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## **Grants Management Assessment**

**Governance & Audit Report No. 2020-10**

Report Issued January 7, 2021

## EXECUTIVE SUMMARY

### Background

The FY 2020 Internal Audit Work Plan approved by the Governance and Audit Committee included a Capital Project Management assessment. This report focuses on the Grants Management process within overall Capital Project Management activities.

IndyGo had 11 active grants from the Federal Transit Administration (FTA), with awarded values totaling \$256.9 million, as of October 2020. During fiscal 2019, IndyGo expended \$53.4 million of federal funds.

IndyGo's primary FY 2019 federal funds were received under the Capital Investment Grants, Formula Grants, and Bus and Bus Facilities programs. In FY 2020, IndyGo was also awarded \$44.2 million under the CARES Act, for Coronavirus Aid, Relief, and Economic Security purposes.

Our assessments are performed in accordance with the professional practice standards of the Institute of Internal Auditors. This report was prepared for use by IndyGo's Board of Directors, Governance and Audit Committee, and management.

### Objective and Scope

- Obtain an understanding of IndyGo's processes and controls related to receiving and disbursing grant funds.
- Assess the effectiveness of the design and operation of internal controls related to grants administration and monitoring.
- Select a sample of grants and review IndyGo's filing of Federal Financial Reports and Milestone Progress reports, and test selected expenditures for compliance with FTA program requirements.
- Identify potential opportunities for process and control improvements or revenue enhancement.

### Overall Report Rating & Observations

(See Appendix A for definitions)

	Report Rating	Number of Observations by Rating		
		High	Medium	Low
<b>Grants Management</b>	<b>Medium</b>	<b>2</b>	<b>3</b>	<b>2</b>

### Overall Summary and Review Highlights

The Grants function resides under the Budget Office within the Finance Department. It has two approved FTEs, who manage FTA required filings and grant draw downs. Grants personnel work closely with other departments, including Infrastructure, Operations, and Information Technology.

Our following report includes seven recommendations. These address both *opportunities* for revenue enhancement or process improvement, as well as *risks* related to communication or internal controls.

We have rated the overall risk associated with this report as "Medium", because we believe that there is:

- Opportunity for return on investment related to certain recommendations (increased revenue or decreased costs)
- Ability to enhance current *manual or people-driven* controls with *automated or system-derived* controls.
- Applicability of these recommendations related to anticipated significant FTA grant funding for future Bus Rapid Transit (BRT) lines

We would like to thank IndyGo staff and all those involved in assisting us in connection with the review. Questions should be addressed to the IndyGo Department of Governance and Audit at: [batkinson@indygo.net](mailto:batkinson@indygo.net).

## OBSERVATIONS SUMMARY

Following is a summary of the observations noted. Definitions of the observation rating scale are included in Appendix A.

Governance and Audit Observations	
Recommendation Title	Rating
1. Indirect Cost Plan	High
2. Direct Labor Charges to Grants	High
3. Policy and Procedures	Medium
4. Communication Across Organizational, and Staffing Levels	Medium
5. Technology Systems and Data Reporting	Medium
6. Lapsing of Funds	Low
7. Training	Low

## 1. Indirect Cost Plan

<p><b><u>Observation:</u></b> IndyGo does not utilize any indirect cost plan to charge or recover costs from federal grants.</p>	<p><b><u>Recommendation:</u></b> Adopt the 10% de minimus rule, to begin recovery of indirect costs, for future grants.</p>	<p><b><u>Management's Response:</u></b></p>
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### Observation Rating: High

<p>IndyGo does not utilize a cost allocation plan for indirect cost reimbursement. FTA and federal regulations allow these costs to be charged to federal grants.</p> <p>Indirect costs include items such as overhead, utilities, rent, cleaning, technology, salaries of administrative staff (CEO and Vice Presidents), fringe benefits, etc.</p> <p>IndyGo also does not utilize the available federal 10% de minimus reimbursement rule.</p> <p>As a result, possible reimbursement for indirect costs has not been requested or received.</p> <p>During fiscal 2019, IndyGo expended \$53.4 million of federal funds. While an indirect cost plan may not recover a full 10% of the grant expenditures initially, it would result in additional revenue / cost recovery.</p> <p>This reimbursement is typically <i>in addition to</i> the direct construction and other costs negotiated in a grant agreement, and generally increases the total amount of an individual grant. No current grant funding has been lost.</p>	<p>Most federal grants allow for reimbursement of indirect costs, when requested by the grantee agency. IndyGo should review all grants to determine whether an administrative cost component is allowable for indirect cost charges.</p> <p>IndyGo should:</p> <ul style="list-style-type: none"> <li>Adopt the 10% de minimus rule. This allows charges to grants of 10% of modified total direct costs, as described in 2 CFR, Part 200 and Appendix VII. This simplified approach does not require a complete cost allocation plan, or specific computations. It will allow for greater cost recovery or increased grant amounts.</li> <li>Negotiate indirect costs or administrative cost reimbursement into <b>future</b> grant applications and agreements.</li> <li>Consider requesting Amendments to current grants to capture some cost reimbursement.</li> </ul>	<p><b><u>Action Plan:</u></b> We agree. IndyGo will consider adopting the 10% de minimus cost allocation plan. We will assess the impact of budgeting grant funds for indirect costs in addition to our current direct cost recovery under capital projects. We will also consider FTA's changes to funding of the Section 5307 (Urbanized Area Formula Grants) and Section 5339 (Bus and Bus Facilities Grants) as well as potential new subrecipients.</p> <p><b><u>Responsible Parties:</u></b> IndyGo Grants Manager</p> <p><b><u>Due Dates:</u></b> Procedures for the adoption of the de minimus cost allocation plan will be completed by June 30, 2021.</p>
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## 2. Direct Labor Charges to Grants

**Observation:**

IndyGo does not consistently charge direct labor costs to federal grants.

**Recommendation:**

Develop a procedure to capture employee time charges for reimbursement from federal grants.

**Management's Response:**

Observation Rating: High

FTA and federal regulations allow payroll and fringe benefits to be charged as direct costs to federal grants. (These are not "force account" charges, since IndyGo does not use its own labor force directly on capital projects).

IndyGo has the ability to capture individual employee time charges through the use of pay codes in the ADP payroll system. However, direct labor costs were charged to the Red Line grant for one year only (due to budget overruns and other costs). Also, fringe benefits were not charged.

IndyGo has charged labor and fringe benefits to FTA Preventative Maintenance grants. In this case, total general ledger labor costs were used, rather than individual employee time charges. However, some other grants have had no labor charges applied at all.

As a result of this inconsistent methodology, reimbursement of certain allowable labor charges and fringe benefits has not been requested or received.

This reimbursement is *in addition* to the direct construction or other costs negotiated in a grant agreement, and generally increases the total amount of an individual grant.

To secure this additional eligible funding, IndyGo should:

- Seek reimbursement of allowable project administration and preventative maintenance direct labor charges, plus fringe benefits, on **all** grants, as defined in Circular 5010.1E.
- Consider requesting Amendments to current grants to capture some cost reimbursement.
- Develop and document a procedure to consistently record individual employee time charges, by project.
- Communicate and train the Project Managers and others on the federal requirements for time charging.
- Consider how the expected new Microsoft Dynamics 365 system can capture and report time charges in conjunction with the ADP payroll system, if that will be retained.

**Action Plan:**

We agree. We will continue to draw reimbursement for labor costs on the annual Preventive Maintenance grant.

We will also work with the Infrastructure Department on procedures to budget project administration labor costs in future grants.

**Responsible Parties:**

IndyGo Grants Manager

**Due Dates:**

Procedures for project administration cost reimbursement will be completed by December 31, 2021.

### 3. Policy and Procedures

**Observation:**

IndyGo does not have any adopted policies related to grant management. IndyGo also has not documented its procedures used in grant administration.

**Recommendation:**

Adopt high-level grant Polices, relating to major grant functions. Create a separate Procedures Manual, incorporating current practices.

**Management’s Response:**

**Observation Rating: Medium**

IndyGo has various disparate policy statements in multiple separate documents, such as the FY 2020 Budget, on a SharePoint site, and embedded in prior Board actions. There is no centralized repository for Board-approved policy statements.

There is also no adopted **policy** for any portion of the Grants process. It is not clear which policies would need to be approved by the Board.

There is also no documentation of many **procedures** used in grant administration. There are draft procedures, such as the “Grants Consideration Form” that have been developed but are not finalized or fully implemented.

This could lead to inconsistent application of policies or procedures, or pursuit of non-strategic grants. We are aware of a prior grant award for solar panels, for which the local match had not been identified prior to application. Lack of policies and procedures can also limit the training of new or transferred employees.

IndyGo should prepare a high-level grant Policy statement. This policy could be approved by the CEO, and adopted by the Board, then posted to an entity-wide intranet or SharePoint site (when implemented and available).

Key grant functions that could be addressed in the Policy include:

- Application and linkage to strategic priorities
- Grant management
- Budget administration
- Compliance monitoring
- Federal draws
- Close-outs

IndyGo should also create a separate Grant Procedure Manual. This would document or enhance the steps currently being used in the above functional areas. The Procedure Manual would be a useful training tool and should be updated periodically. It would not require Board adoption.

**Action Plan:**

We agree. Since hiring new staff in 2020, work on updating policies has begun, with procedures to follow. A Grant Procedures Manual is needed and will be the path we will take when updating procedures.

**Responsible Party:**

IndyGo Grants Manager

**Due Date:**

Procedures Manual draft completed by May 2021.

#### 4. Communication Across Organization, and Staffing Levels

<p><b><u>Observation:</u></b> Communication across IndyGo about grants-related status, budget and schedules has been informal. Departments have not assigned grant liaisons.</p>	<p><b><u>Recommendation:</u></b> Establish recurring formalized Grants meetings. Consider adding another grants position.</p>	<p><b><u>Management’s Response:</u></b></p>
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**Observation Rating: Medium**

<p>The Grants division resides under the Finance Department and consists of two FTEs. Their responsibilities span multiple phases of the grants process. These include filing of the quarterly Federal Financial Reports and Milestone Progress Reports on the FTA’s Transit Award Management System (TrAMS) and requesting drawdowns on FTA’s Electronic Clearing House Operation (ECHO) system, for up to 11 active grants.</p> <p>The grants process requires communication and coordination across multiple IndyGo departments.</p> <p>The <b>Grants division</b> currently facilitates communication and holds quarterly meetings and has developed expenditure tracking reports. However, the meeting frequency and materials could be better formalized and communicated. Also, training materials or process flow overviews have not been developed to guide staff members.</p> <p><b>Departmental</b> attendees could be better prepared to share budget updates, project cancellations, and schedule revisions. Departments have not consistently provided designated grant liaisons, and their commitment and participation has varied.</p>	<p>IndyGo should collectively enhance the effectiveness of the grants process, and plan for the increased grant activity from the \$100 million Purple Line BRT project. Actions could include:</p> <ul style="list-style-type: none"> <li>• <b>The Departments</b> – appoint grant liaisons (from Infrastructure, Finance, Operations, and IT) who will actively participate and provide budget, schedule and other updates</li> <li>• <b>Grants division</b> – continue to hold recurring meetings, with planned agendas and prepared materials to review.</li> <li>• <b>Management</b> – consider adding an FTE to the Grants process. This position could be partially grant funded. The person could be responsible for locating and applying for grants, and/or fulfilling the FTA filing, drawdown and monitoring requirements for the Purple Line.</li> </ul> <p>Also, IndyGo should establish a shared documentation site and/or storage requirements for significant information regarding project budget changes or revisions and FTA reporting matters. These should complement email communications.</p>	<p><b><u>Action Plan:</u></b></p> <p>We agree. Assigned grant liaisons from the Departments would be beneficial and our quarterly Grant Meetings would become more efficient.</p> <p>For staffing, we are currently working with the Infrastructure Department to develop a job description for an FTE that would share some responsibilities between the Finance and Infrastructure Departments.</p> <p><b><u>Responsible Party:</u></b> IndyGo Grants Manager</p> <p><b><u>Due Date:</u></b></p> <ul style="list-style-type: none"> <li>• Grant Liaisons in place by September 30, 2021</li> <li>• FTE estimated hire date by June 30, 2021, depending on multiply factors</li> </ul>
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## 5. Technology Systems and Data Reporting

**Observation:**

The e-Builder and Microsoft AX systems are not interfaced, which may cause timing and reconciling differences.

**Recommendation:**

Consider the timing and objectives for upcoming system upgrades, to reduce redundant data entry and increase Project Managers' oversight.

**Management's Response:**

**Observation Rating: Medium**

IndyGo has disparate technology systems which may not provide adequate and timely information for the management of large grants and capital projects.

**The Infrastructure Department** uses e-Builder for its construction management software system. The application has modules for document retention, planning, design and construction. However, the Cost module has not been fully implemented. Project Managers currently rely on Excel spreadsheets for cost and budget management.

**The Finance Department** uses Microsoft Dynamics AX for its general ledger system. AX has financial management and other modules. IndyGo uses project codes to manage allowable costs to be charged to grants. However, the Budget and Project Accounting module have not been fully implemented.

The e-Builder and Microsoft AX systems are not integrated or interfaced. As a result, construction contractors' invoices must be re-entered into AX by Finance to be paid. This can cause timing and reconciling differences and affect the ability of the Project Managers to oversee their projects and grants.

The lack of updated or interfaced construction management and budget systems increases the oversight and delivery risk for IndyGo's large capital projects. It could also affect the timeliness and accuracy of the required Federal Financial Report filings with the FTA.

There are two concurrent system upgrades being considered. The Finance Department has issued a Request for Qualifications for the Microsoft Dynamics 365 product. Separately, the Infrastructure Department is implementing the e-Builder Cost module.

We suggest that the Finance Department work with the Technology and Infrastructure Departments, to more fully coordinate or sequentially implement the systems. This could:

- Eliminate redundant entry of contractors' invoice data (perhaps by csv data file transfer)
- Reduce timing delays and increase the accuracy of the budget to actual reports
- Utilize the full functionality of the new systems (i.e., the Budget and Project Accounting modules)
- Reduce the number of outside contractors utilized the maintain these applications

**Action Plan:**

We agree. We will speak with the Accounts Payables group, as they will be affected by the data entry and system requirements.

We will also work with the external contractors for the e-Builder upgrade and D365 implementation, to identify and reduce redundancies.

We will ask for input and support from the Infrastructure Department and Technology group on these initiatives, and the role of each system.

**Responsible Party:**

IndyGo Chief Financial Officer

**Due Date:**

January 2022, the projected end of the e-Builder upgrade and D365 implementation.

March 2021, to initiate communications with other IndyGo Departments and the external system implementers regarding technology solutions.

## 6. Lapsing of Funds

<p><b><u>Observation:</u></b> IndyGo has two older grants with funds totaling \$2.9 million that may be lapsing.</p>	<p><b><u>Recommendation:</u></b> Obtain budget updates from Project Managers. Work with FTA to extend or re-appropriate the funds before they lapse.</p>	<p><b><u>Management's Response:</u></b></p>
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**Observation Rating: Low**

<p>IndyGo's FTA grants are generally available to draw upon for project purposes during throughout an FTA-defined "period of availability". This period includes the year the award is granted, plus four subsequent years.</p> <p>If the grants funds are not expended on a timely basis, they can "lapse" which requires additional administrative IndyGo effort and budget revision. Funds can be re-appropriated with FTA's approval.</p> <p>It is important for the Grants division to be aware of any potential funds that may not be used on a timely basis, due to project cancelations, delays or schedule changes. There are currently no system generated reports that may be reviewed. Therefore, the process relies on communication between the Project managers and Grants division.</p> <p>We noted two grants with \$2.9 million in funds that could lapse in future periods.</p>	<p>IndyGo's Grants division should obtain current budget and project schedule updates from the Project Managers. PMs should be providing these on a timely basis, so that the Grants division can be aware of any potentially lapsing funds</p> <p>The Grants division should:</p> <ul style="list-style-type: none"> <li>Continue to work with the FTA to extend or re-appropriate the funds.</li> <li>Communicate any potentially lapsing funds regularly to senior management, to keep all parties informed and avoid the loss of funding.</li> <li>Create a system-generated report (from e-Builder or upcoming Microsoft D365) which could be distributed regularly. This would allow the PMs to review reports and permit the Grants division to better monitor activity and focus on exceptions or impact on FTA reporting.</li> </ul>	<p><b><u>Action Plan:</u></b></p> <p>We agree. IndyGo will work with FTA to ensure we are best utilizing our older funding. Currently, all of IndyGo's lapsed funding has been re-allocated in current projects.</p> <p>We will also discuss reporting options with the system implementer during the discovery phase of the D365 upgrade.</p> <p><b><u>Responsible Party:</u></b> IndyGo Grants Manager</p> <p><b><u>Due Date:</u></b> Budget re-appropriations for our open grants are done and have been approved by FTA. System options will be considered by the end of March 2021.</p>
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## 7. Training

<p><b><u>Observation:</u></b> IndyGo has limited formal training programs, and none have been held related to Grants.</p>	<p><b><u>Recommendation:</u></b> Implement some “Lunch and Learn” or informal programs, for personnel from all Departments involved with Grants administration.</p>	<p><b><u>Management’s Response:</u></b></p>
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**Observation Rating: Low**

<p>IndyGo has personnel involved from multiple groups and Departments involved with grants administration. Several Departments have also experienced staff transition and turnover.</p> <p>IndyGo has limited formal training programs, and no sessions have been held related to Grants. Most training occurs on the job.</p> <p>IndyGo’s grant funding has increased significantly due to the Red Line Bus Rapid Transit Project and new CARES Act awards.</p> <p>Federal grant programs, regulations, compliance and monitoring (including the current Triennial Review) requirements have continued to increase and evolve. Non-compliance could result in disallowed costs (although we noted that IndyGo had no significant compliance deviations reported in recent Single Audit reports prepared by the external auditors).</p> <p>Brief training programs could enhance new and existing staff’s knowledge and help increase interaction across the different Departments.</p>	<p>Consider brief “Lunch and Learn” or other training programs. Topics could include:</p> <ul style="list-style-type: none"> <li>Allowable costs to be charged to grants</li> <li>Microsoft AX workflow</li> <li>IndyGo Grant Agreements and funding</li> <li>Audit requirements for grants</li> </ul> <p>Good training materials could be developed from:</p> <ul style="list-style-type: none"> <li>Transportation Research Board Report: Curriculum for New State DOT Transit Grant Managers in Administering Federal and State Transit Grants (2014)</li> <li>OMB Circular 5010.1E, (Grant) Award Managements Requirements</li> <li>Regional FTA Training Materials</li> </ul>	<p><b><u>Action Plan:</u></b> We agree. Training would be beneficial. We will partner with other IndyGo departments (such as Infrastructure, Legal, etc.) to help develop and present topics.</p> <p><b><u>Responsible Party:</u></b> IndyGo Grants Manager</p> <p><b><u>Due Date:</u></b> Fall 2021 for the first training session to be held.</p>
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## APPENDIX A – RATING DEFINITIONS

Observation Rating Definitions		Report Rating Definitions	
Rating	Definition	Rating	Explanation
<b>Low</b>	Process improvements exist but are not an immediate priority for IndyGo. Taking advantage of these opportunities would be considered best practice for IndyGo.	<b>Low</b>	Adequate internal controls are in place and operating effectively. Few, if any, improvements in the internal control structure are required. Observation should be limited to only low risk observations identified or moderate observations which are not pervasive in nature.
<b>Medium</b>	Process improvement opportunities exist to help IndyGo meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception. This opportunity should be considered in the near term.	<b>Medium</b>	Certain internal controls are either: <ul style="list-style-type: none"> <li>• Not in place or are not operating effectively, which in the aggregate represent a significant lack of control in one or more of the areas within the scope of the review.</li> <li>• Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses which collectively are not pervasive.</li> </ul>
<b>High</b>	Significant process improvement opportunities exist to help IndyGo meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception presents. This opportunity should be addressed immediately.	<b>High</b>	Fundamental internal controls are not in place or operating effectively for substantial areas within the scope of the review. Systemic business risks exist which have the potential to create situations that could significantly impact the control environment. <ul style="list-style-type: none"> <li>• Significant/several control weaknesses (breakdown) in the overall control environment in part of the business or the process being reviewed.</li> <li>• Significant non-compliance with laws and regulations.</li> <li>• Observations which are pervasive in nature.</li> </ul>
<b>Not Rated</b>	Observation identified is not considered a control or process improvement opportunity but should be considered by management or the board, as appropriate.	<b>Not Rated</b>	Adequate internal controls are in place and operating effectively. No reportable observations were identified during the review.