

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 21, 2014

Ms. Joan McDonald
Commissioner
Department of Transportation
50 Wolf Road
Albany, NY 12232

Re: Oversight of Grants
Report 2013-F-29

Dear Commissioner McDonald:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Department of Transportation (Department) to implement the recommendations contained in our audit report, *Oversight of Grants* (Report 2009-S-78).

Background, Scope and Objective

The Department oversees the State's highway, rail, air, port and ferry transportation systems to ensure a safe, efficient, balanced and environmentally sound transportation system for those who live, work and travel in New York State. In this role, the Department administers numerous transportation grant programs that fund capital planning and construction for highway, rail and aviation projects. The Department's grants reimburse grantees for expenditures that are authorized and documented in accordance with the grant terms.

Our initial report, issued July 21, 2011, examined the Department's oversight of grant activity. We found that the monitoring performed by the Freight and Passenger Rail Bureau (FPRB) and the Aviation Bureau (AB) could be improved with more effective analysis of available data and through more effective communication and information sharing within the Department and with other State agencies that also provide grant funding.

The Freight and Passenger Rail Bureau (FPRB) was responsible for 46 grants that started on or after April 1, 2012 and were valued at approximately \$100 million, including three Multi-Modal grants which were located at Regions 1 and 3 (Albany and Syracuse). The Department's Aviation Bureau (AB) is responsible for programs pertaining to security, business development,

and capital projects for aviation facilities. In support of these programs, the AB administered 11 active grants valued at approximately \$16.3 million started on or after April 1, 2012.

The objective of our follow-up review was to assess, as of March 7, 2014, the implementation status of the eight recommendations in our initial report.

Summary Conclusion and Status of Audit Recommendations

We found that Department officials have made some progress in addressing the matters in our initial report. However, additional improvements are needed. Of the eight prior audit recommendations, three were implemented and five were partially implemented.

Follow-Up Observations

Recommendation 1

Instruct Region 4 to prepare documented inspection reports and to properly document completed work before approving final payment.

Status - Partially Implemented

Agency Action - During a March 2013 meeting with Region 4 officials, Department officials discussed inspection procedures for ongoing projects and reminded the Region to complete railroad inspection reports. Also, the Department issued guidance in September 2011 requiring Regional Offices to complete a final inspection report for rail projects upon completion. However, our January 2014 review of two Region 4 grant files showed that inspection reports were not always prepared. We note that photos were taken periodically on both projects indicating that Department staff were on site during both projects. Regional officials stated that they do not have sufficient time or staff to inspect projects for each payment.

Recommendation 2

Strengthen monitoring of the Multi-Modal program by requiring on-site inspection reports of grantee performance.

Status - Implemented

Agency Action - Department officials revised the Multi-Modal guidelines in January 2013 to include on-site inspections. The Department has also established the Multi-Modal Quality Assurance Checklist to be completed on a monthly basis to track the monitoring of the project. For example, the checklist contains verification of items such as: whether or not a project diary was kept or updated, if Daily Work Reports are completed, and if material test results provide acceptability. We were unable to test whether the revised Multi-

Modal guidelines were being followed because no Multi-Modal projects were currently in progress and subject to the revised guidelines.

Recommendation 3

Determine whether each of the Multi-Modal programs warrants grantees to submit support for grant reimbursement beyond a certification and perform required post audits of expenditures.

Status - Partially Implemented

Agency Action - The Department requires supporting documentation such as paid invoices, cancelled checks, and electronic payment vouchers to be submitted to the Region for verification before submitting a request for payment for most Multi-Modal projects. Our review of a Multi-Modal project file at the Region 3 office showed that the grantee was submitting additional documentation to support a subcontractor's payments to its vendors. However, the grantee did not include any proof that it paid the subcontractor. Department officials agreed and stated they would remind Regional Offices to obtain documentation that the grantee paid its contractor.

Recommendation 4

Improve AB oversight of grants to address findings presented in this report.

Status - Implemented

Agency Action – Department officials provided guidance to increase oversight of Aviation grants in their manual. The guidance is designed to prevent the lack of documentation cited in our initial audit report. In addition, there is clear guidance that payments will not be made for engineering fees only, but that construction charges must also be present for reimbursement. Two aviation grant files that we reviewed contained documentation of costs including invoices, engineering charges, and payment request summaries. In addition, construction inspection reports were provided to support the construction payment requests.

Recommendation 5

Formalize grant monitoring risk assessment processes for the AB and FPRB.

Status - Partially Implemented

Agency Action - In April 2012, Department officials discussed proposed changes to the grants monitoring process with a consultant. However, a grants risk assessment process has not yet been formalized. Department officials stated that due to the planned April 2014 implementation of a new Statewide Grants Management System, it is premature to formalize the grants monitoring risk assessment process.

Recommendation 6

Determine whether formal training is needed to supplement on-the-job training for the AB and FPRB.

Status - Implemented

Agency Action - Department officials determined that formal training should not be conducted since implementation of the Statewide Grants Management System will require its own training in early 2014.

Recommendation 7

Update the written grant monitoring procedures of the AB and the FPRB.

Status - Partially Implemented

Agency Action - The Department updated AB guidelines as of December 2011. The FPRB had not updated its procedures as of January 22, 2014. Officials stated that, due to other priorities and the pending implementation of the Statewide Grants Management System, FPRB would not update its guidelines until the new system is implemented.

Recommendation 8

Improve the effectiveness of FPRB and AB grant oversight through statewide data analysis on multi-funded grantees and through appropriate follow-up with the Department grantors and grantors from other State agencies.

Status - Partially Implemented

Agency Action - According to officials familiar with the new Statewide Grants Management System initiative, the system will require all bidders to register and there will be reports which can be run to verify the number of grants that a prospective grantee has before awarding a new grant. This new system should provide more comprehensive information on grantees that are funded by multiple State agencies, and will enable the Department to fully implement the recommendation.

Major contributors to this report were Deb Spaulding, Raymond Barnes and Donald Collins.

We would appreciate your response to this report within 30 days indicating actions planned to address the unresolved issues discussed in this report. In addition, please extend our thanks to your management and staff for the courtesies and cooperation they extended to our auditors during this review.

Very truly yours,

Stephen J. Goss
Audit Manager

cc: Theresa Vottis, Director Internal Audit Bureau
Division of the Budget