
Office of Inspector General

Audit Report

DOT NEEDS TO IMPROVE ITS TRACKING AND MONITORING OF ALL SINGLE AUDIT FINDINGS IN ORDER TO EFFECTIVELY MANAGE GRANTS

Department of Transportation

Report Number: FI-2012-037

Date Issued: December 28, 2011





Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** DOT Needs to Improve Its Tracking
and Monitoring of All Single Audit Findings in
Order to Effectively Manage Grants
Department of Transportation
Report Number FI-2012-037

Date: December 28, 2011

From: Louis King 
Assistant Inspector General for Financial and
Information Technology Audits

Reply to
Attn. of: JA-20

To: Assistant Secretary for Administration

Before 2009, the Department awarded over an average of \$50 billion annually in grants for transportation related projects.¹ In 2009, the American Recovery and Reinvestment Act (ARRA) provided the Department an additional \$48 billion for such grants. To help ensure the proper use of grant awards, the Single Audit Act of 1984,² as amended, requires each entity that expends \$500,000 or more in Federal funds in a fiscal year to obtain an annual “single audit.” This includes an audit of the entity’s financial statements and schedule of Federal award expenditures, as well as reviews of the entity’s internal controls and compliance with laws and regulations. The entities, or grantees, are required to develop corrective action plans to address single audit findings. In turn, the Department and its Operating Administrations (OA) are responsible for ensuring that grantees complete the necessary actions in a timely manner.

Our objectives were to determine if the OAs: (1) issue timely management decisions approving grantees’ corrective action plans; (2) ensure that grantees promptly implement corrective actions, including recovery of questioned costs; and (3) use single audit results to identify grantees that require close monitoring. As part of this audit, we reviewed single audit findings, including findings related to questioned costs, and findings covering grantees with significant histories of findings. We conducted this audit from January 2010 through September 2011 in

¹ Based on U.S. Census Bureau data for fiscal years 2003 through 2008

² Pub. L. No. 98-502 (1984) amended by Pub. L. No. 104-156 (1996)

accordance with generally accepted Government auditing standards. Our review included single audit findings issued to DOT's largest or "top 100" grantees³ from 5 OAs.⁴ These findings were issued specifically for DOT programs. Exhibit A details our scope and methodology, including our use of statistical sampling.

BACKGROUND

Requirements for the single audit process are established by the Office of Management and Budget's (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations,"⁵ which was issued pursuant to the Single Audit Act amendments. The Circular requires each Federal grantee that expends more than \$500,000 in Federal awards in a year to submit a single audit report along with a corrective action plan that addresses each audit finding to the Federal Audit Clearinghouse.⁶ The Circular requires that each corrective action plan include the planned actions, the anticipated completion date, and the person responsible for the action. The awarding agency is required to issue a management decision on the acceptability of the corrective action plan within 6 months of receipt of the report package and to ensure that the grantee takes appropriate and timely corrective actions. The grantee is responsible for completion of the approved corrective actions within the established timeframes.

To facilitate this process, DOT OIG's Single Audit Program Office (SAPO) obtains single audit reports with DOT findings from the Clearinghouse, and classifies the findings into one of two categories—P1 or P2 findings, according to SAPO's criteria. The P1 classification indicates more significant findings⁷ or questioned costs exceeding \$10,000. The P2 classification indicates that DOT is not the cognizant⁸ agency or questioned costs are less than \$10,000. Although DOT is not the cognizant agency, DOT may be the primary funding agency; additionally, these findings often specifically impact DOT programs. During fiscal years 2006 through 2009, 192 of 384 single audits of the Department's top 100 grantees⁹ resulted in P1 or P2 single audit findings (see Figure 1).

³ Together, the top 100 received \$30 billion ARRA funds, as detailed in Exhibit C.

⁴ The Federal Highway Administration (FHWA), the Federal Railroad Administration (FRA), the Federal Transit Administration (FTA), the Federal Aviation Administration (FAA), and the National Highway Traffic Safety Administration (NHTSA)

⁵ Last revised June 26, 2007

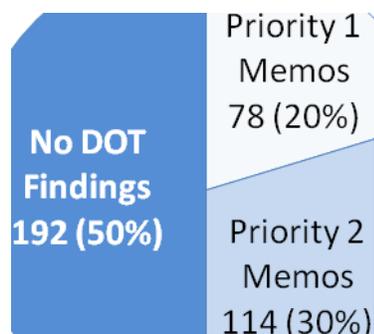
⁶ The Federal Audit Clearinghouse operates on behalf of OMB to assist Federal agencies in obtaining OMB Circular A-133 data and reporting packages.

⁷ The criteria for P1 include DOT as the cognizant agency (see footnote 7) for the grantee and a finding related to a direct DOT award, or findings related to ARRA funds.

⁸ A cognizant agency, the Federal awarding agency responsible for audit oversight, is designated by the Office of Management and Budget for recipients expending more than \$50 million per year. The Federal awarding agency that provides the recipients' predominant amount of direct funding receives this designation.

⁹ See Exhibit B for a list of the top 100 grantees.

Figure 1. Types of Single Audit Memoranda Issued to Top 100 Grantees, FY 2006 - FY 2009



Source: SAPO memoranda log

DOT Order 4600.17A, Appendix D, “Audits of Federal Assistance Recipients,” provided departmental guidance for implementation of Circular A-133. The Order expanded the OAs’ oversight role by stating that each OA must maintain a mechanism for recording receipt of grantees’ single audit reports that require corrective actions, and for monitoring the status of each action.

DOT’s Financial Assistance Guidance Manual (FAGM)¹⁰ states that each OA should review its grantees’ schedules of current and prior audit findings and identify any findings related to projects that the OA funds. The OA should monitor these areas closely through desk reviews, site visits, and follow up on corrective action plans. When OAs believe that grantees have failed to comply with grant terms and conditions, they can take a wide range of actions with recipients of competitive grants¹¹ including written alerts to the grantee of possible grant suspension or termination, designation of the grantee as high-risk, and temporary withholding of payments and future awards.

Table 1 provides a summary of the criteria that applies to single audits.

¹⁰ The FAGM is procedural guidance which was issued in March 2009 to replace DOT Order 4600.17A and encompasses other DOT policies and procedures.

¹¹ Competitive grants are issued at the OA’s discretion. In contrast, award entitlement for formula grants are determined by Congress.

Table 1. Grantee and OA Single Audit Requirements

	OMB Circular A-133	DOT Order 4600.17A	FAGM
Grantee Requirements			
Submit corrective action plan	Yes	Yes	No
Implement corrective actions	Yes	Yes	No
OA Requirements			
Issue management decision (6 months)	Yes	Yes	Yes
Maintain tracking mechanism	No	Yes	Yes
Close findings (prompt corrective action)	Yes	Yes	Yes
Use enforcement measures	No	No	Yes

RESULTS IN BRIEF

OAs issued timely management decisions (within 6 months of receiving the single audit report) on proposed corrective action plans for high priority or P1 single audit findings.¹² These decisions met OST's 2009 guidance¹³ on expediting of actions on P1 findings and monthly reviews of outstanding items. However, OAs frequently issued untimely and incomplete decisions on lower priority P2 findings.¹⁴ For example, of the 86 P2 findings' management decisions that we reviewed,¹⁵ one-third were issued after the required 6-month date or not issued at all. Additionally, many plans did not have target action dates, identify responsible parties, or note the OAs' agreement or disagreement with the corrective action plans. For example, 33 of the 86 P2 findings (38 percent) did not have target action dates. These deficiencies occurred because OAs do not exercise sufficient controls over processing and completing management decisions that comply with single audit requirements.

OAs frequently did not ensure that grantees had completed planned actions to address P1 and P2 findings in a timely manner. For example, 16 of 69 P1 findings—with questioned costs remained open for an average of 20 months. Furthermore, OAs had no evidence of actual implementation of action plans for 55 P2 findings. These issues occurred because OAs do not have policies that (1) require management to verify that grantees meet target action dates, or (2) identify how untimely actions will be addressed.

¹² P1 indicates high priority compliance, internal control, or questioned cost findings (issued as OIG "action" memoranda).

¹³ DOT Memo, "Policy and Procedures for Expediting Action on Single Audit Report Recommendations," May 1, 2009

¹⁴ P2 indicates lower priority compliance or internal control findings (previously issued as OIG "information" memoranda).

¹⁵ Eighty-six findings were reviewed from a statistical sample of 37 out of 114 P2 single audit reports issued fiscal years 2006 through 2009.

Finally, we found that four out of the five OAs did not implement effective systems for detecting grantees with numerous or repeated findings. Only FTA had established a system that allows users to perform searches of grantees' single audit histories and obtain related documents. Three OAs used systems to monitor their grantees that did not readily identify recurring findings or detail entire single audit histories. OAs also did not take actions to address grantees that had numerous findings or untimely corrective actions. DOT and OA policies and procedures do not establish measures for tracking grantees' single audit history or the actions to take in cases of grantees with repeated single audit problems.

We are making a series of recommendations to assist the OAs in improving controls over the effective use of single audits for overseeing grantees.

OAs ISSUED UNTIMELY AND INCOMPLETE DECISIONS FOR P2 FINDINGS

During fiscal years 2006 through 2009, OAs issued timely management decisions¹⁶ to approve corrective action plans for 10¹⁷ of the 12 P1 findings (83.3 percent) reviewed. However, our review of a statistical sample of 86 management decisions for P2 findings revealed that OAs did not issue timely management decisions for 28 of those findings (32.6 percent). OMB Circular A-133 requires agencies to render decisions within 6 months of receipt of SAPO's report transmittal. We estimate that 32.6 percent of P2 findings issued during the review period did not meet this requirement.¹⁸ Of our sampled items, 28 did not meet this requirement. Specifically, 9 decisions were issued late and 19 were never issued. Findings that went unaddressed related to matters such as quality assurance testing of construction materials, cash management, and sub-recipient monitoring. Of the nine management decisions that were issued late, six were issued over a year after SAPO's report transmittal. For example, SAPO transmitted a report on the City of San Antonio to FAA in December 2008, but FAA did not issue its management decision on the city's corrective action plan until February 2010, 14 months later.

We also found 33 instances, or 38 percent, in which corrective action plans did not include target action dates for completion, and 49 instances, or 57 percent, in which they did not identify persons responsible for the corrective actions. Circular A-133 requires these elements to promote accountability in the resolution of single audit findings. For example, in response to a finding that conveyed a need for sub-recipient monitoring procedures, the Illinois Department of Transportation stated that it was testing a data system, and that once it had completed testing, it

¹⁶ OA management is required to respond to OIG on each P1 finding's resolution and closure.

¹⁷ We performed preliminary testing on a random sample of 10 out of 174 P1 memos which had 12 P1 findings.

¹⁸ Based on 90 percent confidence level with a margin of error of +/- 4.2 percentage points.

would develop a protocol. However, it did not include a timeline for the protocol's completion, or name the person responsible for the corrective action.

We also found 14 instances in which OAs did not express concurrence or non-concurrence with the corrective actions, as required by OMB A-133. For example, in its decision regarding deficiencies in the Port of Seattle's real property acquisition and relocation assistance, FAA received an update on the internal controls the Port implemented. However, the FAA official did not state whether or not he agreed with the actions.

OAs do not exercise sufficient controls over processing and completing management decisions that comply with single audit requirements.

OAs DID NOT ENSURE THAT GRANTEES FULLY IMPLEMENTED CORRECTIVE ACTIONS

OAs did not follow through with grantees to confirm that the grantees had implemented corrective actions necessary to close P1 and P2 findings. Sixteen findings with \$3.7 million in questioned costs remained open for an average of 20 months after SAPO provided the report to the OA for action. In addition, the OAs could not provide evidence that 55 of 86 P2 findings had been corrected.

OAs Did Not Ensure That Grantees Closed All P1 Findings on Questioned Costs in a Timely Manner

While OAs closed 53 P1-related questioned cost findings during fiscal years 2008 and 2009—totaling \$12.3 million—16 findings remained open from fiscal year 2006 through fiscal year 2009, totaling \$3.7 million in questioned costs. At the time of review, the target action dates for all but two findings had already passed. The 16 open findings remained under agency review, in dispute, or awaiting repayment for an average of 20 months past SAPO's transmittal date. Circular A-133 states, "The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt."

OAs frequently spent more than a year reviewing questioned costs to determine validity. For example, in May 2009, SAPO transmitted a report containing three questioned cost findings totaling \$169,000 for the City of Fort Worth, Texas. FHWA's April 2010 management decision set July 2010 as the target action date for resolution. However, in August 2010—15 months after SAPO's P1 memorandum—FHWA determined that no recovery was warranted.

OAs Did Not Ensure That Grantees Implemented Corrective Actions for P2 Findings

OAs could not provide evidence that grantees actually implemented corrective actions for 55 of the 86 P2 findings (64 percent) in our sample.¹⁹ Our testing indicated that OAs performed at least initial follow-ups with grantees but rarely determined whether the findings could be closed. We estimated that OAs documented closings for only 36 percent of the P2 findings for the period reviewed.²⁰ In some cases, findings were not closed for over 2 years after SAPO's transmittal. For example, more than 3 years after receipt of SAPO's transmittal dated January 2007, FTA had not closed a fiscal year 2005 finding on security controls involving the Washington Metropolitan Area Transit Authority (WMATA). Independent auditors cited the same finding for fiscal years 2006, 2007, and 2008.

Additionally, OAs did not ensure that grantees met target action dates. Fifty-three of the 86 findings had target action dates, but grantees met only 24 of those dates. Using statistical sampling techniques, we estimated that grantees met only 28 percent of the target action dates set for P2 findings included in our review period.²¹ These issues with P1 questioned costs and P2 findings occurred because OAs' policies and procedures on single audit findings do not clearly outline responsibilities for follow-up on finding closings.

OAs HAVE NOT TAKEN SUFFICIENT ACTIONS TO IDENTIFY OR ADDRESS GRANTEE HISTORIES WITH PROBLEMATIC FINDING HISTORIES

Of the five OAs reviewed, four did not have adequate systems to monitor single audit findings and none were taking actions when grantees had histories of single audit findings. These issues occurred largely because of the absence of adequate DOT and OA policies and procedures. For example, DOT Order 4600.17A requires OAs to implement and maintain tracking mechanisms for recording audit reports and monitoring corrective action status, but does not establish criteria for tracking grantees with a history of findings.

OAs also have the authority to take a range of actions when they identify discretionary grant recipients that accumulate numerous findings or do not implement recommendations. These actions include withholding payments or future awards, and designating the grantee as high risk to preclude or reduce the risk of payments to grantees that have a history of control deficiencies over Federal funds. DOT and OA policies and procedures are inadequate in establishing

¹⁹ Eighty-six findings associated with 37 SAPO transmittals.

²⁰ Estimate based on 90 percent confidence level with a margin of error of +/- 4.4 percentage points.

²¹ Estimate based on 90 percent confidence level with a margin of error of +/- 4.0 percentage points.

criteria for tracking grantees with a history of findings and prescribing when actions are appropriate.

Four OAs' Systems Did Not Effectively Track Single Audit Histories

Of the five OAs reviewed, only FTA could track its grantees' single audit histories. FRA did not have any tracking mechanism, and three OAs—FHWA, FAA, and NHTSA—used systems that did not readily identify findings that appeared in more than one single audit or detail entire single audit histories. As a result of the absence of adequate tracking mechanisms, reviews of grantees' single audit histories require labor-intensive analyses of multiple spreadsheets. At the headquarters level, these reviews require time-consuming consolidation of decentralized information (see Table 2).

Table 2. OAs' Single Audit Finding Tracking Mechanisms

	FTA	FHWA	FAA	NHTSA	FRA
Recording mechanism	IT system	Spreadsheets	Spreadsheets	Spreadsheets and emails	None
Identifies open/ closed finding status	Yes	Yes ¹	Yes	No ²	N/A
Consolidated tracking (HQ level)	Yes	No	No	Yes ²	N/A
Generates grantee finding history	Yes	No	No	No ²	N/A

¹ FHWA does not update prior-year spreadsheets.

² NHTSA deletes closed findings from its spreadsheet.

FTA's two systems allow users to perform searches of grantees' single audit histories and obtain related documents. FTA uses the information from these two systems in its assessments of grantees' risk levels. A grantee's formulated risk determines the level of oversight FTA will apply. However, the other OAs' tracking mechanisms were ineffective in tracking single audit histories. For example:

- FHWA's headquarters financial management office collected spreadsheets from State divisional offices, but the spreadsheets were not consolidated to enable analyses of grantees' finding histories.
- FAA's spreadsheets were decentralized and maintained at the regional level.
- NHTSA's audit liaison uses a consolidated spreadsheet to track open P1 findings at the headquarters level. However, after findings are closed, the

liaison deletes them from the spreadsheet. He tracks P2 findings using email traffic. Neither method provides an ongoing history of audit findings.

- FRA does not have written procedures or mechanisms in place that address the single audit process. FRA's chief accountant stated that they had not received any single audit memos to date; however, he informed us that the Agency is developing the necessary procedures.

OAs Did Not Take Actions against Problem Grantees

We found no evidence that OAs use their authority to take actions when: (1) grantees have significant P1 finding histories,²² and (2) grantees do not promptly implement corrective actions pertaining to P2 findings.

- **P1 Findings:** Of the top 100 grantees, we identified 10 with significant histories at FHWA, FTA and FAA collectively. These OAs took no enforcement actions when grantees had significant histories of questioned costs and/or non-compliance issues.²³ For example, one FHWA grantee, the State of Hawaii, had 12 findings during our review period. These findings covered various issues, including failure to verify that contractors had not been suspended or debarred from Federal procurement, and failure to perform the required monitoring of sub-awardees. FHWA informed us that prior to August 2010, it had not considered single audit findings material and/or systemic enough in nature to warrant the designation of a grantee as high-risk. FHWA also stated that it does not withhold Federal-aid Highway Funds from grantees solely on the basis of single audit findings. While we acknowledge that single audit findings are among several mechanisms available for grant oversight, we believe this measure should be considered when rapid correction is needed.
- **P2 Findings:** FHWA and FTA also took no actions when grantees' single audits detected the same P2 findings year after year. The repeated findings covered matters such as deficient payroll records²⁴ and inadequate security controls. For example, the State of Oklahoma had a finding on payroll issues for 3 years. In another example, for several years, the independent auditors repeatedly issued findings for WMATA's inadequate facility security controls for proper safeguarding of Federally-funded equipment. However, neither FHWA nor FTA indicated that they took any action in these cases.

²² We defined "significant history" as six or more P1 findings from fiscal year 2006 through fiscal year 2009. Since no FAA grantees met these criteria, we reviewed Gulfport-Biloxi Regional Airport Authority which had five findings.

²³ FTA followed up with its grantees through phone calls and electronic mails.

²⁴ Deficient payroll records include violations of the Davis-Bacon Act which requires all contractors and subcontractors performing work on Federally funded construction contracts to pay prevailing wage rates.

CONCLUSION

It is imperative that DOT use every tool available to improve its oversight of over \$50 billion in grants that it awards annually, particularly in an environment of increasingly scarce resources. Single audits are valuable tools that can be used to protect Federal grants and American taxpayers' dollars. OAs have taken advantage of single audits to issue timely decisions for P1 findings. However, for this tool to be effective, agencies must better track its grantees' single audit findings, monitor the severity and frequency of such findings, oversee the grantees' timely implementation of corrective action plans, and take suitable actions against grantees with histories of poor grant management. Without these measures fully in place, DOT and its OAs cannot effectively prevent grant funds from landing in the wrong hands, or from being subject to fraud, theft, and abuse.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Administration update its procedures to ensure prompt resolution of all Priority 1 and Priority 2 single audit findings by:

1. Requiring OAs to use management decisions that clearly communicate the expectations and timetables for corrective actions in accordance with Circular A-133. Priority 2 management decisions should incorporate the same checklist currently in use for Priority 1 findings.
2. Requiring OAs to record and monitor their grantees' target action dates and to prepare a closeout document when the actions are complete.
3. Requiring OAs to ensure timely recovery of questioned costs by setting target completion dates for reviews and possible cost recovery in accordance with Circular A-133.
4. Establishing best practices for audit finding monitoring systems. At a minimum, OST should establish additional guidance on monitoring systems, including capabilities for identifying high-risk grantees based on past-due findings and overall finding histories.
5. Establishing guidelines for when enforcement actions should be taken if grantees fail to comply with grant awards and conditions. These guidelines should address timelines and severity of the issue.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided OST with our draft report on September 13, 2011, and received its response on November 1, 2011. OST's response is included in its entirety as an Appendix to this report. OST concurred with recommendation 3, and partially concurred with recommendations, 1, 2, 4, and 5, but provided acceptable alternative actions. OST indicated that these single audit issues would be explored during the December Team of Transportation Audit Liaisons (TOTAL) meeting, and best practices would be disseminated via a guidance memorandum to be issued by January 30, 2012. We consider OST's planned actions and timeframes to address all five recommendations sufficient, and therefore, consider these recommendations resolved but open pending completion of the planned actions.

While we believe OST's actions satisfy the intent of our recommendations, we are concerned with the Department's characterization of the importance of single audits in general. DOT's management describes single audit quality concerns and states that such audits are "at best a starting point for further consideration." On the other hand, GAO states that "because single audits represent the Federal Government's primary accountability tool over billions of dollars each year in Federal funds provided to State and local governments and nonprofit organizations, it is important that these audits are carried out efficiently and effectively." Because we recognized concerns over the quality of single audits, we have devoted resources to conduct approximately a dozen annual quality control reviews. While quality can be improved, single audits remain a cornerstone tool.

We are also concerned with DOT management's analysis and conclusions. For example, the Department's comments downplay the 12 findings pertaining to the State of Hawaii. Both DOT and FHWA's management believe that these findings were simply "procedural" in nature. As noted in our report, these findings included failures to verify that contractors had not been suspended or debarred from Federal procurement, and failures to perform the required monitoring of sub-awardees. These are critical deficiencies as are others noted in our report.

ACTIONS REQUIRED

Based on OST's response, we consider the recommendations in this report resolved, but open pending completion of OST's planned actions.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1407, or Earl Hedges, Program Director, at (410) 962-1729.

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cc: Martin Gertel, M-1
Audit Liaison, FHWA
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Audit Liaison, FTA
Audit Liaison, FRA
Audit Liaison, NHTSA

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this audit 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.

We interviewed OA representatives and the Director of OST's Office of Audit Relations. To gain an understanding of OAs' single audit resolution processes, we performed walk-throughs of the procedures at FHWA, FAA, and FTA. For FRA and NHTSA, we used written questionnaires to determine the processes used. We analyzed OAs' systems for recording grantees' single audit histories, and their methods for identifying grantees with repeated non-compliances. We considered areas of possible fraud and requested auditees to advise us of any fraud-related issues.

As part of our testing, we identified 174 Priority 1 memoranda between fiscal year 2006 through 2009. Of these, we reviewed 54 memoranda with questioned costs findings—42 memoranda with 53 closed findings and 12 memoranda with 16 open findings. We also identified ten grantees that had six or more findings which we deemed significant. For these ten grantees, we tested all 27 Priority 1 memoranda which included 84 findings.

We used statistical sampling to test OAs' management decisions and follow-up on Priority 2 findings. This technique involves the random selection of a number of items for testing. Each item must have a measurable chance of being selected. By using statistical sampling, auditors avoid having to review an entire population of transactions or artifacts without sacrificing the ability to reach conclusions that apply to the population. Because the sample is random and unbiased, auditors are able to project the results of the sample to the population with a predictable degree of accuracy and reliability. Major accountancy bodies, including the Government Accountability Office, encourage or endorse the use of statistical sampling.

Our population included all Priority 2 memoranda issued to DOT's top 100 grantees.²⁵ From fiscal year 2006 through 2009, the single audits resulted in 114 Priority 2 memoranda. We selected a statistical sample of 37 of 114 Priority 2 memoranda. These 37 Priority 2 memos had 86 DOT-specific findings. The sampling allowed us to estimate the percentage of DOT-specific findings that had actions taken with 90 percent confidence and +/- 4 percent precision for the 96 grant recipients in our universe.

²⁵ The top 100 are based on a 2008 OIG analysis that identified 96 grant recipients that received more than 80 percent of DOT awards. These grantees are listed in Exhibit B.

EXHIBIT A. SCOPE AND METHODOLOGY

EXHIBIT B. DOT'S TOP 100 GRANTEES

OIG's analysis of expenditures in fiscal year 2008 revealed that 96 of DOT's 2,500 grantees—the grantees that received the most funds, or the “top 100”—received over 80 percent of the Department's grant awards. They also received \$30 billion of the \$37 billion in ARRA funds awarded as of September 30, 2010.

Table 3. Top 100 DOT Grantees by Operating Administration

Grantee	2008 Award
Federal Highway Administration	
State of California	\$ 2,814,265,826
State of Texas ¹	2,635,031,749
State of Georgia/State Accounting Office	2,299,714,217
Michigan Department of Transportation ¹	2,267,670,000
State of Florida	2,065,662,526
New York State	1,624,760,000
Commonwealth of Pennsylvania	1,348,910,000
State of Illinois Governor's Office of Management and Budget ¹	1,320,336,000
State of Ohio	1,081,860,630
State of Missouri ¹	927,029,135
State of Minnesota ^{1,2}	880,477,314
State of North Carolina	853,575,132
Department of Accounts - Commonwealth of Virginia	849,912,840
State of New Jersey	825,761,809
State of Louisiana	742,722,490
State of Alabama	733,988,292
State of Wisconsin ¹	720,462,394
State of Washington C/O Office of Financial Management	715,630,964
State of Maryland ²	708,977,559
State of Indiana	705,763,352
Commonwealth of Kentucky	698,762,091
State of Mississippi	695,476,333
State of Tennessee	644,116,535
State of Oklahoma	623,567,696
State of Arizona	552,154,453
State of Alaska ¹	513,903,766
State of North Dakota ¹	473,564,204
Commonwealth of Massachusetts	464,654,522

Grantee	2008 Award
State of Connecticut ²	463,041,136
State of Colorado	447,860,135
State of Oregon	430,965,012
State of Kansas	417,759,990
State of Arkansas	400,650,404
South Carolina Department of Transportation	371,197,237
State of West Virginia	317,961,748
State of Idaho C/O Office of State Controller	311,714,513
State of Iowa	298,744,081
State of Utah	294,355,178
State of Nebraska	260,763,487
New Mexico Department of Transportation	260,339,772
State of Nevada	230,046,559
State of South Dakota ¹	211,025,525
State of Hawaii, Dept. of Transportation, Hawaii Division	192,339,528
Wyoming Department of Transportation	189,352,921
State of Rhode Island and Providence Plantations	179,964,431
State of New Hampshire	158,324,890
State of Maine	144,876,581
State of Vermont	143,806,652
State of Delaware	133,244,445
Puerto Rico Highways and Transportation Authority	129,055,370
State of Wyoming	119,893
<i>Federal Transit Administration</i>	
Metropolitan Transportation Authority	1,577,145,284
New Jersey Transit Corporation	771,292,003
Chicago Transit Authority	367,196,976
The Port Authority of New York and New Jersey ¹	300,581,197
Southeastern Pennsylvania Transportation Authority	284,501,000
Massachusetts Bay Transportation Authority	273,773,869
Los Angeles County Metropolitan Transportation Authority	251,694,089
Washington Metropolitan Area Transit Authority	231,359,612
City of Phoenix, Arizona ¹	191,729,226
Dallas Area Rapid Transit	170,052,146
Tri-County Metropolitan Transportation District of Oregon	169,581,953
Central Puget Sound Regional Transit Authority	159,461,254
Milwaukee County	137,044,973

EXHIBIT B. DOT'S TOP 100 GRANTEES

Grantee	2008 Award
Valley Metro Rail, Inc.	130,496,339
Metropolitan Council	111,004,601
Utah Transit Authority	110,182,298
Port Authority of Allegheny County	107,432,455
City and County of San Francisco ¹	102,973,456
Metropolitan Atlanta Rapid Transit Authority	99,926,242
METRA	98,677,859
Orange County Transportation Authority	96,759,533
City of Charlotte	87,087,447
King County	86,544,156
Regional Transportation District	85,801,553
Miami-Dade Transit	85,497,691
Greater Cleveland Regional Transit Authority	83,640,189
Metropolitan Transit Authority of Harris County, TX	76,164,000
<i>Federal Aviation Administration</i>	
State of Hawaii Department of Transportation-Airports Division	53,270,351
City of Atlanta	51,096,059
Metropolitan Washington Airports Authority	46,759,878
Port of Seattle	37,184,650
Gulfport-Biloxi Regional Airport Authority	37,126,966
City of Inglewood	33,398,773
Wayne County Airport Authority	31,890,569
City of Saint Louis, Missouri	31,780,666
Dallas/Fort Worth International Airport Board	31,673,483
City of Philadelphia	31,659,760
Los Angeles World Airports	29,638,632
Panama City-Bay County Airport and Industrial District	29,601,099
Port of Oakland	26,657,328
Cincinnati/Northern Kentucky International Airport	25,398,744
Antonio B. Won Pat International Airport Authority, Guam	24,287,787
Memphis-Shelby County Airport Authority	23,888,000
City of San Antonio	20,961,038
City of Kansas City, Missouri	20,774,827
Total	\$43,610,871,328

¹Grantee was also a top 100 recipient for FAA

²Grantee was also a top 100 recipient for FTA

Source: SAPO

EXHIBIT B. DOT'S TOP 100 GRANTEES

EXHIBIT C. TOP 100 GRANTEES FOR ARRA AWARDS

Table 4: ARRA Awards, as of September 30, 2010, by Operating Administration

OA	Top 100 Grantees' ARRA Awards	Total ARRA Awards	Percentage
FHWA	\$ 25,982,405,444	\$ 27,008,851,994	96%
FTA	4,052,472,810	8,778,730,416	46%
FAA	301,939,124	1,097,622,933	28%
Totals	\$30,336,817,378	\$36,903,955,343	82%

Source: Compiled by OIG from OA data on www.dot.gov/recovery

Table 5: Grantees Who Received Highest ARRA Awards, as of September 30, 2010, by Operating Administration

Grantee	ARRA Award (\$ in millions)
FHWA	
California	\$2,542
Texas	2,240
Florida	1,347
Pennsylvania	1,029
New York	951
Illinois	937
Ohio	920
Georgia	903
Michigan	856
North Carolina	730
FTA	
New Jersey Transit Corporation	\$423
Los Angeles County Metropolitan Transportation Authority	312
Massachusetts Bay Transportation Authority	274
Chicago Transit Authority	242
Washington Metropolitan Area Transit Authority	202
Southeastern Pennsylvania Transportation Authority	191
Connecticut Department of Transportation	156
Maryland Transit Administration	152
Commuter Rail Division of Regional Transportation Authority (METRA)	141

EXHIBIT C. TOP 100 GRANTEES FOR ARRA AWARDS

Dallas Area Rapid Transit	140
FAA	
State of Alaska	\$74
Port Authority of New York and New Jersey	20
State of Texas	18
City of Atlanta	15
Maryland DOT and Maryland Aviation Administration	15
State of Hawaii-Department of Transportation-Airports Division	15
Wayne County Airport Authority	15
Metropolitan Washington Airports Authority	15
Port of Oakland	15
City and County of San Francisco	15

Source: Compiled by OIG from OA data on www.dot.gov/recovery

EXHIBIT D. MAJOR CONTRIBUTORS TO THIS REPORT

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Susan Neill	Writer-Editor

APPENDIX. AGENCY COMMENTS



U.S. Department of
Transportation
Office of the Secretary
of Transportation

Memorandum

Subject: **ACTION:** Management Response to the Office of Inspector
General Draft Report on the Use of Single Audits Date: NOV 01 2011

From: Brodi L. Fontenot
Deputy Assistant Secretary
for Administration

Reply to
Attn. of:

To: Calvin L. Scovel III
Inspector General

DOT Oversight Processes and Performance Metrics for Single Audits are Effective

Based on a programmatic analysis completed in 2008 and in consultation with the operating administrations and the Office of Inspector General (OIG), the Office of the Secretary completely revamped the processes for managing, addressing and tracking actions taken on single audit report recommendations. While the management processes are not described in the OIG report, they have produced enormous benefits. The Department of Transportation (DOT) now has strong, consistent and effective processes for managing single audit recommendations and has demonstrated results to match. DOT is unique among Federal agencies in its relationship and interaction with the OIG in the area of single audits. The DOT OIG plays a far more substantial role in this Department's single audit process than any other in the Federal government. We believe that this role has benefitted the Department over the years and can be built upon to further strengthen both the process and overall grant oversight. As discussed in the report, single audit findings are classified by OIG into one of two categories-priority 1 (P1) or priority 2 (P2) findings. The P1 classification indicates more significant findings or questioned costs exceeding \$10,000. The lower priority P2 classification indicates

that DOT is not the cognizant agency, questioned costs are less than \$10,000, or findings are procedural. The OIG report devotes inordinate attention to the P2 single audits even though it has long recognized the limitations of these reviews in terms of programmatic significance and considerable quality concerns.

DOT Single Audit Actions Demonstrate Results

During the current calendar year, DOT is on track for resolving and closing another record number of single audit recommendations. Based on the results of an internal review in 2008, we identified and implemented new metrics for managing single audits and new systems and processes for handling and addressing single audit recommendations.

Record Number of Single Audit Recommendations Closed

The Department implemented systematic monthly metrics tracking the status of management action for single audit recommendations which provide unequivocal performance measures. Specifically, in order to evaluate progress, we began tracking and disseminating metrics describing activity on single audits in monthly Recommendation Action Tracking System (RATS) reports. In 2009, we closed (final action complete) 107 single audit recommendations. In 2010, results increased by 56 percent to 167 recommendations closed in the calendar year. During the current year, our results through the end of September show continued improvement and are up about another 40 percent compared to this point in the prior year. In addition to improved tracking, the Department has completely revised the process used to address single audit recommendations.

Process Improvements Provide Comprehensive and Consistent Oversight

Single audit recommendations receive focused management attention within the structure of consistent processes and effective tracking. With the process improvements implemented in 2009, single audits are now efficiently distributed to field and headquarters officials, are tracked at least monthly, receive prompt management attention, and are resolved timely. There are clear expectations and processes for resolving single audit recommendations within 60 days. OST worked jointly with the operating administrations and the OIG to design these standardized processes for responding to single audit recommendations at both the resolution and final action stages. These processes have been fully implemented and are demonstrating results. As of September, despite a massive influx of single audit recommendations relating to the American Recovery and Reinvestment Act of 2009 (Recovery Act), 83 percent were resolved. Furthermore, of the 17 percent unresolved, almost all of these were newly received, with only 10 recommendations, or 4 percent of the total, pending unresolved for more than 60 days. These extraordinary results are due to responsive management attention,

Appendix. Agency Comments

meaningful performance metrics, and strong systems that provide consistent and timely results.

Unique Relationship with OIG on Single Audits Offers Benefits and Risks

The Department is unique among Federal agencies in benefitting from the OIG's direct hands-on participation in the single audit process. As a result, DOT maintains perhaps the most effective and credible single audit process throughout government. In order to help ensure that single audits are received, sorted and distributed appropriately, OIG downloads reports from the Federal Audit Clearinghouse and classifies reports as P1 or P2. The OIG also tracks and verifies the adequacy of management's efforts to ensure that actions taken are complete and appropriately documented. To the benefit of the Department's credibility with regard to action taken to address single audit findings, OIG reviews the information submitted and closes only those that are clearly and sufficiently documented. Each of these functions is extremely useful and valuable, but each also introduces risk.

Along with the strengths offered by this unique relationship, there are also risks that require strong communication and coordination to mitigate. For example, up until recently, P2 audits were distributed by OIG under the heading of "information," which offered the potential for confusion as to the expectations for management action. We worked with OIG to clarify the distribution language for these reviews to ensure expectations were clarified. More recently, the OIG, which screens single audits to determine whether they should be P1 or P2, implemented a unilateral revision to the criteria that nearly doubled the number of P1 recommendations pending. While the change was based on the good intention of fully tracking recommendations relating to Recovery Act funds, it resulted in numerous low priority, process-oriented recommendations being tracked as top priority, diverting management and OIG attention. Outcomes could have been improved through better coordination and consultation among all participants in the process. Finally, achieving timely action on OIG audit recommendations also means that it is critical for OIG to maintain adequate resources devoted to both identification of audits, prioritization, distribution, tracking and especially close-out. We have been pleased to see additional OIG resources now available for single audit review and closeout.

Widespread Quality and Reliability Issues with Single Audits

While management recognizes its responsibilities with regard to all single audits, before establishing additional requirements, as suggested in the report, particularly with regard to the lower priority P2 audits, it is important to recognize some context relating to the reliability of these reviews. Single audits are not conducted

Appendix. Agency Comments

by government entities such as the Office of Inspector General, but are obtained directly by grantees and performed by private accounting firms. Concerns about the quality of single audits have been documented over the years both by the Government Accountability Office and Inspectors General. In 2007, the President's Council on Integrity and Efficiency (PC IE) conducted a national review of single audits and highlighted significant concerns with single audit quality.¹ Specifically, it found that more than one third of single audits conducted by accounting firms for larger entities had significant deficiencies, were of limited reliability, or they were completely unacceptable. More significantly, PCIE found only 48 percent of single audits conducted for smaller entities were acceptable and could be relied upon with the remaining 52 percent either unacceptable or of limited reliability. The types of problems identified ranged from inadequate testing to a lack of information necessary to support the validity of the report's findings. While the stratification employed in the PCIE study is not identical to the PIIP2 approach used by the OIG, the issues with single audits in general, and especially with the smaller entity stratum, raise a cautionary note that must be considered before expanding their use, such as using them as a basis for enforcement actions, as advocated in the OIG report.

Single Audits are One of Many Tools Used for Grant Oversight

Each operating administration has tailored its grant oversight programs to provide active and effective oversight of grantees. These include Triennial Reviews of grantees in FTA, intensive management reviews by NHTSA, and the Financial Integrity Review and Evaluation (FIRE) program in FHWA. These oversight programs provide more detailed and comprehensive information regarding grantees, their use and management of Federal funds relating to DOT programs, and remedial actions necessary than single audits. As a result, it is critical that the OIG report present perspective on the role that single audits play in overall grantee oversight. As currently structured, the reader might believe that single audits provide the sole tool for grant management.

Additional oversight conducted under these programs is vital in light of the fact that single audits may produce information that is not completely reliable. These issues go beyond the general concerns discussed above. Within the sample group used by OIG for this report, fully 39 percent of the P1 recommendations that included questioned costs were found to have significant errors upon management's further review and action, and no recovery was necessary. Further, even in the remaining questioned cost recommendations where recoveries were accomplished, on average, it was only necessary to recover 52 percent of the questioned amount. OIG was in agreement with all of these actions and closed the

¹ "Report on National Single Audit Sampling Project," President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, June 2007.

Appendix. Agency Comments

recommendations. These variations raise further questions about the utility of single audit findings for grant management decision making, when considered without the greater context of overall oversight tools.

Finally, the level of information provided from single audits is at best a starting point for further consideration, and is not a sole, decisive factor in designating a grantee as high risk or for determining whether enforcement actions, such as withholding Federal funds, should be taken. For example, the OIG report cites the State of Hawaii, which had 12 findings during its study period. The report offers that these findings should have been used to "take action" with regard to the grantee. However, the report does not mention that all twelve of the single audit findings involved procedural issues and there were no questioned costs associated with any of these findings. Further, the 12 findings fell into different categories, did not exhibit trends, and were all closed. Given data collected through its robust FIRE oversight program and corporate risk assessment process, among other oversight tools used, FHWA maintains its position that these 12 procedural single audit findings did not demonstrate material or systemic weaknesses that alone warranted consideration of high risk designation. Enforcement actions, such as withholding Federal funds, are a serious matter that require detailed consideration beyond that available in single audits.

In summary, there is much about this OIG draft report with which we do not agree. This includes its broad statements of causality without apparent support and allegations of insufficient action based on inaccurate or outdated information. We disagree with the undue emphasis placed on low priority, procedural findings from reports where the Department is frequently not the cognizant entity. We do not agree with the absence of any recognition of the comprehensive and the significant changes the Department has already fully implemented for the single audit process, and the results they have achieved. We do agree that single audits, despite their associated issues, do provide one useful tool for grant management. The Department has demonstrated its commitment to optimizing the use of single audits as one of its management tools and will continue to apply innovative solutions making the best possible use of single audits and other oversight tools.

RECOMMENDATIONS AND RESPONSE

Recommendation 1: Require operating administrations to use management decisions that clearly communicate the expectations and timetables for corrective actions in accordance with Circular A-133. Priority 2 management decisions should incorporate the same checklist currently in use for Priority 1 findings.

Response: Concur in part. We agree that management decisions for single audit findings, to the extent that the agency is cognizant, should include clear expectations for actions and milestones. These expectations are unequivocal with regard to P1 single audit recommendations, thanks to the process and oversight changes that have already been implemented. However it is not clear that the format used for management action would be appropriate for P2 recommendations as modification would be required to the reporting requirements elements. This issue will be explored during the December Team of Transportation Audit Liaisons (TOTAL) meeting. Best practices for P2 recommendation management will be identified and disseminated among the operating administrations. Finally, expectations will be reemphasized via guidance memorandum expected to be issued prior to January 30, 2012.

Recommendation 2: Require operating administrations to record and monitor their grantees' target action dates and to prepare a closeout document when the actions are complete.

Response: Concur in part. We agree that actions taken by the grantee to fulfill the intent of recommendations for which DOT is the cognizant entity, should be documented in the files, along with target action dates. Based on processes and oversight applied for P1 recommendations, this should already be occurring. Since the Department may not be the cognizant entity for all P2 recommendations, it would only be constructive to focus on those single audit recommendations that pertain directly to the Department. We will explore the potential for ensuring that files are notated with regard to cognizance, and that those recommendations pertaining to the Department include information in the file relating to milestones and actions taken. These expectations will be reinforced via the guidance memorandum expected to be issued prior to January 30, 2012.

Recommendation 3: Require operating administrations to ensure timely recovery of questioned costs by setting target completion dates for reviews and possible cost recovery in accordance with Circular A-133.

Response: Concur. The Department issues timely resolution of single audit findings and works to ensure actions are completed as expeditiously as possible, in light of the complexity of the actions involved and in compliance with A-133. All P1 single audit recommendations are promptly resolved and tracked with specific

Appendix. Agency Comments

milestones. P2 single audit recommendations where DOT is the cognizant entity are also handled as appropriate. The Department will reinforce its expectations for compliance with OMB Circular A-133 for all single audits as appropriate in the memorandum to be issued prior to January 30, 2012.

Recommendation 4: Establish best practices for audit finding monitoring systems. At a minimum, OST should establish additional guidance on monitoring systems, including capabilities for identifying high-risk grantees based on past-due findings and overall finding histories.

Response: Concur in part. Operating administrations have unique program criteria as defined in law and therefore maintain their own tracking systems as necessary to suit their specific program requirements. It remains their prerogative to ensure that the systems employed meet their specific grant management oversight needs. For example, FT A and FHW A already maintain systems that include detailed tracking information for single audits. Using PTA as an example, it tracks single audit findings within the context of its comprehensive oversight tracking system, and we do not envision a circumstance, based on available information, where OST would provide guidance that might contradict tracking in this effective and well established system. Further, some operating administrations do comparatively less grant-making, are rarely cognizant, and do not require complex, stand alone tracking systems, for the small handful of single audit recommendations for which they are cognizant. However, as an alternative, we are taking the following actions. First, in our memorandum to be issued by January 30, 2012, the Department will reiterate its expectations that operating administrations track management decisions and milestones relating to all single audits, in a manner that best suits its operations, to ensure that actions are taken with regard to findings with which we are the cognizant agency. Secondly, over the last few years, the Office of Audit Relations has been convening TOTAL meetings to share best practices with regard to single audit practices. This forum has already proven effective as an opportunity to highlight best practices and exchange information across operating administrations. As described earlier in this response, the December meeting will be used to focus on best practices for single audits, including those pertaining to tracking.

With regard to high risk grantees, we do not agree that any additional guidance is necessary beyond that already available within 49 CFR 18.12, which enumerates a clear set of criteria for determining whether a grantee should be considered high risk. We have determined that these criteria outlined in regulation are sufficient for this purpose.

Recommendation 5: Establish guidelines for when enforcement actions should be taken if grantees fail to comply with grant awards and conditions. These guidelines should address time lines and severity of the issue.

Appendix. Agency Comments

Response: Concur in part. Existing Federal laws and regulations (e.g. 23 USC, 23 CFR and 49 CFR) clearly define when enforcement actions should be taken if grantees fail to comply with grant awards and conditions. In addition, there are established Departmental and grant specific guidelines that are typically specific to the statutory authority relating to the grant and are a fundamental part of grant management. The OIG discussion relating to this recommendation alludes to matters of significance but offered no discussion of the materiality of the findings, particularly with regard to the context of the overall grant. Further, the report failed to provide context of operating administration grant management and the role that single audits play as discussed extensively earlier in this response. To imply, as stated on page 9, that FHWA did not act "solely on the basis of single audit findings," was some sort of lapse in oversight does not recognize the other more focused and significant tools used to oversee grantees. Nonetheless, to ensure that operating administrations make full and appropriate use of single audit findings in their overall rubric of grant management, the memorandum to be issued by January 30, 2012 will serve to reemphasize the role that OMB Circular A-133 establishes for single audit findings.