



**CITY OF LAREDO, TEXAS  
INTERNAL AUDIT DIVISION**

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To: Honorable Mayor & Members of the City Council

CC: Robert A. Eads, City Manager  
Rosario C. Cabello, Deputy City Manager  
Kristina L. Hale, Assistant City Manager  
Riazul I. Mia, Assistant City Manager  
Rene C. Benavides, City Attorney

From: Veronica Urbano-Baeza, Internal Auditor

Date: November 13, 2020

Subject: Friday Packet: Internal Audit Report(s) and/or Update(s)

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Enclosed we are pleased to provide the following report(s) for your review and subsequent approval:

1. Grant Compliance Audit Report: Transit and Financial Services Departments – Texas Department of Transportation State Urban Grant No. STATE-U-2019-Laredo-00110 – *No Department Response Required.*

We would like to thank Transit and Financial Services management and staff for their assistance during our audit. If you should have any questions regarding the enclosed report(s) submitted, please feel free to contact me at my office at (956) 790-1808. Thank you.

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City of Laredo, Texas

Internal Audit Division



Grant Compliance Audit Report: Transit and Financial  
Services Departments - Texas Department of  
Transportation State Urban Grant No. STATE-U-2019-  
Laredo-00110

November 12, 2020

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**City of Laredo  
Internal Audit Division**

**Grant Compliance Audit Report: Transit and Financial  
Services Departments – Texas Department of Transportation  
State Urban Grant No. STATE-U-2019-Laredo-00110**

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## EXECUTIVE SUMMARY

In accordance with the Fiscal Year (FY) 2020 Annual Audit Plan, a grant compliance audit was conducted of the Transit (Transit) Department's Texas Department of Transportation (TxDOT) State Urban Grant No. STATE-U-2019-Laredo-00110. On January 21, 2020, City Council (Laredo Mass Transit Board) approved a resolution authorizing the acceptance and execution of the TxDOT State Urban Grant No. STATE-U-2019-Laredo-00110 in the amount of \$659,313.00 for Fiscal Year (FY) 2020 for Transit's Preventive Maintenance operations; no local match was required for this grant. A summary of the audit objectives, results and recommendations follows.

The objective of this audit was to ensure compliance with the management, reporting and close out requirements of the grant as noted in the Master Grant Agreement (MGA) between the City of Laredo and the Texas Department of Transportation, as well as the Project Grant Agreement (PGA) for the Urban State Program (FY 2020).

***We determined that key internal controls at Transit and Financial Services Departments were in place and operating to properly manage (monitor), report on and close out the State Urban Grant (No. STATE-U-2019-Laredo-00110).***

All Requests for Reimbursement for this grant, as well as Milestone Progress Reports were submitted timely and all funds were accounted for in accordance with the approved MGA, PGA and the City's Payroll Policies and Procedures. It should be noted that at the time of this audit, the grant had already been completed and all required closeout reports and supporting documentation were timely submitted and in accordance with the approved MGA and PGA.

One observation was noted in the following audit report, where no authorization to submit the grant application pertaining to the State Urban Grant (No. STATE-U-2019-Laredo-00110) was taken to City Council (Laredo Mass Transit Board) for approval. In looking at documented grant activity for other departments, it appears that both the application for and acceptance of the grant award are always taken to City Council for approval. It should be noted that in our research, we could not find this particular approval requirement in the corresponding Master Grant Agreement, Program Grant Agreement, City Charter or Code of Ordinances, so it is only noted as an observation. We do recommend that an internal citywide policy be developed that would establish guidelines to ensure consistent citywide processing and management of grants if not previously dictated by the respective granting agency.

No written response to the enclosed audit results is required on this report.

A more extensive report of all the audit results and recommendations can be found in the following report.

## **INTRODUCTION**

In accordance with the Fiscal Year (FY) 2020 Annual Audit Plan, a grant compliance audit was conducted of the Transit (Transit) Department's Texas Department of Transportation (TxDOT) State Urban Grant No. STATE-U-2019-Laredo-00110.

On June 21, 2019, Transit submitted an application for consideration of project grant funding from TxDOT for their Preventive Maintenance operations. Subsequently, on June 27, 2019, Minute Order 11511 was passed by the Texas Transportation Commission which awarded \$34.9 million in state public transportation projects for large urban, small urban and rural transit districts in the State of Texas by the General Appropriations Act enacted by the 86<sup>th</sup> Texas Legislature Regular Session; \$659,313.00 of which were awarded to the City of Laredo Transit for Fiscal Year (FY) 2020 to be used for Preventive Maintenance for Fixed-Route and Paratransit (El Lift) bus services. On January 21, 2020, City Council (Laredo Mass Transit Board) approved a resolution authorizing the acceptance and execution of the Texas Department of Transportation (TxDOT) State Urban Grant No. STATE-U-2019-Laredo-00110 in the amount of \$659,313.00 for Fiscal Year (FY) 2020 for Transit's Preventive Maintenance operations; no local match was required for this grant.

## **AUDIT OBJECTIVES**

The objectives of this audit were to ensure compliance with the management, reporting and close out requirements of the grant, which entailed a review of the following:

- Determine if there was proper and efficient administration of the STATE-U-2019-Laredo-00110 Grant;
- Determine if funds were expensed in accordance with the terms and approved budget of the STATE-U-2019-Laredo-00110 Grant;
- Determine if reimbursement requests were submitted in a timely manner for all funds Transit was entitled to;
- Determine if grant output / outcome measures were adequately measured, tracked and monitored;
- Determine if required reports were accurate and submitted in a timely manner to granting agency;
- Determine if adequate documentation was maintained to support grant activity;
- Determine if applicable salaries and benefits expensed to grant were performed in accordance with the City of Laredo (City) Payroll Policies and Procedures; and,
- Determine if applicable purchases of supplies and contractual services expensed to grant were performed in accordance with the Laredo Transit Management Inc. (LTMI) Purchasing and Procurement Policy Manual approved by FTA.

## **AUDIT SCOPE AND METHODOLOGY**

The audit time period reviewed covered the Project Grant Agreement (PGA) time period of September 1, 2019 through August 31, 2020. The scope of this audit focused on compliance with the provisions noted on the Master Grant Agreement (MGA) between the City of Laredo and the Texas Department of Transportation and the Project Grant Agreement (PGA) for the Urban State Program (FY 2020). In order to achieve the audit objectives, we:

- Conducted interviews of Transit and Financial Services management and staff.

- Obtained an understanding of Transit’s Master Grant Agreement (MGA) # MGA-2017-2021-Laredo with the Texas Department of Transportation;
- Obtained an understanding of the Project Grant Agreement (PGA) for the Urban State Program, Fiscal Year 2020
- Obtained an understanding of the City’s Payroll Policies and Procedures;
- Obtained an understanding of LTMI’s Purchasing and Procurement Manual;
- Identified if the STATE-U-2019-Laredo-00110 Grant had any outstanding balances;
- Conducted an assessment of Transit and Financial Services Departments for:
  - Monitoring system to track expenditures against budgeted and/or funded amounts.
  - Review and approval process for information in STATE-U-2019-Laredo-00110 Grant;
- Conducted a review of the reimbursement requests submitted during the audit time period selected for the STATE-U-2019-Laredo-00110 Grant and verified proper approval, timeliness and accuracy;
- Conducted a review on how applicable output and outcome measures are tracked, monitored, documented and reported.

We conducted this audit from May 2020 to November 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives.

## AUDIT RESULTS AND RECOMMENDATIONS

A review of documented grant activities from the award to the close out was conducted for compliance, as well as an assessment of key internal controls pertinent to the management (monitoring), reporting and close out of the grant. The following control areas were tested and determined to be in compliance with the Master Grant Agreement (MGA) and Project Grant Agreement (PGA) for the STATE-U-2019-Laredo-00110 Grant. The results and any applicable recommendations are noted below for the Transit Department and Financial Services Department, respectively:

### **Grant Management**

#### **Transit Department**

- Acceptance and execution of State Urban Grant (No. STATE-U-2019-Laredo-00110) in the amount of \$659,313.00 was approved by City Council (Laredo Mass Transit Board) on January 21, 2020.
- In accordance with the Internal Ethics and Compliance Program required as part of the MGA, annual Certifications and Assurances were signed by the City Manager and submitted to TxDOT each April of Fiscal Years 2019 and 2020.
- Grant funding was expensed in accordance with the proposed grant project which consisted of Capital Preventive Maintenance expenses for both the Fixed Route and Paratransit services provided which would include maintenance and operations of Transit fleet (i.e. fuel, parts, labor and body work). While the proposed project budget consisted of Personnel (\$461,519.00, or 70%), Supplies (\$164,828.00, or 25%) and Contractual Services (\$32,966.00, or 5%) expenses, the actual expense distribution consisted of 100% Personnel Expenses (\$659,313.00) pertaining to Preventive Maintenance. It should be noted that clarification requested and on file from TxDOT allowing 100% of funding to be used for Personnel Expenses as long as those expenses pertain to the grant project of Preventive Maintenance.
- A review of personnel expenditures documentation submitted for reimbursement confirmed compliance with the grant program objective of Preventive Maintenance expenses. Further test work on a sample of personnel (payroll) expenses submitted for reimbursement confirmed a reconciliation of hours worked (ExecuTime Time & Attendance System) to hours paid (I-Series System) as per the City's Payroll Policies & Procedures.

*We determined that key internal controls at Transit are in place and operating to properly manage (monitor) the State Urban Grant (No. STATE-U-2019-Laredo-00110), with one observation noted.*

#### **Observation 1**

In the process of reviewing documented grant activity pertaining to approvals obtained from City Council (Laredo Mass Transit Board) in the award process, we observed that no authorization to submit the grant application pertaining to the State Urban Grant (No. STATE-U-2019-Laredo-00110) was taken to City Council (Laredo Mass Transit Board) for approval. It should be noted that in our research, we could not find this approval requirement in either the Master Grant Agreement, Program Grant Agreement, City Charter or Code of Ordinances; however, in looking at documented grant activity for other departments, it appears that both the application for and acceptance of the grant award are always taken to City Council for approval.

### Recommendation(s)

Taking grant(s) to City Council for authorization to apply for the grant allows for a review of any required local matches to be conducted at the on-set of the application phase rather than once a grant award has been accepted. It should be noted that no local match was required on this particular grant. It is recommended that an internal citywide policy be developed that would establish guidelines to ensure consistent citywide processing and management of grants if not previously dictated by the respective granting agency.

### Financial Services Department

- General Ledger (G/L) account(s) in the Transit System Funds (518 and 558) were assigned to assist in grant management by recording all expenditures posted and reimbursements due and received from the State.
- Grant expenditures and reimbursements submitted were appropriate, timely and properly recorded in the City's General Ledger (I-Series System). A total of \$659,313.00 was requested for and received in reimbursement from the State well within the project grant period.

We determined that key internal controls at Financial Services are in place and operating to properly manage (monitor) the State Urban Grant (No. STATE-U-2019-Laredo-00110).

### **Grant Reporting**

#### Transit Department

In our review for compliance of the required Milestone Progress Reports due to TxDOT, we determined that all applicable Milestone Progress Reports (MPR) were submitted timely by their quarter end deadlines via TxDOT's eGrants portal.

- MPR for Quarter 1 (October 1, 2019 – December 31, 2019) was submitted by Transit on January 6, 2020 and accepted by TxDOT on January 15, 2020 via the eGrants portal; and,
- (Final) MPR for Quarter 2 (January 1, 2020 – March 31, 2020) was submitted by Transit on April 8, 2020 and accepted by TxDOT on April 16, 2020 via the eGrants portal.

#### Financial Services Department

In a review of all requests for reimbursement reports submitted and supporting documentation maintained on file at Financial Services, as well as a review of reports maintained on TxDOT's eGrants portal, it was determined that:

- All requests for reimbursement reports were submitted in a timely manner to TxDOT and final billing was submitted well within the end of the Project Grant Agreement (PGA) time period.
  - Request #1 (Billing Period: October 2019) in the amount of \$117,278.00 was submitted via TxDOT eGrants portal on February 12, 2020;
  - Request #2 (Billing Period: November 2019) in the amount of \$154,918.00 was submitted via TxDOT eGrants portal on February 12, 2020;
  - Request #3 (Billing Period: December 2019) in the amount of \$154,955.00 was submitted via TxDOT eGrants portal on February 26, 2020; and
  - Request #4 (Final Billing) (Billing Period: January 2020) in the amount of \$232,162.00 was submitted via TxDOT eGrants portal on February 26, 2020.
- Sufficient supporting documentation (from the City's I-Series System) is maintained to justify each request for reimbursement report submitted to TxDOT.

We determined that key internal controls at Transit and Financial Services Departments are in place and operating to properly report on the State Urban Grant (No. STATE-U-2019-Laredo-00110).



## **Grant Close Out**

### **Transit Department**

As per Article 14 of the Master Grant Agreement (MGA), upon project completion, the subrecipient shall provide the State written notification of project close-out and release any unspent project balances. As part of our review for compliance, the grant close out occurred when TxDOT approved and processed the final request for reimbursement submitted and notified Transit that the grant was closed. The close out process was initiated by Transit on April 8, 2020 and approved by TxDOT on April 29, 2020 via the eGrants portal. All \$659,313.00 of grant funding awarded was expensed well before the end of the grant expiration date of August 31, 2020.

*We determined that key internal controls at Transit are in place and operating to properly close out the State Urban Grant (No. STATE-U-2019-Laredo-00110).*

## **CONCLUSION**

From our review it was determined that key internal controls were in place and operating to properly manage (monitor), report on and close out the State Urban Grant (No. STATE-U-2019-Laredo-00110). Maintaining these key controls helps ensure compliance with Federal, State and local guidelines, as well as aiding in the success of the grant program objectives. We commend both the Transit and Financial Services Departments on their efforts to manage this grant.

**APPENDIX A**  
**INTERNAL AUDIT STAFF ACKNOWLEDGMENT**

Veronica Urbano-Baeza, Internal Auditor

Francisco J. Mata, Compliance Auditor