FFRs) and Milestone Progress Reports (MPRs), and has maintained supporting documentation. As no other FTA program required monthly reporting, FTA first needed to modify TEAM to accommodate the heightened frequency of these reports. Prior to the modification, those reviews were tracked in a separate spreadsheet, and when errors in the reports were identified, FTA worked with the grantees to correct them.

Based upon our review of the draft report, we agree to implement recommendations 1, 3, 4 and 5, as written, by December 31, 2015. FTA concurs in part with recommendation 2. Specifically, FTA agrees to establish clear funding criteria when issuing notices of available emergency relief funding, and to adequately document FTA decisions in allocating and awarding funds and applicant support for the eligible costs. However, FTA will continue to maintain documentation of its allocation decisions within its allocation systems. FTA’s allocation and grant-making are separate processes and use separate systems. Storing allocation files with a grant creates confusion related to funding eligibility.

We appreciate this opportunity to offer additional perspective on the OIG draft report. Please contact Uchenna Okezie, FTA Audit Liaison, at (202) 366-1591, or Natalie Wowk, Program Analyst, at (202) 366-2514, with any questions or if you would like to obtain additional details about these comments.

X 

Therese W. McMillan
Acting Administrator