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*Office of Inspector General*

*Audit Report*

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**Management of Grant Funds**

**Federal Transit Administration**

**Report Number: FE-1999-016**

**Date Issued: November 6, 1998**





# Memorandum

U.S. Department of  
Transportation

Office of the Secretary  
of Transportation

Office of Inspector General

Subject: **ACTION:** Management of Grant Funds, FTA  
FE-1999-016

Date: November 6, 1998

From:   
Lawrence H. Weintraub  
Assistant Inspector General for Auditing

Reply To:  
Attn Of:

To: Federal Transit Administrator

This report presents the results of our audit of the Federal Transit Administration (FTA) management of grant funds. The objective of our audit was to determine whether FTA promptly withdrew excess funds on completed and inactive grants.

## **RESULTS-IN-BRIEF**

FTA uses the Triennial Review and State Management Review Programs to monitor grantee expenditure of funds. FTA supplements these procedures by periodically notifying its regional offices to emphasize the review of grants for excess funds. However, these actions were not sufficient to identify and withdraw excess funds. We found an estimated \$57 million of excess funds on completed and inactive grants, which have been obligated for an average of 8 years. FTA had not received a request for reimbursement for the grants for at least 2 years. By establishing performance goals and promptly de-obligating excess funds, FTA could put these funds to use on other transit projects. The FTA Associate Administrator for Program Management agreed with our finding.

## **BACKGROUND**

FTA monitors grant activities and related expenditures through Triennial Reviews for most grantees, and uses State Management Reviews for state entities administering FTA grant funds. The Triennial Review is FTA's assessment of grantee compliance with Federal requirements to properly implement and manage Federal grants. In the Triennial Review, FTA must determine whether the grantee has taken appropriate steps to spend obligated funds and close grants. FTA should determine whether grants (1) have been closed out timely, (2) have been inactive for at least 6 months, (3) should be closed in the near future, (4) have unobligated

balances or excessive carryover amounts, and (5) should be deobligated. The grantee should provide FTA with an implementation schedule.

FTA uses contractor support to conduct State Management Reviews at least every 3 years. These reviews examine the state's management procedures, based on approved state management plans. In each area reviewed, a determination is made of compliance or non-compliance. FTA should ensure states are in compliance with Federal requirements. If a particular problem is identified, a more detailed oversight review may be scheduled.

In March 1998, the FTA Associate Administrator for Program Management notified Regional Administrators to review about 480 "worse case" grants and take immediate steps to close out the completed and inactive grants, or document why grants should not be closed. FTA identified the "worse case" grants as (1) old grant projects, (2) grants fully expended for more than 1 year, (3) grants with no expenditures and awarded more than 2 years ago, (4) grants greater than 15 years old, and (5) grants over 2 years since the last expenditure.

## **SCOPE AND METHODOLOGY**

We audited FTA oversight of unexpended obligations on completed and inactive transit grants in nine FTA regions. We accessed the FTA Grants Management Information System to determine if FTA regional offices reviewed the 480 "worse case" grants and de-obligated excess funds. As of September 30, 1997, obligations for the "worse case" grants totaled \$6.8 billion, of which \$225 million was unexpended.

We focused our audit on 276 of the "worse case" grants with obligations totaling \$1.5 billion. About \$130 million was unexpended as of September 30, 1997. FTA awarded the grants prior to September 30, 1995, and over 2 years had passed since grantees withdrew grant funds. We contacted 56 grantees representing 67 randomly sampled grants to determine if unexpended obligations were excess. Unexpended obligations for the grants we sampled totaled \$83 million as of June 30, 1998. The results of our sample could not be projected to the universe of grant costs.

We performed our work in the FTA offices of Program Management and Budget and Policy, and in FTA regional offices in Philadelphia, Pennsylvania; Atlanta, Georgia; and Chicago, Illinois. We also visited two grantees in Atlanta and four grantees in Chicago. At the request of the FTA Region V office, we accompanied them on a visit to the State grantee for Wisconsin. To identify FTA procedures for managing grant funds, we (1) evaluated FTA controls for monitoring unexpended

obligations, (2) reviewed FTA and grantee grant files, and (3) interviewed Headquarters, regional, and grantee officials responsible for grants management. We also reviewed Triennial Reviews and State Management Reviews of grantees' compliance with FTA requirements for meeting project completion milestone schedules and timely close out of completed grants.

We performed the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. We conducted our audit between March and August 1998.

## **ANALYSES AND RECOMMENDATIONS**

FTA had not withdrawn \$57 million in excess funds on 45 of the 67 grants we sampled. The excess funds were obligated for an average of 8 years, and for up to 14 years. Grantees had not consistently used the grant funds because they either had not started project activities, or had not made reasonable progress to complete the approved grant activities. Grantees also had not closed out grants when grant activities were completed.

### **FTA Criteria**

FTA Circular 5010.1B establishes procedures to assist FTA in determining that all responsibilities and work by the grantee have been completed, and the grant should be closed. Close out is initiated by the grantee and documentation must be submitted to FTA within 90 days after all work activities are completed. FTA also can close out grants before project completion if (1) funds are no longer needed to accomplish the grant purpose, (2) the grantee fails to make reasonable progress to complete approved grant activities, and (3) the project has been essentially completed, or approved funds have been substantially used.

If the grantee has not started to use the grant funds, has inconsistently used the grant funds, or did not commit the grant funds under a signed contract, FTA may conclude the grant is not progressing to completion. Grantees submit annual or quarterly narrative progress reports. The reports assist FTA regional representatives in determining if grant activities are progressing toward completion, and should include reasons milestone dates were not met, problem areas, and the resolution of these problems. The reports should include a breakout of costs incurred and those costs required to complete the project.

## Grant Monitoring

We found FTA actions were not sufficient to identify and withdraw excess funds. We reviewed six Triennial Reviews and found FTA determined that five grantees were in noncompliance with FTA requirements for managing grants. The grantees were not submitting progress reports to show projects were progressing toward completion. FTA also identified that grantees had not closed out grants immediately after all grant activities were completed, and had not established milestone dates for closing out grants. However, FTA did not identify and recover excess funds that should have been deobligated. FTA regions also did not fully comply with the March 1998 notification from Headquarters to close out completed and inactive grants, and deobligate excess funds for the 480 “worst-case” grants. FTA regions closed out 147 grants with \$11 million of excess funds out of a potential \$225 million.

Three examples of “worse case” grants with excess funds not promptly withdrawn are discussed below.

- In 1992, FTA obligated about \$2 million under grant MA030183 for the construction of a commuter rail station. The grantee does not consider this project high priority work. As of June 1998, the grantee had not started work on the project and could not tell us when the project would be started. Grant funds remain obligated after 6 years.
- In 1994, FTA obligated about \$3 million under grant AL030013 for the purchase of replacement vehicles. However, the grantee is not permitted to purchase new vehicles until after it disposes of the old vehicles. As of June 1998, the grantee could not tell us when it expected to dispose of the old vehicles. Grant funds remain obligated after 4 years.
- In 1990, FTA obligated \$8.5 million under grant PR90X059 for operating assistance and the design and construction of terminal renovations. All work has been completed. Excess funds of \$230,000 have remained obligated on this grant for 8 years.

## Reallocating Grant Funds

FTA can reallocate excess grant funds to other approved transit projects. If the funds have not lapsed (i.e., not been obligated by a period of time specified in law), FTA can amend the original grant to make use of the excess funds. If the funds have lapsed, FTA can request the grantee to de-obligate the excess funds and FTA can re-obligate the funds in accordance with the appropriate law. Prompt

reallocation of excess grant funds will ensure that these funds are put to better use on other transit projects. Reallocation of excess funds reduces the need for Congress to appropriate Federal funds for transit projects.

### Financial Management

In preparing its annual financial statements FTA must certify to the Department of Treasury that obligations outstanding as of September 30 are valid. Excess grant funds represent invalid obligations.

### Government Performance and Results Act

The Government Performance and Results Act of 1993 requires each Federal agency to develop a strategic plan that includes objective, quantifiable, and measurable performance goals for accomplishing major program activities. FTA should use its financial management team to develop specific performance goals for its grants management program, such as a percentage of use of grant funds compared to total obligations by grant program. Through this process, FTA can identify sustainable corrective action for minimizing excess grant funds on completed and inactive transit projects. This is particularly vital when grant resources are limited and public demand for transit services are high.

### Recommendations

We recommend the FTA Administrator:

1. Require regions to review outstanding obligations and provide status reports on their actions to close out completed and inactive grants.
2. Close out grants and de-obligate excess funds based on regional grant close out reports.
3. Develop plans and procedures, including performance goals, for managing excess funds on completed and inactive grants.

### **MANAGEMENT RESPONSE**

This report was discussed with FTA's Associate Administrator for Program Management. FTA agreed to review the completed and inactive grants that we identified and deobligate the funds if appropriate. FTA also agreed to enhance regional office monitoring of the project close out process via Triennial Reviews, and will address the development of performance goals within this framework.

FTA views the overall management of the grant program as effective, but agrees that completed and inactive grants should be promptly closed out and excess funds de-obligated.

**ACTION REQUIRED**

Please provide written comments, within 30 days, identifying specific actions taken or planned for the recommendations. Your response should include the planned date for providing to the OIG the results of your review of the completed and inactive grants that we identified that represent \$57 million in excess funds.

We sincerely appreciate the cooperation and assistance of FTA representatives. If you have any questions, please call me at (202) 366-1992, or John Meche at (202) 366-1496.

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