



Board of Directors Regular Meeting
Meeting Date: 5/17/2018
Agenda Item No.: 2018-May-20.

SACOG Board of Directors

Subject: Financial Management Oversight Review by the Federal Transit Administration (Est. time: 5 minutes)

Information

Prepared by: Kirk Trost

Approved by: James Corless

Attachments: Yes

1. Issue:

Report on the Financial Management Oversight (FMO) review conducted by the Federal Transit Administration.

2. Recommendation:

None; this item is for information only.

3. Background/Analysis:

Under the Financial Management Oversight (FMO) Program, the Federal Transit Administration periodically conducts full scope financial management system review of FTA fund recipients. To staff's knowledge, SACOG has never received such a review.

Under the review, the FMO hires contractors to conduct a series of interviews, full transaction reviews, and appropriate substantive tests. The contractors determine whether the recipient's financial management system meets the requirements of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200). The contractors then express an objective, external, independent professional opinion to FTA, in accordance with established public accounting standards, on the effectiveness of the recipient's internal control environment. The seven standards (2 CFR Part 200.302 (b)(1-7) for financial management systems are:

1. Financial Reporting
2. Accounting Records
3. Internal Control
4. Budget Control
5. Allowable Costs
6. Source Documentation
7. Cash Management

FMO contractors will also review Project Change-Grants Management as part of 2 CFR Part 200.308.

SACOG's FMO review occurred in late 2017 and early 2018 for the period from October 1, 2016, through September 30, 2017. Staff received a draft report in March 2018.

4. Discussion/Analysis:

The independent annual audit of SACOG's Comprehensive Annual Financial Reports was presented to the committee in April. As reported at that time, although the audit identified no questioned costs, it included five findings relating to the following areas: procurement process; timecard approvals; cash management procedures; federal reporting; and subrecipient reporting. Staff noted that the findings relating to cash management procedures and federal reporting were the direct result of the FMO review, which found material weaknesses in those areas. Included as Attachment A is a Summary of Findings comparing the audit and the FMO review.

In addition, the FMO review found some additional "deficiencies," deemed less significant than weaknesses but not covered by the CAFR audit and important enough to merit attention, in the areas of budget processes and IT controls. These primarily were the result of SACOG not having written policies and procedures. In most cases for the areas identified, SACOG has defensible practices to provide for appropriate processes and controls, but because of this review, SACOG will document these practices and improve them.

On April 20, staff submitted a complete Corrective Action Plan addressing all issues in the FMO review (see Attachment B). The Corrective Action Plan reflects prior direction from the committee to expedite development, adoption, and implementation of a cash management policy. The full draft FMO review is included as Attachment C.

Staff will discuss the findings in more detail at the Board meeting.

5. Fiscal Impact/Grant Information:

There is no fiscal impact due to the FMO review.

ATTACHMENTS:

Description

Attachment A - Summary of Findings

Attachment B - FTA Financial Management Oversight Review

Attachment C - SACOG Draft Full Scope Review

This staff report aligns with the following SACOG Work Plan Goals:

#10 - Strengthen Internal Functions & Protocols

Summary of Findings

<u>Issue</u>	<u>Annual Audit Findings</u>	<u>FTA Financial Management Oversight Review</u>	<u>Corrective Action Implementation</u>
<u>Procurement Process</u>	<u>Finding 2017-001</u> Internal controls need to be improved to ensure disbursement transactions recorded in the general ledger are subject to sufficient and appropriate procurement procedures.	None	To be implemented within 180 days.
<u>Timecard Approvals</u>	<u>Finding 2017-002</u> Internal processes need to be improved to ensure timely approval of timecards and any subsequent changes thereto.	None	To be implemented within 180 days.
<u>Cash Management</u>	<u>Finding 2017-003</u> Written cash management procedures are needed and SACOG needs to ensure payment of federal funds within 3 days of drawdown.	<u>Finding II.2</u> Substantially similar. The audit did determine that \$1,641.50 was incorrectly billed to a federal project.	Staff already has implemented new procedures to ensure that federal funds are paid within 3 days of drawdown. Written cash management procedures will be completed within three months of hiring a Finance Director, or no later than August 30, 2018. The billing error has been corrected.
<u>Grant Management and Reporting</u>	<u>Finding 2017-004</u> Internal controls need to be improved over Federal Financial Reporting, including reconciliation of the reports to accounting records and management review.	<u>Findings II.1 & II.3</u> Substantially similar. SACOG also needs to develop, document, and implement grant management procedures to establish a consistent methodology for tracking and managing grant budgets and expenditures.	To be implemented within 180 days.
<u>Subrecipient Monitoring</u>	<u>Finding 2017-005</u> Written procedures needed for monitoring of subrecipients receiving pass-through fed funds.	<u>Finding III.2</u> Substantially similar, including periodic self-assessments.	To be implemented within 180 days.

<u>Budget</u>	None	<u>Findings III.1 & IV.2</u> SACOG should adopt detailed procedures for budget approval and reporting variances. It is also recommended that SACOG's Board and Advocacy Budget be adopted by resolution.	To be implemented within 180 days. Staff disagrees that the Board and Advocacy Budget needs to be adopted by resolution given that no federal funds are involved; the Operating Budget is adopted by resolution to satisfy a Caltrans requirement. Nevertheless, staff will adopt all budgets by resolution in the future.
<u>Indirect Cost Allocation Plan Approval</u>	None	<u>Finding III.3</u> SACOG currently submits its cost allocation plan to Caltrans for approval; FTA suggests it should be submitted to FTA for approval.	Staff is currently in discussions with FTA Region IX regarding this disagreement between Caltrans and FTA.
<u>IT Controls</u>	None	<u>Findings III.4 – III.8</u> 1. Develop risk assessment control procedures (including vulnerability scans) for financial system. 2. Develop updated backup and recovery procedures. 3. Update password policy. 4. Develop procedures for access controls and segregation of duties within financial accounting system 5. Develop policies to install security updates for software.	1. A consultant already has been retained and SACOG will implement the appropriate recommendations within 180 days. 2. Staff has implemented a new cloud-based backup system and is in the process of implementing a redundant on premises backup device; procedures and plans will be updated once new systems are in place, within 180 days. 3. To be implemented within 180 days. 4. To be implemented within 180 days. 5. To be implemented within 180 days.
<u>Payroll Procedures</u>	None	<u>Finding IV.1</u> Finalize written payroll procedures.	Completed.



Auburn
Citrus Heights
Colfax
Davis
El Dorado County
Elk Grove
Folsom
Galt
Isleton
Live Oak
Lincoln
Loomis
Marysville
Placer County
Placerville
Rancho Cordova
Rocklin
Roseville
Sacramento
Sacramento County
Sutter County
West Sacramento
Wheatland
Winters
Woodland
Yolo County
Yuba City
Yuba County

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

for the

Federal Transit Administration Financial Management Oversight Review

Report Date: January 29, 2018

**Prepared by:
Sacramento Area Council of Governments**

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

II.1

FINDING: WEAKNESS IN CONTROLS OVER FEDERAL FINANCIAL REPORTING

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG is currently coordinating and working with FTA to receive compliance reporting training and guidance for timely and accurate filings of future Federal Financial Reports (FFRs)/(SF-425). Federal Transit Administration (FTA) financial reporting training and guidance will be required and provided to finance/administrative/planning staff. Staff will be required to undertake periodic training in FTA financial reporting requirements.

Process for future filings include:

- Project Managers or designees will prepare SF-425 report filings;
- Project Managers or designees will provide a copy of the SF-425 report filings to their supervisor or designee for review;
- Project Managers or designees will forward the SF-425 to the Director of Finance or designee for review and reconciliation;
- The Director of Finance or designee will reconcile reported amounts to the accounting system (AJERA) to ensure accuracy; and discrepancies in the amounts reported will be reconciled between the Project Manager/Director of Finance or designee; and
- Upon completion of the reconciled SF-425 report filings, the Project Manager or designee will approve and submit the SF-425 filings to the federal agency to ensure accuracy of reported amounts; the Project Manager will also provide the submitted final SF-425 filings to their supervisor and to the Director of Finance or designee.
- Staff will develop and implement formal written procedures for the following:
 - Preparation and approval for Federal Financial Reporting (FFR);
 - Employees involved in the preparation of the FFR will be required to take periodic training in FTA financial reporting requirements;
 - Accurate reporting utilizing the accrual basis of accounting;
 - Reconciliation of FFR to the accounting system (AJERA);
 - Unliquidated obligations are accurately reported on the FFRs based on outstanding commitment balances identified in AJERA;
 - Cash on Hand is accurately reported on the FFRs;
 - Reporting on the FFRs indirect costs charged to the grants; and
 - Preparation and approval of adjusting journal entries.

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

II.2

FINDING: WEAKNESS IN CONTROLS OVER CASH MANAGEMENT AND ECHO DRAWDOWNS

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG is currently implementing additional procedures to mitigate future policy and compliance issues with the *2017 Compliance Supplement* /FTA cash disbursements/drawdown requirements/ Title 2 CFR Section 200.305 (b)(6).

These additional procedures include:

- The Accounts Payable (A/P) manager or designee will initiate payment for federal project purposes no later than two business days after receiving the federal funds;
- The A/P manager or designee will have the Director of Finance or designee approve the federal projects payment (bill) via wire transfer within two business days of the ECHO drawdown. Therefore, the wire transfer/bill payment transaction process will assist in remaining in compliance and adherence to the *2017 Compliance Supplement* and 2 CFR section 200.305(b);
- After approval from the Director of Finance or designee the A/P manager or designee will wire the funds within three business days of the initial drawdown.
- SACOG will develop and implement Cash Management and ECHO drawdown formal written procedures for the following:
 - Develop procedures for the ECHO drawdown process which will include:
 - Controls for management review and approval of drawdowns;
 - Federal matching portions are drawn down for each invoice and ensure that the non-federal share is excluded from the drawdown process;
 - Ensure that expenditures included in drawdowns are allowable based on the requirements of Federal statutes, regulations and the terms and conditions of the award;
 - Ensure costs are coded and charged to the appropriate ALIs in the grant;
 - Verify, confirm, certify, and ensure that subrecipients matching requirements are met prior to making drawdown requests from the ECHO system;
 - For the Streetcar project (CA-95-X275-00), SACOG staff will verify and confirm that the proportionate amount of the non-federal share applicable to the Federal drawdowns have been met by subrecipients; and
 - Institute a policy that the Director of Finance is the Authorizing Official for all ECHO drawdowns (SACOG currently does not have a permanent Director of Finance, so at this time we will be assigning the ECHO Authorizing Official role to our Director of Administration and Local Government Services; once a permanent Director of Finance is in place, the ECHO Authorizing Official role will be assigned to that person); and
 - SACOG will document and formalize written procedures related to cash management requirements as required by CFR Section 200.305.

In addition to the above corrective actions, SACOG will also refund the Federal matching portion of the \$1,641.50 of unallowable legal costs included in the drawdown for the Riverfront Streetcar project.

All final design costs charged to the Riverfront Streetcar project (CA -95-X275-00) for preliminary engineering ALI have been moved to the ALI for final design. Finance staff will continue to work to correctly track work done using the spreadsheet created for the Streetcar project as well as information in AJERA.

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions by August 30, 2018.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

II.3

FINDING: WEAKNESS IN GRANTS MANAGEMENT CONTROLS

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG will develop formal grants management policies and procedures. In addition, SACOG staff will take periodic training from FTA and other available sources on best practices for implementing FTA circular 5010.1E.

Staff will develop and implement formal written procedures for the following:

- Tracking and managing grant budgets and expenditures through the financial system (AJERA), where applicable. If AJERA lacks the ability to provide some or all of the tracking and managing functions, staff will develop and use a standardized grant billing spreadsheet template to consistently track grant budgets and expenditures;
- A consistent methodology for tracking, managing and updating grant budgets and expenditures on the billing spreadsheets. This will also include processes for comparing grant budgets to actual expenditures and initiating, reviewing and approving grant revisions and amendments; and
- Detailed processes for identifying grants that are ready to be closed out and initiating close-out activities.

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

III.1

FINDING: WEAKNESS IN BUDGET CONTROLS

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG will develop formal budget policies and procedures.

Staff will develop and implement formal written procedures for the following:

- Document, approve and implement detailed budget procedures that include processes for developing the budget, obtaining formal board approval for the budget, performing budget variance analysis and processes for amending the budget; and
- Document procedures to perform budget variance analyses on a periodic basis and present the results to the Government Relations and Public Affairs Committee (GRPA) and the SACOG Board of Directors.

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

III.2

FINDING: WEAKNESS IN CONTROLS OVER MONITORING OF FTA GRANT ACTIVITIES AND SUBRECIPIENTS

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG will develop formal policies and procedures to monitor FTA grant activities and revise and update subrecipient monitoring policies.

Staff will develop and implement formal written procedures for the following:

- A formal process for performing periodic self-assessments of FTA related internal controls; and
- Internal controls will be documented and implemented to mitigate the risk and may include, based on resources, the designation of an individual with internal audit responsibility, who will report to the Chief Executive Officer.

SACOG will update its written policies to ensure all subrecipient monitoring requirements have been met. The policies will include, but are not limited to:

- Develop and implement a formal process for performing and documenting periodic oversight reviews of the subrecipients to ensure that they comply with 2 CFR part 200 and FTA Regulations. The process will include controls to verify that:
 - Fixed assets acquired with FTA passthrough funds are recorded, tracked, inventoried, and titled, maintained, disposed in line with federal requirements;
 - Procurements funded with FTA passthrough funds meet all the applicable requirements of 4220.1F; and
 - Subrecipients subject to Single Audit are having the audits performed and that they are submitting the Single Audit reports to the appropriate authorities in a timely manner.
 - Director of Finance or designee will review all subrecipient audit reports and management letters (if applicable) to ensure single audit requirements are being met;
- Implementation procedures if subrecipient is not compliant with 2 CFR section 200.331(d)(2);
- An update to the subrecipient risk assessment procedures to include criteria for determining the type of monitoring required to be performed based on the risk assessment results; and
- A process for periodically updating the subrecipient monitoring procedures to replace the outdated references with current FTA guidance.

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

III.3

FINDING: INDIRECT COST ALLOCATION PLAN NOT APPROVED BY COGNIZANT AGENCY

Management's or Department's Response:

We disagree.

Corrective Actions:

It is the understanding of SACOG that Caltrans is its cognizant agency. We will continue to discuss cognizant agency designation with Caltrans and FTA.

Projected Implementation Date:

Ongoing.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

III.4

FINDING: WEAKNESS IN IT RISK ASSESSMENT CONTROLS

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG will develop formal IT risk assessment control policies and procedures.

Staff will develop and implement formal written procedures for the following:

- Requirements to perform IT Risk Assessment for AJERA , including periodic updates to reflect changes in the SACOG's IT operating environment;
- Controls for performing periodic vulnerability scans of the network infrastructure and AJERA; and
- Ensure that an IT Risk Assessment is performed and periodically updated for the AJERA financial system (SACOG already has retained a consultant and will implement the appropriate recommendations from that analysis).

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

III.5

FINDING: WEAKNESS IN IT DISASTER RECOVERY AND BACKUP CONTROLS

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG will develop formal IT disaster recovery and backup control policies and procedures.

Staff will develop and implement formal written procedures for the following:

- A backup and recovery solution that will ensure that production data are backed up and rotated or replicated to an off-site location or cloud source. The off-site location should be geographically separated from the primary site (SACOG has implemented a cloud-based backup system, and is in the process of implementing a redundant on premise back-up device); and
- An update of the Business Continuity Plan to include detailed procedures for restoring the AJERA application in the event of a disaster (the Plan will be updated upon completion of implementation of the new cloud-based backup system).

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

III.6

FINDING: WEAKNESS IN PASSWORD CONTROLS OVER FINANCIAL MANAGEMENT SYSTEM

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG will develop formal password controls over the financial management system policies and procedures.

Staff will develop and implement formal written procedures for the following:

- Update the password policy to include SACOG password encryption, account lockout duration and account lockout threshold requirements;
- Ensure that password, password reuse, account lockout duration and account lockout threshold settings are enforced for the database and operating system supporting AJERA in line with the requirements in the updated password policy; and
- Ensure that the Windows domain policy setting that allows password to be stored using reversible encryption is disabled.

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

III.7

FINDING: WEAKNESS IN ACCOUNTS MANAGEMENT AND SEGREGATION OF DUTIES CONTROLS OVER THE FINANCIAL M MANAGEMENT SYSTEMS

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG will develop formal policies and procedures for access controls and segregation of duties over the financial management system.

Staff will develop and implement formal written procedures for the following:

- For requesting, approving, modifying, removing and periodically reviewing access permissions to the AJERA financial system and its supporting Windows operating system; and
- Segregation of duties policies and procedures to identify and segregate incompatible roles and functions within the AJERA financial system.

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

SACRAMENTO AREA COUNCIL OF GOVERNMENTS

Corrective Action Plan

III.8

FINDING: WEAKNESS IN CONFIGURATION MANAGEMENT CONTROLS

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG will develop formal configuration management control policies and procedures.

Staff will develop and implement formal written procedures for the following:

- Policies and procedures for installing security updates to the SQL database and Windows operating system that support the AJERA financial system.; and
- Ensuring that security patches for the Windows operating system and SQL database are installed on a timely basis.

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

Corrective Action Plan

IV.1

FINDING: PAYROLL PROCEDURES ARE IN DRAFT

Management's or Department's Response:

We concur.

Corrective Actions:

SACOG has developed formal payroll procedures. See attached Payroll Procedures Final document.

Projected Implementation Date:

SACOG has currently implemented the procedures (see attached Payroll Procedures Final document).

IV.2

FINDING: BUDGET PROCESS IS NOT FULLY CONSISTENT WITH BEST PRACTICES

Management's or Department's Response:

Even though the agency's Board and Advocacy Budget typically has not been passed by resolution, the Board action on that Budget is still "binding." Nevertheless, SACOG will take the following actions.

Corrective Actions:

SACOG will develop formal budget policies and procedures that are fully consistent with best practices.

Staff will develop and implement formal written procedures for the following:

- All Agency budgets are passed by resolution..

Projected Implementation Date:

Due to staff turnover, additional time is requested for implementation of the corrective actions. SACOG will formalize and implement the corrective actions within 180 days.

Sacramento Area Council of Government
(SACOG)

Full Scope Review

Performed for

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



By

*Samlin Consulting
For
RMW Associates, LLC*

Report Date: January 29, 2018
Draft Report Submission Date: March 6, 2018
Final Report Submission Date: XXX xx, 2018

Under Contract # DTFT60-16-D-00007
Task Order Number 8

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Report of Independent Accountants

To the Regional Administrator
Federal Transit Administration Region IX:

We understand that the Federal Transit Administration (FTA) has awarded the Sacramento Area Council of Government (SACOG) the grants listed in Section I of this report. We have examined the effectiveness of SACOG's internal control over compliance with FTA financial management system requirements during the period October 1, 2016 through September 30, 2017, as set forth in Section VI of this report, based on the following:

- For grants awarded prior to December 26, 2014, [49 CFR 18](#) "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), [Section 18.20](#), "Standards for Financial Management Systems."
- For grants awarded or modified on or after December 26, 2014, [2 CFR 200](#), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Section [200.302](#), Financial Management.

Management is responsible for maintaining effective internal control over SACOG's compliance with FTA financial management system requirements. Our responsibility is to express an opinion on the effectiveness of management's internal control over compliance with FTA financial management system requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the financial management system, testing, and evaluating the design and operating effectiveness of the financial management system, and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on SACOG's compliance with FTA financial management system requirements.

Because of inherent limitations in any internal control structure or financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Section II of this report, our examination identified material weaknesses in SACOG's internal controls over compliance with FTA financial management system requirements. A material weakness is a deficiency, or combination of deficiencies, in internal control over a recipient's financial management system, such that there is a reasonable possibility that a material noncompliance with the Common Rule and 2 CFR part 200 in relation to the applicable grants will not be prevented or detected and corrected on a timely basis.

In our opinion, because of the effect of the material weaknesses described in the preceding paragraph on the achievement of the objectives of the financial management system control criteria, SACOG has not maintained, effective internal control over its compliance with FTA financial management system requirements during the period (October 1, 2016 through September 30, 2017), based on the criteria established by the FTA as set forth in Section VI of the report.

Our examination also identified significant deficiencies in SACOG's internal controls over compliance with FTA financial management system requirements. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are discussed in Section III of this report. Certain advisory comments regarding procedures that do not affect our opinion or impact the criteria cited in the first paragraph of this report are described in Section IV of this report.

Hamilton Samlin Milligan JV

January 29, 2018

SECTION I

Brief Description of SACOG

The Sacramento Area Council of Governments (SACOG) is an association of local governments in the six-county Sacramento Region. SACOG serves six counties and twenty-two cities, comprising a 6,190 square mile area with an estimated population of 2.4 million. Member agencies are El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba counties; the cities of Auburn, Citrus Heights, Colfax, Davis, Elk Grove, Folsom, Galt, Isleton, Lincoln, Live Oak, Marysville, Placerville, Rancho Cordova, Rocklin, Roseville, Sacramento, West Sacramento, Wheatland, Winters, Woodland, Yuba City; and the town of Loomis.

SACOG provides transportation planning and funding for the region and serves as a forum for the study and resolution of regional issues. In addition to preparing the region's long-range transportation plan, SACOG approves the distribution of affordable housing in the region and assists in planning for transit, bicycle networks, clean air and airport land uses.

Originally formed in 1965, SACOG is a Joint Powers Authority of city and county governments, organized to provide a forum for the discussion and study of area-wide problems of mutual interest and concern to the cities and counties, and to facilitate the development of policies and action recommendations for the solution of such problems."

SACOG is governed by a thirty-two-member Board of Directors (thirty-one voting and one nonvoting). Voting members are appointed by member jurisdictions from their County Board of Supervisors or City Councils. The one non-voting member is the Caltrans District 3 Director. The organization's mission statement is: Provide leadership and a dynamic, collaborative public forum for achieving an efficient regional transportation system, innovative and integrated regional planning, and a high quality of life within the greater Sacramento Region.

Under SACOG's Joint Powers Agreement (JPA), each member city (excluding the City of Sacramento) and each member county (excluding Sacramento County) is entitled to one seat and one vote on the SACOG Board. The City of Sacramento may appoint two directors and is entitled to two votes. Sacramento County may appoint three directors and is entitled to three votes. In addition, jurisdictions may appoint an alternate who shall have full voting rights in the absence of the jurisdiction's appointed director.

SACOG's various designations and certifications include:

Designations as:

- Regional Transportation Planning Agency for Sacramento, Sutter, Yolo, and Yuba counties by the California State Secretary of Business, Transportation and Housing Agency.
- Metropolitan Planning Organization (MPO) by the Governor and the U.S. Department of Transportation for the Sacramento, Yuba City, and Davis Urbanized Areas.
- Metropolitan Planning Organization in the Sacramento Metropolitan Planning Area (MPA) by the California State Secretary of Business, Transportation and Housing Agency.

Designated Airport Land Use Commission for Sacramento, Sutter, Yolo, and Yuba counties.

- SACOG staffs the Capitol Valley Service Authority for Freeways and Expressways (CVRSSAFE).
- Capitol Valley Service Authority for Freeway and Expressways for Sacramento, San Joaquin, Yolo, Yuba, Sutter, and El Dorado counties.
- Area Wide Clearinghouse for the counties of Sacramento, Sutter, Yolo, and Yuba and the cities of Lincoln, Rocklin, and Roseville by the State of California Procedures of Intergovernmental Review of Federal Financial Assistance and Direct Development Activities
- Metropolitan Planning Organization for the federally-designated ozone nonattainment area in Sacramento, Yolo, El Dorado, and Placer counties, and the Sutter Buttes.

Joint Certification as:

- Sacramento Area Metropolitan Planning Process by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA).

Over the years, SACOG received funding for SACOG Administration and Planning, Job Access Reverse Commute, New Freedom, Downtown/Riverfront Street Car Project Development, and Streetcar TOD Toolkit.

SACOG is also a passthrough agency for several subrecipients including Sacramento Regional Transit District, Paratransit, Inc., City of Elk Grove Transit, Roseville Transit, Yolo County, Western Placer Consolidated Transportation Service Agency, Sacramento County Department of Human Assistance, City of Sacramento, and City of West Sacramento.

SACOG Grants

The SACOG has the following six (6) active grants totaling about \$9.8 million noted in the Transit Award Management System (TrAMS) as of December 4, 2017:

	Grant #	Description	Budget Amount
1.	CA- 2017-074-00	SACOG Transit Asset Management Plans	\$125,000
2.	CA-2016-122-01-00	Streetcar TOD Toolkit - SACOG grant planning and coordination	\$1,118,720
3.	CA-95-X275-00	Downtown/Riverfront Streetcar Proj. Devl	\$5,000,000
4.	CA-57-X072-01	SACOG FFY 2010, 2011 & 2012 NF	\$1,562,197
5.	CA-90-Y989-01	Downtown/Riverfront Transit Alt/CC Survey	\$1,560,000
6.	CA-57-X060-00	FFY 2008 NF Sac UZA (FFY 2009 \$)	\$456,947
Total			<u>\$9,822,864</u>

SECTION II

Material Weaknesses

For purposes of this review, a material weakness is a deficiency, or combination of deficiencies, in internal control over a recipient's financial management system, such that there is a reasonable possibility that a material noncompliance with the Common Rule and 2 CFR part 200 in relation to the applicable grants will not be prevented or detected and corrected on a timely basis.

The conditions and recommendations are provided below, with notation of the standard impacted, discussion of the significance of the condition, a summary of the recipient's proposed corrective actions and evaluation thereof.

II.1 Weaknesses in Controls Over Federal Financial Reporting

Condition:

There were weaknesses in the process for preparing and submitting Federal Financial Reports (FFRs). Specifically, we noted the following:

- There were no documented procedures for preparing and approving the recipient's FFRs.
- There were no requirements in place for employees involved in the preparation and reporting of the FFR to undertake periodic training in FTA financial reporting requirements.
- The Federal Cash Receipts and Federal Cash Disbursements were not accurately reported on the FFRs.
- The Federal Share of Expenditures and Recipient Share of Expenditures were reported on a cash basis instead of an accrual basis.
- The information reported on the FFRs were not reconciled with the detailed general ledger balances from the recipient's financial system. Additionally, there were no documented procedures for reconciling the general ledgers and the subsidiary ledgers to ensure that the information reported on the FFRs are accurate.
- Unliquidated obligations were not accurately reported on the FFRs.
- The Cash on Hand was not accurately reported on the FFRs for grant CA-57-X072-01.
- Indirect costs charged to grants were not reported on the FFRs submitted to FTA.
- There were no documented procedures for preparing and approving adjusting journal entries.

Standard(s) Impacted:

FTA Circular 5010.1E Chapter VI Section 2(f)(1) General.

- (e) Written operating procedures must exist and be simply stated, yet meet the recipient's operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.
- (h) All personnel must be properly qualified for their assigned responsibilities, duties, and functions; education, training, experience, competence, and integrity should be considered in assigning work; all must be held fully accountable for the proper discharge of their assignments.

FTA Circular 5010.1E Chapter III Section 3(c) Federal Financial Reporting (FFR) –The FFR may not be prepared on the cash basis of accounting, even though a recipient may keep its books on the cash basis during its accounting year. If this is the case, at the submission of the FFR, the recipient must prepare the necessary accruals and submit the FFR on the accrual basis of accounting.

The FFR must contain the following elements:

- (3) Financial reports must be based on the required supporting documentation maintained in the recipient's official financial management system that produces information that objectively discloses financial aspects of events or transactions.
- (4) Financial data reported should be derived from accounts that are maintained on a consistent, periodic basis; material changes in accounting policies or methods and their effect must be clearly explained. Reporting terminology used in financial reports to FTA should be consistent with receipt and expense classifications included in the latest Award.
- (6) The recipient is responsible for indicating whether or not it is charging indirect costs to the Award at the time of application. If the recipient is charging indirect costs to the Award, the recipient is responsible for having an approved Indirect Cost Rate Proposal or Cost Allocation Plan approved by the cognizant agency on file, and uploading the documentation into their TrAMS "Recipient Profile." The recipient must report on related indirect expenditures.
- (7) The recipient must provide financial information related to the FFR categories: Federal Cash, Recipient Share, Unliquidated Obligations, and Program Income.

FTA Circular 5010.1E Chapter I Section 5(167) – Unliquidated Obligations: Unliquidated obligations means the funding commitments that have been incurred by recipients and subrecipients, but expenditures have not yet been recorded because goods and services have not been received. Unliquidated obligations should be accounted for on Line I and J of the Federal Financial Report (FFR).

2 CFR 200.302(b) Financial Management. The financial management system of each recipient must provide for the following:

- (2) "Accurate, current, and complete disclosure of the financial results of Federal award or program in accordance with the reporting requirements set forth in §§[200.327](#) Financial reporting and [200.328](#) Monitoring and reporting program performance."
- (3) "Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."

FTA Circular 5010.1E Chapter VI Section 2(f)(3)(b)(1) – Accurate, current, and complete disclosure of the financial results of federally assisted activities must be made in accordance with financial reporting requirements.

Recommendations:

We recommend that SACOG should:

- Develop and implement procedures for preparing and approving FFRs.
- Develop and implement formal requirements to ensure that employees involved in the preparation of the FFR undertake periodic training in FTA financial reporting requirements.
- Implement controls to ensure that Federal Cash Receipts and Federal Cash Disbursements are accurately reported.
- Implement controls to ensure that the Federal Share of Expenditures and Recipient Share of Expenditures are reported on an accrual basis.
- Implement controls to ensure that information reported on FFRs are reconciled with the general ledger balances from the recipient's financial system. Additionally, implement procedures for reconciling the general ledgers and the subsidiary ledgers to ensure that the information reported are accurate.
- Implement controls to ensure that unliquidated obligations are accurately reported on the FFRs based on the outstanding commitment balances identified in the recipient's financial system.
- Implement controls to ensure that Cash on Hand is reported accurately on the FFRs.
- Ensure that Federal and local share of expenditures are reported on an accrual basis.
- Implement controls to ensure that indirect costs charged to the grants are reported on the FFRs.
- Develop and implement formal procedures for preparing and approving adjusting journal entries

These recommendations should be implemented within 90 days of the final report.

Discussion:

The recipient's management informed us during the review that reconciliation of the general ledger to the subsidiary ledgers were performed on a periodic basis to compare source documentations to the information in the Ajera financial system; however, we noted that the recipient had not formally documented procedures for reviewing and approving the reconciliation. Also, the recipient did not maintain any documentation for the reconciliations performed.

We tested the control over the process for preparing, reviewing, approving, reconciling, and reporting FFRs to determine whether adequate internal controls were in place. We noted that there

were no documented procedures in place for preparing and approving the recipient's FFRs. Additionally, there were no procedures that required personnel responsible for preparing the FFR to undertake periodic training in FTA financial reporting requirements. Failure to document formal FFR procedures and implement formal training requirements increases the risk that the recipient would not have the technical capacity to meet the FTA grants reporting requirements.

We also noted that there was no process in place to ensure that the information reported on the FFRs were reconciled with the detailed general ledger balances from the recipient's Ajera financial system. The Finance Department records and tracks grant related expenditures and receipts in the Ajera Financial system; however, the individual responsible for preparing the FFRs works in the Transportation Services Department and does not involve the Finance Department in the preparation and validation of the FFR details before they are submitted to FTA. As a result, the information that were reported on the FFRs during the review period were not based on the recipient's financial system. Because of the control weaknesses in relation to the FFR process, we noted instances where the recipient's FFRs were not accurately completed in line with 2 CFR part 200 and FTA requirements.

We reviewed FFRs for the third (June 30) and fourth (September 30) quarters of Fiscal Year 2017 for six (6) grants that were submitted to FTA and noted instances where the FFRs were not completed in accordance with the requirements outlined in FTA Circular 5010.IE. The grants include CA-37-X200-00, CA-57-X042-00, CA-57-X060-00, CA-57-X072-01, CA-95-X275-00 and CA-2016-122-00. We noted that the Federal Cash Receipts and Federal Cash Disbursements were not accurately reported on the FFRs. Specifically, the recipient did not report cumulative cash receipts or disbursements for the third and fourth quarter FFRs for grants CA-37-X200-00, CA-57-X042-00, CA-57-X060-00, CA-95-X275-00 and CA-2016-122-00. We however noted based on the information in TrAMS that there were \$950,343, \$422,999, \$456,947, \$2,506,011 and \$217,260 respectively in receipts and disbursements for the grants as of the end of the fourth quarter reporting period. Also, the recipient reported \$86,175 in cumulative cash disbursements and \$0 in cumulative cash receipts for the third and fourth quarter FFRs for grant CA-57-X072-01; however, based on the information in TrAMS there were \$1,255,372 in cumulative cash receipts and disbursements as of the end of the fourth quarter reporting period.

We noted that unliquidated obligations were not accurately reported for four of the grants we reviewed. For instance, for grant CA-57-X060-00, \$160,921 and \$36,262 were reported on the FFR as Federal and Local Share of Unliquidated Obligations for the fourth quarter even though the entire grant amounts have been disbursed and awaiting close out. For grant CA-57-X072-01, the remaining balance on the grant was reported as unliquidated obligations in the third and fourth quarter FFRs instead of the remaining amount of the recipient's binding commitments. We also noted that for grant CA-95-X275-00, the remaining balance on the grant was reported as unliquidated obligations on the 3rd quarter FFR instead of the remaining amount of the recipient's binding commitments. The Federal Share and Local Share of Unliquidated Obligations was reported as \$0 on the fourth quarter FFR; however, there were ongoing binding commitments/contracts for Environmental Legal Outreach and Preliminary Engineering Consulting and existing sub-recipient agreements. Additionally, for grant CA-2016-122-00, the remaining balance on the grant was reported as unliquidated obligations on the third quarter FFR instead of the remaining amount of the recipient's binding commitments. The Federal Share and Local Share of Unliquidated Obligations was reported as \$0 on the fourth quarter FFR; however, there were ongoing binding commitments/contracts for legal services and sub-recipient agreements.

We noted that the Federal and Recipient Share of Expenditures were reported on a cash basis instead of the accrual basis. Specifically, the recipient was not reporting incurred expenditures that had not been paid for and there was no process in place to develop accruals for FFR purposes.

We also noted that Cash on Hand was not reported accurately for grant CA-57-X072-01. Specifically, we noted \$318,085 of Cash on Hand was reported for the third and fourth quarter FFRs instead of \$0.

We noted during the review that the recipient was charging indirect costs to the FTA grants; however, we noted that the indirect costs charged to grants were not reported on the FFRs submitted to FTA.

We reviewed the recipients process for recording and applying the indirect cost rates to the FTA grants and noted that adjusting journal entries are used to ensure that indirect cost rates and fringe benefit rates are accurately applied to the appropriate direct labor base. We however noted that procedures for preparing and approving the adjusting journal entries were not formally documented.

FTA uses the FFRs to monitor the status of grants to ensure proper recipient stewardship of Federal funds and compliance with the laws and regulations that govern its grant programs. As a result, failure to report accurate FFR information increases the risk that FTA may not have all the required information necessary to effectively monitor the recipient's grant activities and ensure that program objectives are met.

Recipient's Response

Evaluation of Recipient's Response

II.2 Weaknesses in Controls over Cash Management and Echo Drawdowns

Condition:

We noted the following weaknesses in the controls over the recipient's process for managing cash drawdowns from FTA grants: Specifically, we noted the following:

- There were no documented procedures for the ECHO draw down process including procedures for the review and approval of drawdowns-
- We tested a sample of fifteen (15) drawdowns and noted instances where drawdowns did not include evidence that local matching requirements were met, and local fund were available at the time the draw down occurred. We also noted instances where drawdowns included unallowable costs and were charged to a wrong ALI.

- The ECHO system has not been updated to identify the Finance Director as the Authorizing Official. As a result, the ECHO drawdowns reviewed for the period were not approved by the authorizing official identified in the ECHO system.

Standard(s) Impacted:

FTA Circular 5010.1E Chapter VI Section 2(f)(1)(e) – Written operating procedures must exist and be simply stated, yet meet the recipient’s operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.

FTA Circular 5010.1E Chapter VI Section 3 NON-FEDERAL SHARE. The recipient agrees to provide sufficient funds or approved in-kind resources to serve as non-federal share for all of its federally assisted Awards in compliance with 49 U.S.C. chapter 53. The recipient certifies that it has or will have available the proportionate amount of the non-federal share to pay promptly the costs incurred or that become due to implement the Award, except to the extent that the Federal Government determines in writing that the non-federal share may be deferred. The recipient may not use an amount as the non-federal share for more than one Award.

FTA Circular 5010.1E Chapter VI (5)(b). Allowable Costs. The criteria that govern the eligibility of costs to implement the Award are listed below. To be allowable under a federal assistance program, costs must meet the following general criteria:

(1) Be necessary and reasonable for proper and efficient administration of the federal assistance program, be allowable under the principles contained in the OMB common rules and circulars and except as specifically provided in this circular, not be general expenses required to carry out the overall responsibilities of state or local governments.

FTA Circular 5010.1E Chapter II Section 3(a) Recipient Role - In addition to FTA’s responsibility to monitor FTA Awards and the federally assisted projects thereunder, recipients must monitor federally assisted activities to ensure compliance with applicable federal requirements. This includes the administration and management of the Award in compliance with federal regulations, the Grant or Cooperative Agreement, and applicable FTA circulars. A recipient is also responsible for federal assistance that “passes through” to a subrecipient.

FTA Circular 9300.1B Chapter V (5)(b) Phases. The capital investment process involves specific phases of activity leading from project conception to revenue operation. For New Starts projects, these phases include:

- (1) Systems Planning at a regional level,
- (2) Alternatives analysis at a corridor level,
- (3) Preliminary engineering,
- (4) Final Design, and
- (5) Construction.

FTA Circular 5010.1E Chapter VI Section 2(f)(3)(b)(2) Accounting Records. Recipients and subrecipients must maintain records that adequately identify the source and application of funds provided for federally assisted activities. These records must contain information pertaining to the Award or subawards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

FTA Circular 5010.1E Chapter VI Section 9(d) Policy for ECHO Payments - FTA makes all payments by electronic funds transfer, regardless of the dollar amount involved. Payments are made under the electronic clearing house operation Web (ECHO-Web) system, by means of an ECHO control number assigned to the recipient. The recipient agrees to comply with the ECHO-Web requirements contained in the Treasury Regulations, 31 CFR part 205, "Rules and Procedures For Efficient Federal-State Funds Transfers," specifically 2 CFR § 200.305, "Payments," and as established by the "Guidelines for Disbursements" set forth in FTA's ECHO-Web system operations manual.

2 CFR part 200.331(d) Monitor the activities of the subrecipient as necessary to ensure that the sub award is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the sub award; and that sub award performance goals are achieved.

FTA Circular 5010.1E Chapter VI Section 2(f)(3)(b)(7) Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the Treasury and disbursement by recipients and subrecipients must be followed whenever advance payment procedures are used. Recipients must establish reasonable procedures to ensure the reports on subrecipients' cash balances and cash disbursements are received in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by electronic transfer of funds methods, the recipient must make drawdowns as close as possible to the time of making disbursements. Recipients must monitor cash drawdowns by their recipients to ensure that they conform substantially to the same standards of timing and amount that apply to advances to recipients. Payment received from FTA must be disbursed within three business days. If not disbursed within three days, funds become excess funds and must be returned to FTA with interest.

49 CFR 18.20(b)(5) - Allowable Costs. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

Recommendations:

We recommend SACOG should:

- Develop and implement formal procedures for the ECHO drawdown process. The procedures should include controls for management review and approval of drawdowns.
- Develop and Implement a process to ensure that only the Federal matching portions are drawn down for each invoice. The proportionate amount of the non-federal share should be excluded from the drawdown.
- Develop and implement a process to ensure that expenditures included in drawdowns are allowable based on the requirements of Federal statutes, regulations, and the terms and conditions of the award.
- Refund the Federal matching portion of the \$1,641.50 unallowable legal costs included in the drawdown for the Riverfront Streetcar project.

- Develop and implement a process to ensure costs are coded and charged to the appropriate ALIs in the grant.
- Review all costs charged to the Riverfront Streetcar project (CA-95-X275-00) and ensure that:
 - All final design costs charged to the preliminary engineering ALI are moved to the ALI for final design.
 - The proportionate amount of the non-federal share applicable to the Federal drawdowns have been met by subrecipients.
- Ensure that the current procedures for verifying that sub-recipients matching requirements are met prior to making draw down requests from the ECHO system is fully enforced.
- Ensure that the ECHO system is updated to identify the Finance Director as the Authorizing Official for all ECHO drawdowns.

These recommendations should be implemented within 90 days of the final report.

Discussion:

We were informed during the review that invoices and other documentation that support all SACOG and subrecipient drawdown requests are required to be reviewed to ensure that they are complete and accurate and have all the needed approvals/sign-offs prior to submitting any ECHO request to draw down federal funds. We however noted that documented procedures for the ECHO draw down process including procedures for reviewing and approving drawdowns were not in place. Failure to document formal procedures for the ECHO process increases the risk that agency-wide drawdowns would not follow a consistent process, which could result in unsupported or unallowable costs charged to FTA grants.

We selected fifteen (15) FTA ECHO drawdowns that occurred from October 1, 2016 to September 30, 2017 and reviewed the supporting invoices and other documentation to determine whether the drawdowns were allowable based on the requirements of Federal statutes, regulations, and the terms and conditions of the award. We noted instances where the ECHO drawdowns did not comply with the requirements of Federal statutes, regulations, and the terms and conditions of the award. For example, we noted that the entire invoice costs for eight (8) out of fifteen (15) drawdowns were charged to the FTA grant and there was no evidence to show that the local matching requirements were met at the time the draw down occurred. As a result, the Federal matching portions were overdrawn. All eight drawdowns were for the Riverfront Streetcar project (CA-95-X275-00). The total amount for the eight drawdowns was \$1,991,972. SACOG informed us that their understanding was that they were required to ensure that the match amount in total meets the requirement, not on each invoice.

We also noted that three (3) out of the fifteen (15) drawdowns related to the Tool Kit grant (CA-2016-122) did not include supporting documentation to show that the sub-recipient had the local match available at the time the invoices were paid, and funds were drawn down. The recipient's

subrecipient procedures require them to verify that the subrecipient match has been met but the procedures were not followed for the three drawdowns we reviewed. The subrecipient portion of the total costs used for the three drawdowns were \$150,731. Failure to verify payments increases the risk that subrecipients might hold onto cash for over three days after the recipient drawing down funds from ECHO before reimbursing vendors in violation of the Federal 3-day requirement. Any potential violations would cause the recipient to owe interest to FTA on the funds received. The weakness could also potentially result in the recipient drawing down more than the Federal matching portion. Upon notification of the observation, SACOG verified that the local match was paid and indicated that they will be enforcing their procedures to ensure that the subrecipient match is verified before future drawdowns occur.

We additionally noted that the invoice supporting one (1) out of the fifteen (15) drawdowns relating to the Riverfront Streetcar project (CA-95-X275-00) included legal costs that was not allowable based on the scopes defined in the grant. Specifically, charges to the grant for the Riverfront Streetcar project (CA-95-X275-00) on 11/4/16 included \$1,641.50 that did not relate to the project. They were for the Streetcar Tool Kit project instead which is covered by a different grant.

We further noted that the supporting documentation for one (1) of the fifteen (15) drawdowns relating to the Riverfront Streetcar project (CA-95-X275-00) made on 5/5/17 included final design costs that were coded to preliminary engineering ALI. Specifically, there were \$27,560 and \$140,461.83 in final design costs; however, the entire costs were coded and charged to a different ALI (Activity Line Item) for preliminary engineering. Based on our inspection of the grant agreement, we noted that design and preliminary engineering are separate ALIs with different matching ratios. Additionally, since the preliminary engineering phase for the Streetcar Project has already been completed, costs charged to the ALI is not eligible.

We noted during the review that the recipient's Finance Director was responsible for approving all ECHO draw down requests before drawdowns were made. We however reviewed screen shot of the signing authority from the ECHO system and noted that the ECHO system has not been updated to identify the Finance Director as the Authorizing Official. The Authorizing Official named in the ECHO system is one of the recipient's Transit Planners. As a result, the total ECHO drawdowns amounting to \$2,658,972 that we reviewed for the period were not approved by the authorizing official identified in the ECHO system.

Recipient's Response

Evaluation of Recipient's Response

II.3 Weaknesses in Grants Management Controls

Condition:

There were inadequate Grants Management procedures. Additionally, there were weaknesses in the controls for tracking and managing grant budgets and expenditures

Standard(s) Impacted:

2 CFR part 200.302 Financial management. (b)

(1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation

(5) Comparison of expenditures with budget amounts for each Federal award.

(7) Written procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of this Part and the terms and conditions of the Federal award.

2 CFR part 200.303 Internal controls.

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

(c) Evaluate and monitor the non-Federal entity’s compliance with statute, regulations and the terms and conditions of Federal awards.

FTA Circular 5010.1E Chapter II (3)(a)

The recipient’s responsibilities include, but are not limited to, actions that:

(4) Ensure conformity to Grant Agreements and Cooperative Agreements, applicable statutes, codes, ordinances, and safety standards;

(6) Keep expenditures within the latest approved Award Budget;

FTA Circular 5010.1E Chapter VI Section 2(f)(1)

e) Written operating procedures must exist and be simply stated, yet meet the recipient’s operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.

f) The recipient’s information system must reliably provide needed operating and financial data for decision-making and performance review.

h) All personnel must be properly qualified for their assigned responsibilities, duties, and functions; education, training, experience, competence, and integrity should be considered in assigning work; all must be held fully accountable for the proper discharge of their assignments.

Recommendations:

We recommend that SACOG should:

- Investigate whether their current financial system can provide them the capability to track and manage grant budgets and expenditures. If this capability does not exist, then the recipient should develop a standardized grant billing spreadsheet template to use to consistently track grant budgets and expenditures.
- Develop, document, approve and implement detailed grant management procedures that establish a consistent methodology for tracking, managing and updating grant budgets and expenditures on the billing spreadsheets. The procedures should also include processes for comparing grant budgets to actual expenditures and initiating, reviewing and approving grant revisions and amendments. Additionally, the procedures should include detailed processes for identifying grants that are ready to be closed out and initiating close-out activities.

These recommendations should be implemented within 90 days of the final report.

Discussion:

The recipient uses billing spreadsheets to track grant budgets and expenditures according to Activity Line Item (ALI) for projects with multiple funding sources. This process is manually labor intensive and prone to errors. Additionally, the recipient does not use the same billing spreadsheet template for each grant. As a result, grant information was not consistently tracked and the update process was not standardized. Additionally, weaknesses were identified in the process for tracking grant budgets and expenditures through the billing spreadsheets for three (3) out of six (6) active grants.

The billing spreadsheet for grant CA-95-X275-00, identified \$1,130,749.92 in subrecipient costs as of 6/26/17 that were recorded as Preliminary Engineering; however, the supporting subrecipient invoices identified the costs as Final Design Costs. Also, the local matching expenditures were not tracked by ALI within the billing spreadsheet and the billing spreadsheet only tracked the FTA funded portions of the grant budget.

For grant CA-90-Y989-01, the billing spreadsheet did not track one of the ALIs within the grant agreement (ALI 44.27.00 OTHER ACTIVITIES) with a Federal Share of \$360,000.00 and a Local Share of \$90,000.00. Also, the total amount of funds in the grant was not accurately recorded. Based on the Grant Agreement, the Total Grant amount was \$1,650,000.00; however, a total grant amount of \$1,355,000 was tracked on the spreadsheet. Additionally, the spreadsheet recorded a local match of \$155,000, that was to be provided from four (4) subrecipients, to match the Federal Share of \$1,200,000 for a feasibility study; however, based on the grant agreement the \$1,200,000 was matched by Transportation Development Credits; therefore, there was no monetary local match required.

Additionally, the billing spreadsheet for grant CA-57-X060-00 did not track grant expenditures by ALI nor did it track the local matching portion of the grant budget. Also, the spreadsheet did not track the local share of expenditures and there were two ALIs in the billing spreadsheet that were crossed out without any costs being tracked; however, those ALIs were still a part of the grant agreement.

We also noted that the recipient did not have formal documented grants management policies and procedures in place to establish internal processes for tracking and managing grants. Specifically,

documented procedures were not in place to establish the internal processes for tracking and managing grant budgets and expenditures on the billing spreadsheets. We also noted that documented grants management procedures were not in place for initiating, reviewing and approving grant budget revisions. The recipient did have a Program Management Plan in place stating that the recipient will follow FTA circular 5010.1D; however, the Program Management Plan did not identify the recipient's internal process for identifying grants that need to be closed out and initiating close-out actions.

Technical capacity involves the capability of the grant recipient to properly carry out and manage Federal grants in accordance with the requirements of the grant agreement, and with all applicable laws and regulations, using sound management practices. Lack of grant management procedures and inconsistent and inadequate tracking of grant budgets and expenditures increases the risk that the recipient may not be able to manage FTA grant awards in accordance with the executed grant agreements and ensure that it has adequate technical capacity in accordance with FTA requirements. Additionally, accounting for costs under the wrong grant activity could potentially result in costs being deemed unallowable.

Recipient's Response:

Evaluation of Recipient's Response:

SECTION III

Significant Deficiencies

For purposes of this review, a significant deficiency is a deficiency, or combination of deficiencies, in internal control over a recipient's financial management system that is *less* severe than a material weakness, as defined in Section II, yet important enough to merit attention by those charged with governance.

The conditions and recommendations are provided below, with notation of the standard impacted, discussion of the significance of the condition, a summary of the recipient's proposed corrective actions and evaluations thereof.

III.1 Weaknesses in Budget Controls

Condition:

There were weaknesses in the SACOG budget procedures and process for performing budget versus actual analysis.

Standard(s) Impacted:

2 CFR part 200.302 Financial management. (b)

(1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation

(5) Comparison of expenditures with budget amounts for each Federal award.

2 CFR part 200.303 Internal controls.

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

(c) Evaluate and monitor the non-Federal entity's compliance with statute, regulations and the terms and conditions of Federal awards.

FTA Circular 5010.1E Chapter II Section 3(a)

The recipient's responsibilities include, but are not limited to, actions that:

- (4) Ensure conformity to Grant Agreements and Cooperative Agreements, applicable statutes, codes, ordinances, and safety standards;
- (6) Keep expenditures within the latest approved Award Budget;

FTA Circular 5010.1E Chapter VI Section 2(f)(1)

e) Written operating procedures must exist and be simply stated, yet meet the recipient's operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.

Recommendations:

We recommend that SACOG should:

- Document, approve and implement detailed budget procedures that include processes for developing the budget, obtaining formal board approval for the budget, performing budget variance analysis and processes for amending the budget.
- Ensure that budget variance analyses are performed on a periodic basis and presented to the appropriate committee of the Board of Directors.

These recommendations should be implemented within 90 days of the final report.

Discussion:

The recipient did not have formal documented procedures for preparing and approving the recipient's budget. The recipient was in the process of drafting budget policies and procedures. In order to ensure effective budget controls, budgeting policies and procedures should include processes for developing the budget, obtaining formal board approval for the budget, performing budget variance analysis and processes for amending the budget.

We also noted that budget variance analyses were not provided to the Board of Directors to use as a monitoring and oversight tool. Budget variances can occur for a variety of reasons. For example, costs and revenues can come in higher or lower than calculated. Budget variance analysis addresses these differences and helps recipients adjust their funding to ensure successful completion of FTA funded activities. Additionally, they provide recipients with a tool to identify cost overruns before there is an impact on project funding and initiate grant budget amendments and revisions in a timely manner to ensure federal eligibility of incurred costs.

Weaknesses in budget controls increase the risk that individuals charged with governance may not have adequate information to fulfill their oversight responsibilities. Additionally, cost overruns and revenue shortfalls may not be detected in a timely manner to allow appropriate action to mitigate their effects including seeking FTA approval of grant amendments and grant budget revisions.

Recipient's Response:

Evaluation of Recipient's Response:

III.2 Weaknesses in Controls over the Monitoring of FTA Grant Activities and Subrecipients

Condition:

We noted the following weaknesses in the controls over the monitoring of the recipient's FTA grant activities and subrecipients:

- SACOG does not have an internal audit function. Additionally, there is currently no process in place to perform periodic self-assessments of internal controls.
- SACOG's subrecipients risk assessment process does not document the type of monitoring required to be performed based on the risk assessment results.
- SACOG has subrecipient procedures that require subrecipients to comply with 2 CFR part 200 and FTA Regulations; however, there is no evidence that they are currently performing and documenting periodic checks to ensure compliance.
- SACOG's subrecipient monitoring procedures references outdated FTA circulars and should be updated to reflect the existing FTA guidance.

Standard(s) Impacted:

FTA Circular 5010.1E Chapter VI Section 2(f)(1) – General.

- e) Written operating procedures must exist and be simply stated, yet meet the recipient's operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.
- g) The recipient must provide proper supervision and performance must be subject to review of an effective internal audit program.

FTA Circular 5010.1E Chapter VI Section 2(f)(2) – Internal Control Self-Assessment. The recipient should evaluate its internal controls and financial management systems to ensure their effectiveness.

2 CFR 200.331 Requirements for pass-through entities - All pass-through entities must:

- (b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraph (e) of this section.
- (d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

(e) Depending upon the pass-through entity's assessment of risk posed by the subrecipient (as described in paragraph (b) of this section), the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:

- (1) Providing subrecipients with training and technical assistance on program-related matters; and
- (2) Performing on-site reviews of the subrecipient's program operations;
- (3) Arranging for agreed-upon procedures engagements as described in § 200.425 Audit services.

(f) Verify that every subrecipient is audited as required by Subpart F— Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.

(g) Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.

Recommendations:

We recommend that the recipient should:

- Develop and implement a formal process for performing periodic self-assessments of FTA related internal controls.
- Designate an individual with internal audit responsibility, who will report to the Chief Executive Officer. The responsibility should include periodic assessment of internal controls. If the recipient determines resource constraints prevent designation of an internal auditor, then appropriate compensating controls should be implemented to mitigate the risk.
- Update the subrecipient risk assessment procedures to include criteria for determining the type of monitoring required to be performed based on the risk assessment results.
- Develop and implement a formal process for performing and documenting periodic oversight reviews of the subrecipients to ensure that they comply with 2 CFR part 200 and FTA Regulations. The process should include controls to verify that:
 - Fixed assets acquired with FTA passthrough funds are recorded, tracked, inventoried, and titled, maintained, disposed in line with federal requirements.
 - Procurements funded with FTA passthrough funds meet all the applicable requirements of 4220.1F.
 - Subrecipients subject to Single Audit are having the audits performed and that they are submitting the Single Audit reports to the appropriate authorities in a timely manner.
- Update the subrecipient monitoring procedures to replace the outdated references with current FTA guidance.

These recommendations should be implemented within 90 days of the final report.

Discussion:

We noted that the recipient did not have an internal audit function or an independent Internal Auditor in place with the appropriate authority and oversight responsibility. Additionally, there was no formal process in place for performing periodic self-assessment of FTA related internal controls in line with FTA Circular 5010.1E to evaluate the adequacy of internal controls. A formal self-assessment process overseen by an internal audit function or designated independent Internal Auditor is necessary to ensure that internal controls are continuously evaluated, and any deficiencies corrected internally.

We noted that the recipient has subrecipient monitoring procedures in place that spell out the procedures for providing subrecipients oversight. We also noted that the subrecipient monitoring procedures included procedures for performing risk assessments of the subrecipient to determine their risk of non-compliance with Federal statutes, regulations, and the terms and conditions of the subaward. We however noted that the procedures did not document the type of monitoring required to be performed based on the risk assessment results as required by 2 CFR part 200. We reviewed sample subrecipients folders during the review and noted that a risk assessment matrix was used to document the risk assessment results for each subrecipient but there was no documented evidence that the results were used to determine the appropriate type of oversight required.

We noted that the recipient's subrecipient monitoring procedures require the subrecipients to comply with 2 CFR part 200 and FTA Regulations. We however noted that there were no documented procedures for performing periodic monitoring of subrecipients to ensure that they comply with 2 CFR part 200 and FTA Regulations. As a result, oversight reviews were not performed and documented to ensure that fixed assets acquired with FTA passthrough funds were recorded, tracked, inventoried, titled, maintained, and disposed in line with federal requirements. Additionally, there was no evidence of reviews performed to ensure that procurements funded with FTA passthrough funds meet all the applicable requirements of 4220.1F. Further, there were no reviews performed to verify that subrecipients subject to Single Audit are having the audits performed and that they are submitting the Single Audit reports to the appropriate authorities in a timely manner. Weaknesses in the subrecipient monitoring controls increases the risk that the subrecipients might not fully comply with the requirements of Federal statutes, regulations and the terms and conditions of the subaward.

We also reviewed recipient's subrecipient monitoring procedures and noted that it references outdated FTA circulars. Specifically, the procedures referenced outdated FTA Circulars 4220.1E, 5010.1C, and 8100.1B. FTA Circulars 4220.1E was superseded by Circular 4220.1F on November 1, 2008. Also, Circular 5010.1C was superseded by Circular 5010.1E on March 21, 2017. FTA Circular 8100.1B was superseded by Circular 8100.1C on September 1, 2008. Failure to update the procedures to reflect current FTA guidance could impact the ability of the recipient ability to comply with changes to grants reporting and management requirements that are communicated through the most recent Circulars.

Recipient's Response

Evaluation of Recipient's Response

III.3 Indirect Cost Allocation Plan Not Approved by Cognizant Agency

Condition:

The recipient charged indirect cost to the federal grant awards during the review period; however, the indirect cost rate used by the recipient was not approved by the cognizant agency (FTA).

Standard(s) Impacted:

2 CFR part 200.19 Cognizant agency for indirect costs. Cognizant agency for indirect costs means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this part on behalf of all Federal agencies.

FTA Circular 5010.1E, Chapter VI Section 6(a) General. Recipients that intend to seek payment for indirect costs must prepare a Cost Allocation Plan (CAP) or an Indirect Cost Rate Proposal (ICRP). CAPs and Indirect Cost Rate Proposals must be approved by FTA or another cognizant federal agency. Pursuant to 2 CFR § 200.210, a Federal Award must include identification of the indirect cost rate for the Federal award (including if the de minimis rate is charged).

FTA Circular 5010.1E, Chapter VI Section 5(a)3(b) Indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective. Indirect costs must be supported by an approved Cost Allocation Plan (CAP) and/or Indirect Cost Rate Proposal (ICRP).

2 CFR 200.306(c) Unrecovered indirect costs, including indirect costs on cost sharing or matching may be included as part of cost sharing or matching only with the prior approval of the Federal awarding agency.

Recommendations:

We recommend that SACOG should:

- Prepare and submit an Indirect Cost Rate Plan proposal to the FTA Regional Office for approval.
- Ensure that only indirect costs rates approved by the cognizant agency (FTA) are charged to FTA grants.

These recommendations should be implemented within 120 days of the final report.

Discussions:

We noted that the recipient charged indirect cost to the Federal grant awards during the review period; however, the indirect cost rate used by the recipient was not approved by the cognizant agency. FTA is the cognizant agency responsible for reviewing, negotiating, and approving the recipient's cost allocation plans. The recipient's plan was instead approved by the California

Department of Transportation (CALTRANS). The recipient agreed to submit the next plan to FTA for approval.

Recipient's Response

Evaluation of Recipient's Response

III.4 Weaknesses in IT Risk Assessment Controls

Condition:

An IT risk assessment has not been performed for the Ajera Financial System. Additionally, the recipient does not perform periodic vulnerability scans of its network infrastructure and financial system.

Standard(s) Impacted:

FTA Circular 5010.1E Chapter VI Section 2(f)(2) – Internal Control Self-Assessment. The recipient should evaluate its internal controls and financial management systems to ensure their effectiveness.

FTA Circular 5010.1E Chapter VI Section 2(e) – Necessary Elements. Certain elements are necessary to achieve the objectives mentioned above in Chapter VI, subsection 2.d and meet the standards discussed below in Chapter VI, subsection 2.f. The following objectives and standards facilitate the recipient's use of internal controls:

(6) Regular program of testing to identify vulnerabilities in the internal control system.

FTA Circular 5010.1E Chapter VI Section 2(c) – Recipients and subrecipients are responsible for establishing and maintaining adequate internal controls over all their functions that affect implementation of the Award.

2 CFR 200.303 Internal Controls - The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

49 CFR 18.40(a) Monitoring by Grantees - Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Recommendations:

We recommend that SACOG should:

- Develop and implement procedures to include requirements to perform IT Risk Assessment for the Advantage System. The procedures should require the IT risk assessment to be updated periodically to reflect changes in the recipient's IT operating environment.
- Ensure that an IT Risk Assessment is performed and periodically updated for the Ajera financial system.
- Implement controls for performing periodic vulnerability scans of the network infrastructure and financial system.

These recommendations should be implemented within 90 days of the final report.

Discussion:

We noted during the review that the recipient did not have a formal process in place requiring periodic IT risk assessments to be performed. The recipient however informed us that they commissioned Direct Technology to assess the risks in its IT infrastructure, facility, security, and governance from October to December 2016. We reviewed the report and noted that it identified risk areas that needed to be addressed by management. We however noted that the assessment did not cover the Ajera financial system and its supporting database and operating system. Additionally, we noted that there was no procedure that required the recipient to perform vulnerability scans on their network. As a result, the recipient had not performed any periodic vulnerability scans of its network infrastructure and the Ajera financial system during the review period. Risk and Vulnerability Assessments are important because they help make certain that all threats and vulnerabilities are identified and considered, that the greatest risks are addressed, and that appropriate decisions are made regarding which risks the recipient should accept and which ones it should mitigate through security controls.

Recipient's Response

Evaluation of Recipient's Response

III.5 Weaknesses in IT Disaster Recovery and Backup Controls

Condition:

We identified weaknesses with the Recipient's disaster recovery and backup processes. Specifically, we noted the following:

- The recipient’s current recovery strategy is to recover using backup tapes at the alternate facility in the event of a disruption that renders the primary site inoperable. However, the tape drive used to perform the backups is not functioning. As a result, the recipient cannot execute the recovery strategy in the event of any disruption to the primary site.
- Backups are currently stored at the primary facility only. As a result, in the event of a disaster that renders the facility inaccessible, the recipient may not be able to recover its financial data.
- The recipient’s Business Continuity Plan (BCP) does not have detailed procedures for restoring the Ajera application in the event of a disaster. Additionally, the Business Continuity Plan included outdated information.

Standard(s) Impacted:

FTA Circular 5010.1E Chapter VI Section 2(c) – Recipients and subrecipients are responsible for establishing and maintaining adequate internal controls over all their functions that affect implementation of the Award.

2 CFR 200.303 Internal Controls - The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

FTA Circular 5010.1E Chapter VI Section 2(f)(1)(e) – Written operating procedures must exist and be simply stated, yet meet the recipient’s operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.

Recommendations:

We recommend that SACOG should:

- Implement a backup and recovery solution that would ensure that production data are backed up and rotated or replicated to an off-site location or cloud source. The off-site location should be geographically separated from the primary site
- Update the Business Continuity Plan to include detailed procedures for restoring the Ajera application in the event of a disaster.
- Update the Business Continuity Plan to reflect the current backup software being used.

These recommendations should be implemented within 90 days of the final report.

Discussion:

The recipient's backup policy requires daily differential (incremental) backups and monthly full backups of production data using VEEAM backup software. We noted during the review that the recipient's current recovery strategy is to recover using backup tapes at the alternate facility in the event of a disruption that renders the primary site inoperable; however, the tape drive used to perform the backups had not been functioning for over three months as of the start of our site visit on December 4, 2017. As a result, the recipient was unable to backup production data to backup tapes for offsite storage and therefore would not be able to execute the recovery strategy in the event of a disaster that renders the facility inaccessible. Currently, the production backups are only stored in the SACOG computer room (primary site) and data is retained for one week. The recipient informed us that they are in the process of procuring cloud-based backup and recovery services from a vendor to address the issue. They added that the recovery strategy would change once the new services are procured.

We were informed during the review that the recipient had a Business Continuity Plan (BCP) in place that would be used to execute the recovery strategy in the event of a disaster. We reviewed the BCP to determine whether it documents the detailed recovery procedures. We noted from the review that the BCP did not have detailed procedures for restoring the Ajera application in the event of a disaster. We also noted that the recipient changed their backup software from Computer Associates Arcserve Backup r12.5 to VEEAM backup software; however, the BCP which was last updated on November 1, 2017 still included references to the old backup software that is no longer used. The recipient agreed to update the BCP to reflect the new recovery procedures and current backup software after they procure the cloud backup and recovery services.

Failure to implement controls necessary for the recovery strategy during a disaster would mean that the recipient would not have access to backup data on FTA grant activities and would not be able to meet the responsibilities and reporting requirements of the FTA Awards until operations resume at the primary site. Additionally, the risks posed by the weaknesses noted in the recovery strategy would impact the recipient's ability to meet the FTA record retention requirements for grant related records.

Recipient's Response

Evaluation of Recipient's Response

III.6 Weaknesses in Password Controls over Financial Management Systems

Condition:

There were weaknesses identified with the recipient's password controls over the financial system used to record, process, and report grant related transactions. Specifically, we noted that:

- The recipient's password policy does not include password age, password reuse, account lockout duration and account lockout threshold requirements. As a result, these settings are not enforced for the databases and operating systems supporting Ajera.

- The Windows domain policy stores password using reversible encryption. This setting would allow a potential attacker to unencrypt passwords and log into the recipient's network resources through a compromised account.

Standard(s) Impacted:

FTA Circular 5010.1E Chapter VI Section 2(c) – Recipients and subrecipients are responsible for establishing and maintaining adequate internal controls over all their functions that affect implementation of the Award.

2 CFR 200.303 Internal Controls - The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Recommendations:

We recommend that SACOG should:

- Update the password policy to include password age, password reuse, account lockout duration and account lockout threshold requirements.
- Ensure that password age, password reuse, account lockout duration and account lockout threshold settings are enforced for the database and operating system supporting Ajera in line with the requirements in the updated password policy.
- Ensure that the Windows domain policy setting that allows password to be stored using reversible encryption is disabled.

These recommendations should be implemented within 90 days of the final report.

Discussion:

We noted during the review that the recipient's minimum password requirements are documented in the Employee Handbook. We reviewed the password policy documented in the SACOG Employee Handbook and noted that it documents the required minimum password settings for password length and password complexity. We however noted that the policy does not include requirements for password age, password reuse, account lockout duration and account lockout threshold. We also inspected the password configuration settings for the SQL server and the Windows operating system and noted that password age, password reuse, account lockout duration and account lockout threshold requirements were not enforced.

Additionally, we reviewed the Windows network domain policy and noted that the security setting for the password encryption has been disabled to allow passwords to be stored using reversible

encryption. This setting would allow a potential attacker to unencrypt passwords and log into the recipient's network resources through a compromised account.

Improper documentation and enforcement of adequate password policy can expose SACOG's systems to exploitation and unauthorized access. In addition, weaknesses in password controls increase the risk that user accounts could be compromised thus putting FTA grant data at risk of unauthorized disclosure, modification or destruction.

Recipient's Response

Evaluation of Recipient's Response

III.7 Weaknesses in Accounts Management and Segregation of Duties Controls Over the Financial Management Systems

Condition:

We noted weaknesses in the recipients account management and segregation of duties controls. Specifically,

- There were no documented procedures for granting, reviewing and removing access to the Ajera application and its supporting Windows operating system.
- There were no policies and procedures which define how incompatible functions are segregated and enforced. As a result, the Ajera financial system has not been configured to enforce segregation of duties control over the accounting roles.

Standard(s) Impacted:

FTA Circular 5010.1E Chapter VI Section 2(c) – Recipients and subrecipients are responsible for establishing and maintaining adequate internal controls over all their functions that affect implementation of the Award.

2 CFR 200.303 Internal Controls - The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

FTA Circular 5010.1E Chapter VI Section 2(f)(1) – General.

c) Responsibility for duties and functions must be segregated within the organization to ensure that adequate internal checks and balances exist. Recipients should pay particular attention to

authorization, performance, recording, inventory control, and review functions to reduce the opportunity for unauthorized or fraudulent acts.

e) Written operating procedures must exist and be simply stated, yet meet the recipient's operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.

Recommendations:

We recommend that SACOG should:

- Develop and implement procedures for requesting, approving, modifying, removing and periodically reviewing access permissions to the Ajera financial system and its supporting Windows operating system.
- Develop and implement segregation of duties policies and procedures to identify and segregate incompatible roles and functions within the Ajera financial system.

These recommendations should be implemented within 90 days of the final report.

Discussion:

During the review, we requested for formal procedures for managing access to the Ajera financial application and its supporting Windows operating system. We noted that there were no documented procedures for requesting, approving, and removing access to the financial application and its supporting Windows operating system. As a result, access requests to Ajera were not documented and approved on standard forms. Additionally, we noted that there were no formal procedures for reviewing the access rights of the Ajera users on a periodic basis. Lack of adequate access controls could result in unauthorized users making changes, deletions or modifications to the financial data without detection.

We noted during our review that the recipient did not have formal documented policies and procedures which define how incompatible functions are segregated and enforced. We were informed that a consultant had been engaged to assist SACOG streamline their processes, policies and procedures. We noted that SACOG and the consultant are currently in the process of reviewing all the roles within the Ajera financial system to identify incompatible roles that need to be segregated. As a result, the Ajera financial system has not been configured to enforce segregation of duties control over the accounting roles. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. Also, failure to segregate incompatible roles in Ajera increases the risk that a user may initiate, input, or process an unauthorized transaction in the Ajera system without timely detection by management.

Recipient's Response

Evaluation of Recipient's Response

III.8 Weaknesses in Configuration Management Controls

Condition:

There were weaknesses with the recipient's configuration management controls. Specifically, we noted the following:

- The recipient does not have policies and procedures for installing security updates to the SQL database and Windows operating system supporting Ajera.
- The security patches for the Windows operating system and SQL database are not being installed on a timely basis.

Standard(s) Impacted:

FTA Circular 5010.1E Chapter VI Section 2(c) – Recipients and subrecipients are responsible for establishing and maintaining adequate internal controls over all their functions that affect implementation of the Award.

2 CFR 200.303 Internal Controls - The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

FTA Circular 5010.1E Chapter VI Section 2(f)(1)(e) – Written operating procedures must exist and be simply stated, yet meet the recipient's operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.

Recommendations:

We recommend that recipient should:

- Develop and implement policies and procedures for installing security updates to the SQL database and Windows operating system that support the Ajera financial system.
- Ensure that security patches for the Windows operating system and SQL database are installed on a timely basis.

These recommendations should be implemented within 120 days of the final report.

Discussion:

During the review, we noted that the changes that are implemented on the Ajera financial system are vendor updates and this is done on an annual basis. We also noted that the SQL server database update is included in the package for the Ajera software update and it is patched once a year. The last software update on Ajera and the SQL server database was performed in January 2017. We noted that the recipient is responsible for applying patches to the Windows operating system that runs Ajera. We however noted during the review that the recipient does not have policies and procedures for installing security updates to the SQL database and Windows operating system supporting Ajera. As a result, we noted that the security patches for the Windows operating system and SQL database are not being installed on a timely basis. Specifically, the recipient installs Windows patches every three months; however, Microsoft security updates are released monthly. Additionally, the SQL database security updates are applied on yearly basis.

The lack of timely patching increases the risk that information system flaws may degrade the performance of systems and existing vulnerabilities may be exploited. This could potentially put the recipient and FTA grant data at risk of inadvertent or deliberate disclosure, modification, or destruction possibly without detection.

Recipient's Response

Evaluation of Recipient's Response

SECTION IV Advisory Comments

For purposes of this review, an advisory comment represents a minor control deficiency in the design or operation of the financial management system that is not significant enough to adversely affect the recipient's ability to record, process, summarize, and report financial and related data consistent with the requirements of [49 CFR 18.20](#) and [2 CFR 200.302](#).

IV.1 Payroll Procedures are in Draft

Condition:

The SACOG payroll procedures are in draft. SACOG is currently in the process of updating and finalizing the procedures.

Recommendations:

We recommend that SACOG should finalize the payroll procedures.

Discussions:

We reviewed the recipient's payroll procedures and noted that it documents the key payroll processes and controls implemented by the recipient. We however noted that the procedures were in draft and had not been finalized by management. The recipient informed us that they are currently in the process of updating and finalizing the procedures.

Recipient's Response

Evaluation of Recipient's Response

IV.2 Budget Process is not Fully Consistent with Best Practice

Condition:

The recipient's budget process is not fully consistent with best practice. The Board of Directors approves costs included in the Overall Work Plan (OWP) and other FTA funds through a binding resolution; however other agency budgets are only approved through board action and not through binding board resolutions.

Recommendations:

We recommend that SACOG ensure that the entire budget is passed through a binding board resolution instead of a non-binding board action.

Discussions:

SACOG manages two primary budgets. The first and largest budget is SACOG's basic Operations Budget to cover Overall Work Program (OWP) activities. The Operations Budget is funded through several continuing federal and state revenue sources, supplemented by short-term specific discretionary and non-discretionary grants and contracts. The second budget, the Board and Advocacy Budget, covers Board costs such as per diem and mileage expenses, as well as the agency's state and federal advocacy efforts. The Board and Advocacy Budget is primarily funded by annual dues payments from SACOG member cities and counties and a portion of SACOG's interest earnings. The SACOG annual OWP budget is approved through a formal binding Board resolution; however, the remaining budget is approved through a non-binding Board action.

Recipient's Response

Evaluation of Recipient's Response

SECTION V
Summary of Findings

Finding Reference	Finding	Standards Impacted	Recommendation	Corrective Action Implementation Date
II.1	Weaknesses in Controls Over Federal Financial Reporting	<p><i>FTA Circular 5010.1E Chapter VI Section 2(f)(1) (e) and (h)</i> <i>FTA Circular 5010.1E Chapter III Section 3(c)</i> <i>FTA Circular 5010.1E Chapter I Section 5(167)</i> <i>2 CFR 200.302(b)(2) and (3)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(3)(b)(1)</i></p>	<p>We recommend that SACOG should:</p> <ul style="list-style-type: none"> • Develop and implement procedures for preparing and approving FFRs. • Develop and implement formal requirements to ensure that employees involved in the preparation of the FFR undertake periodic training in FTA financial reporting requirements. • Implement controls to ensure that Federal Cash Receipts and Federal Cash Disbursements are accurately reported. • Implement controls to ensure that the Federal Share of Expenditures and Recipient Share of Expenditures are reported on an accrual basis. • Implement controls to ensure that information reported on FFRs are reconciled with the general ledger balances from the recipient's financial system. Additionally, implement procedures for reconciling the general ledgers and the subsidiary ledgers to ensure that the information reported are accurate. • Implement controls to ensure that unliquidated obligations are accurately reported on the FFRs based on the outstanding commitment balances identified in the recipient's financial system. • Implement controls to ensure that Cash on Hand is reported accurately on the FFRs. • Ensure that Federal and local share of expenditures are reported on an accrual basis. • Implement controls to ensure that indirect costs charged to the grants are reported on the FFRs. 	<p>These recommendations should be implemented within 90 days of the final report.</p>

			<ul style="list-style-type: none"> Develop and implement formal procedures for preparing and approving adjusting journal entries 	
II.2	Weaknesses in Controls over Cash Management and Echo Drawdowns	<p><i>FTA Circular 5010.1E Chapter VI Section 2(f)(1)(e)</i> <i>FTA Circular 5010.1E Chapter VI Section 3</i> <i>FTA Circular 5010.1E Chapter VI (5)(b)(1)</i> <i>FTA Circular 5010.1E Chapter II Section 3(a)</i> <i>FTA Circular 9300.1B Chapter V (5)(b)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(3)(b)(2)</i> <i>FTA Circular 5010.1E Chapter VI Section 9(d)</i> <i>2 CFR part 200.331(d)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(3)(b)(7)</i> <i>49 CFR 18.20(b)(5)</i></p>	<p>We recommend SACOG should:</p> <ul style="list-style-type: none"> Develop and implement formal procedures for the ECHO drawdown process. The procedures should include controls for management review and approval of drawdowns. Develop and Implement a process to ensure that only the Federal matching portions are drawn down for each invoice. The proportionate amount of the non-federal share should be excluded from the drawdown. Develop and implement a process to ensure that expenditures included in drawdowns are allowable based on the requirements of Federal statutes, regulations, and the terms and conditions of the award. Refund the Federal matching portion of the \$1,641.50 unallowable legal costs included in the drawdown for the Riverfront Streetcar project. Develop and implement a process to ensure costs are coded and charged to the appropriate ALIs in the grant. Review all costs charged to the Riverfront Streetcar project (CA-95-X275-00) and ensure that: <ul style="list-style-type: none"> All final design costs charged to the preliminary engineering ALI are moved to the ALI for final design. The proportionate amount of the non-federal share applicable to the Federal drawdowns have been met by subrecipients. Ensure that the current procedures for verifying that sub-recipients matching requirements are met prior to making draw 	These recommendations should be implemented within 90 days of the final report.

			<p>down requests from the ECHO system is fully enforced.</p> <ul style="list-style-type: none"> • Ensure that the ECHO system is updated to identify the Finance Director as the Authorizing Official for all ECHO drawdowns. 	
II.3	Weaknesses in Grants Management Controls	<p><i>2 CFR part 200.302(b)</i> <i>2 CFR part 200.303(a)-(c)</i> <i>FTA Circular 5010.1E Chapter II (3)(a)(4) and (6)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(1)</i></p>	<p>We recommend that SACOG should:</p> <ul style="list-style-type: none"> • Investigate whether their current financial system can provide them the capability to track and manage grant budgets and expenditures. If this capability does not exist, then the recipient should develop a standardized grant billing spreadsheet template to use to consistently track grant budgets and expenditures. • Develop, document, approve and implement detailed grant management procedures that establish a consistent methodology for tracking, managing and updating grant budgets and expenditures on the billing spreadsheets. The procedures should also include processes for comparing grant budgets to actual expenditures and initiating, reviewing and approving grant revisions and amendments. Additionally, the procedures should include detailed processes for identifying grants that are ready to be closed out and initiating close-out activities. 	<p>These recommendations should be implemented within 90 days of the final report.</p>
III.1	Weaknesses in Budget Controls	<p><i>2 CFR part 200.302(b)</i> <i>2 CFR part 200.303(a)-(c)</i> <i>FTA Circular 5010.1E Chapter II Section 3(a)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(1)(e)</i></p>	<p>We recommend that SACOG should:</p> <ul style="list-style-type: none"> • Document, approve and implement detailed budget procedures that include processes for developing the budget, obtaining formal board approval for the budget, performing budget variance analysis and processes for amending the budget. • Ensure that budget variance analyses are performed on a periodic basis and presented 	<p>These recommendations should be implemented within 90 days of the final report.</p>

			to the appropriate committee of the Board of Directors.	
III.2	Weaknesses in Controls over the Monitoring of FTA Grant Activities and Subrecipients	<p><i>FTA Circular 5010.1E Chapter VI Section 2(f)(1)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(2)</i> <i>2 CFR 200.331(b)-(g)</i></p>	<p>We recommend that the recipient should:</p> <ul style="list-style-type: none"> • Develop and implement a formal process for performing periodic self-assessments of FTA related internal controls. • Designate an individual with internal audit responsibility, who will report to the Chief Executive Officer. The responsibility should include periodic assessment of internal controls. If the recipient determines resource constraints prevent designation of an internal auditor, then appropriate compensating controls should be implemented to mitigate the risk. • Update the subrecipient risk assessment procedures to include criteria for determining the type of monitoring required to be performed based on the risk assessment results. • Develop and implement a formal process for performing and documenting periodic oversight reviews of the subrecipients to ensure that they comply with 2 CFR part 200 and FTA Regulations. The process should include controls to verify that: <ul style="list-style-type: none"> ○ Fixed assets acquired with FTA passthrough funds are recorded, tracked, inventoried, and titled, maintained, disposed in line with federal requirements. ○ Procurements funded with FTA passthrough funds meet all the applicable requirements of 4220.1F. ○ Subrecipients subject to Single Audit are having the audits performed and that they are submitting the Single Audit reports to the appropriate authorities in a timely manner. 	These recommendations should be implemented within 90 days of the final report.

			<ul style="list-style-type: none"> Update the subrecipient monitoring procedures to replace the outdated references with current FTA guidance. 	
III.3	Indirect Cost Allocation Plan Not Approved by Cognizant Agency	<p><i>2 CFR part 200.19</i> <i>FTA Circular 5010.1E, Chapter VI Section 6(a)</i> <i>FTA Circular 5010.1E, Chapter VI Section 5(a)3(b)</i> <i>2 CFR 200.306(c)</i></p>	<p>We recommend that SACOG should:</p> <ul style="list-style-type: none"> Prepare and submit an Indirect Cost Rate Plan proposal to the FTA Regional Office for approval. Ensure that only indirect costs rates approved by the cognizant agency (FTA) are charged to FTA grants. 	These recommendations should be implemented within 120 days of the final report.
III.4	Weaknesses in IT Risk Assessment Controls	<p><i>FTA Circular 5010.1E Chapter VI Section 2(f)(2)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(e)(6)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(c)</i> <i>2 CFR 200.303(a)</i> <i>49 CFR 18.40(a)</i></p>	<p>We recommend that SACOG should:</p> <ul style="list-style-type: none"> Develop and implement procedures to include requirements to perform IT Risk Assessment for the Advantage System. The procedures should require the IT risk assessment to be updated periodically to reflect changes in the recipient's IT operating environment. Ensure that an IT Risk Assessment is performed and periodically updated for the Ajera financial system. Implement controls for performing periodic vulnerability scans of the network infrastructure and financial system. 	These recommendations should be implemented within 90 days of the final report.
III.5	Weaknesses in IT Disaster Recovery and Backup Controls	<p><i>FTA Circular 5010.1E Chapter VI Section 2(c)</i> <i>2 CFR 200.303(a)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(1)(e)</i></p>	<p>We recommend that SACOG should:</p> <ul style="list-style-type: none"> Implement a backup and recovery solution that would ensure that production data are backed up and rotated or replicated to an off-site location or cloud source. The off-site location should be geographically separated from the primary site Update the Business Continuity Plan to include detailed procedures for restoring the Ajera application in the event of a disaster. Update the Business Continuity Plan to reflect the current backup software being used. 	These recommendations should be implemented within 90 days of the final report.

III.6	Weaknesses in Password Controls over Financial Management Systems	<i>FTA Circular 5010.1E Chapter VI Section 2(c)</i> <i>2 CFR 200.303(a)</i>	We recommend that SACOG should: <ul style="list-style-type: none"> • Update the password policy to include password age, password reuse, account lockout duration and account lockout threshold requirements. • Ensure that password age, password reuse, account lockout duration and account lockout threshold settings are enforced for the database and operating system supporting Ajera in line with the requirements in the updated password policy. • Ensure that the Windows domain policy setting that allows password to be stored using reversible encryption is disabled. 	These recommendations should be implemented within 90 days of the final report.
III.7	Weaknesses in Accounts Management and Segregation of Duties Controls Over the Financial Management Systems	<i>FTA Circular 5010.1E Chapter VI Section 2(c)</i> <i>2 CFR 200.303(a)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(1)(c) and (e)</i>	We recommend that SACOG should: <ul style="list-style-type: none"> • Develop and implement procedures for requesting, approving, modifying, removing and periodically reviewing access permissions to the Ajera financial system and its supporting Windows operating system. • Develop and implement segregation of duties policies and procedures to identify and segregate incompatible roles and functions within the Ajera financial system. 	These recommendations should be implemented within 90 days of the final report.
III.8	Weaknesses in Configuration Management Controls	<i>FTA Circular 5010.1E Chapter VI Section 2(c)</i> <i>2 CFR 200.303(a)</i> <i>FTA Circular 5010.1E Chapter VI Section 2(f)(1)(e)</i>	We recommend that recipient should: <ul style="list-style-type: none"> • Develop and implement policies and procedures for installing security updates to the SQL database and Windows operating system that support the Ajera financial system. • Ensure that security patches for the Windows operating system and SQL database are installed on a timely basis. 	These recommendations should be implemented within 120 days of the final report.
IV.1	Payroll Procedures are in Draft	N/A	We recommend that SACOG should finalize the payroll procedures.	

IV.2	Budget Process is not Fully Consistent with Best Practice	N/A	We recommend that SACOG ensure that the entire budget is passed through a binding board resolution instead of a non-binding board action.	
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SECTION VI

Criteria Established By The FTA For Recipients' Financial Management Systems

The following criteria have been set forth by the Federal Transit Administration (FTA) as standards for the financial management systems of FTA recipients. These criteria apply to grants awarded prior to December 26, 2014. Unless otherwise noted, these criteria are drawn from [49 CFR 18](#). "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), Section [18.20](#), "Standards for Financial Management Systems." Additional guidance for applying many of these criteria is provided in various circulars issued by the FTA, U.S. Department of Treasury, and the Office of Management of Budget (OMB). The criteria for grants awarded or modified on or after December 26, 2014, are located in [2 CFR 200](#), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Those criteria are listed later in the Section.

49 CFR 18.20(a) A state must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subrecipients and cost-type contractors, must be sufficient to—

- a) Permit the preparation of reports required by this part and the statutes authorizing the grant, and
- b) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

[18.20\(b\)\(1\)](#), *Financial reporting*. Grantees must have procedures to provide reasonable assurance that "accurate, current, and complete disclosure of the financial results of financially assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

[18.20\(b\)\(2\)](#), *Accounting records*. "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." The grantee's project financial accounting system must interface with the grantee's overall financial management system.

SECTION VI

Criteria Established By The FTA For Recipients' Financial Management Systems (cont'd)

[18.20\(b\)\(3\)](#), *Internal control*. "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." Specifically with respect to fixed asset records, [49 CFR 18.32\(d\)](#), requires that grantees and subgrantees must maintain a fixed asset control system providing detailed property records for assets acquired under a grant or subgrant, and including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition, use, or disposition of the property, and that maintenance procedures are implemented for such assets.

[18.20\(b\)\(4\)](#), *Budget control*. "Actual expenditures or outlays must be compared with budgeted amount for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement."

[18.20\(b\)\(5\)](#), *Allowable costs*. Grantees must have procedures to provide reasonable assurance that "Applicable OMB cost principles [[2 CFR part 225](#), which are incorporated within [49 CFR 18.22](#)], agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs." If indirect costs are being charged to the grant, grantees must prepare a cost allocation plan that is approved by its cognizant agency.

[18.20\(b\)\(6\)](#), *Source documentation*. "Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

[18.20\(b\)\(7\)](#), *Cash management*. "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantee's cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make draw downs as close as possible to the time of making disbursements. Grantees must monitor cash draw downs by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

[18.30](#), *Project change accounting*. The grantee's project financial accounting system must be able to document and track project changes that result in the need for additional funds, a revision in the scope or objectives of the project, or a need to extend the period of availability of funds or any other changes or budgetary transfers which would require the prior written approval of the FTA.

SECTION VI

Criteria Established By The FTA For Recipients' Financial Management Systems (cont'd)

For grants awarded or modified on or after December 26, 2014, the financial management standards of [2 CFR 200](#), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, apply. Specifically, the financial management standards of the Omnibus Circular, located at [2 CFR 200.302](#). Additional guidance for applying many of these criteria is provided in various circulars issued by the FTA and the U.S. Department of Treasury. However, this Circular supersedes the Common Rule and prior OMB Circulars related to cost principles, administrative requirements and single audit requirements. The financial management criteria of [2 CFR 200](#) are as follows:

[2 CFR 200.302\(a\)](#) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

[2 CFR 200.302\(b\)](#) The financial management system of each non-Federal entity must provide for the following (see also §§ [200.333](#) Retention requirements for records, [200.334](#) Requests for transfer of records, [200.335](#) Methods for collection, transmission and storage of information, [200.336](#) Access to records, and [200.337](#) Restrictions on public access to records):

- 1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
- 2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ [200.327](#) Financial reporting and [200.328](#) Monitoring and reporting program performance. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.

SECTION VI

Criteria Established By The FTA For Recipients' Financial Management Systems (cont'd)

- 3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- 4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § [200.303](#) Internal controls.
- 5) Comparison of expenditures with budget amounts for each Federal award.
- 6) Written procedures to implement the requirements of § [200.305](#) Payment.
- 7) Written procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of this Part and the terms and conditions of the Federal award.

SECTION VII

Recipient's Response to Findings and Advisory Comments (Full Text)

FTA's Region IX office furnished a draft of this report to SACOG on XXX X, 2018 with a request for them to respond to the conditions and comments. The recipient's responses were received by Region IX and Samlin Consulting on XXX X, 2018 and XXX X, 2018 respectively. Summaries of these responses are included with the related conditions and comments in previous sections of this report. The full text of the response is provided on the following pages.

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