

OFFICE OF THE CITY CONTROLLER



**AVIATION DEPARTMENT
GRANTS MANAGEMENT AUDIT**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor



SYLVIA R. GARCIA

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

November 15, 2000

The Honorable Lee P. Brown, Mayor
City of Houston, Texas

SUBJECT: Aviation Department
Grants Management Audit (Report No. 00-26)

Dear Mayor Brown:

In accordance with the City's contract with Deloitte & Touche, LLP (Deloitte), Deloitte has completed a grants management audit of the Aviation Department. The objectives of the audit included assessing the grant monitoring process to determine whether grant funds are being fully used prior to the grant period lapsing and determining whether the City submits requests for allowable reimbursable expenditures timely.

The report commends the department for its efforts to improve its grant related procedures, however, it also identified several opportunities to improve City-wide grant related processes. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to action taken or being taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to the Deloitte auditors by Department personnel during the course of the audit.

Respectfully submitted,


Sylvia R. Garcia
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Cheryl Dotson, Chief of Staff, Mayor's Office
Richard Vacar A.A.E., Director, Aviation Department
Sara Culbreth, Acting Director, Finance and Administration Department

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October 13, 2000

The Honorable Sylvia R. Garcia
City Controller
City of Houston
901 Bagby, 8th Floor
Houston, Texas 77002

Dear Controller Garcia:

Deloitte & Touche LLP is pleased to present the Department Aviation Grants Management Audit. The objectives for the review were as follows:

- Assessing the current grant monitoring process to determine if grant funds are being fully used prior to grant period lapsing
- Determining whether the City submits requests for allowable reimbursable expenditures timely
- Evaluating the process the City uses to monitor subrecipients to ensure compliance with grantor requirements and City policies and procedures
- Evaluating the City's process for determining the indirect cost reimbursement rates
- Evaluating the communication and information exchange processes between the Aviation, the Finance and Administration Department (F&A), and the City Controller's Office.
- Assessing various findings and questioned costs identified in the June 31, 1998 Single Audit Reports to the City

We performed the following activities and work steps in order to review the process used in the grant management process for Aviation.

- Interviewed key members of Aviation, F&A, and City Controller's Office
- Identified the grants monitoring processes to determine if the grants are being fully used prior to grant periods lapsing
- Reviewed processes for submitting reimbursement request from funding agencies
- Reviewed processes in place to monitor grant management
- Evaluated the City's process for monitoring subrecipients to ensure compliance with grantor requirements and City policies and procedures
- Evaluated communication between Aviation, F&A and the City Controller's Office
- Reviewed the Federal and State Single Audit for the Year ended June 30, 1998

The Honorable Sylvia R. Garcia
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Management's response was obtained from the Aviation. The response is included as part of this report.

This report is a matter of public record and its distribution is not limited; however, this report is intended solely for the use of city management and City Council and should not be used for any other purposes. The City's external auditors and regulators may be provided with a copy of this report in connection with filling their respective responsibilities.

Thank you for the opportunity to conduct this review. We look forward to working with the City of Houston on future projects.

Very Truly,

Deloitte & Touche LLP

**DEPARTMENT OF AVIATION
HOUSTON AIRPORT SYSTEM
GRANT MANAGEMENT AUDIT**

Background

Deloitte & Touche LLP was engaged by the City Controller to conduct a grant management audit of the Department of Aviation. The approach of this audit included the following objectives:

1. Assessing the current grant monitoring process to determine if grant funds are being fully used prior to grant periods lapsing
2. Determining whether the City submits requests for allowable reimbursable expenditures timely
3. Evaluating the process the City uses to monitor subrecipients to ensure compliance with grantor requirements and City policies and procedures
4. Evaluating the City's process for determining the indirect cost reimbursement rates
5. Evaluating the communication and information exchange processes between the Department of Aviation (Aviation), the Finance and Administration Department (F&A), and the City Controller's Office.
6. Assessing various findings and questioned costs identified in the June 30, 1998 Single Audit Reports to the City.

The Houston Airport System consists of three airports: George Bush Intercontinental Airport (Bush), William P. Hobby Airport (Hobby) and Ellington Field (Ellington). The airport system operations, maintenance and capital improvements are not paid for by the local tax system. The system is financially supported by deriving income from fees, rentals, and other charges. Surpluses generated are reinvested into capital development and bonding support.

The mission statement of the Houston Airport System is: "The Houston Airport System is committed to meeting our customer's needs by providing a safe, friendly, efficient airport environment. We are further dedicated to providing a supportive and healthy work environment where all employees are appreciated, encouraged and respected."

Each year, the airport system develops and updates a five-year capital improvement project plan. The 1999-2000 capital improvement plan is approximately \$800 million. A portion of that plan is funded through Airport Improvement Grants from the Federal Aviation Administration (FAA). These funds are entitlement funds based on the number of passengers using Bush, Hobby, and Ellington, as well as cargo use at Bush and Ellington. The airport system receives approximately \$12 million a year in Airport Improvement Grants for capital projects.

Additionally, there are also discretionary funds that may be available before the end of the federal fiscal year. To be eligible for application and receipt of the discretionary funds, all the entitlement grants must be spent. The time frames for application and acceptance of discretionary funds are different from the entitlement grants. Working closely with the FAA, Aviation identifies projects on the five-year plan that may be funded with Airport Improvement Grants based on FAA's funding levels for the entitlement and discretionary funds.

The Airport Improvement Grants were authorized by the Federal Airport and Airway Improvement Act of 1982. The Act's overall objective was to assist in the development of public-use airports to meet the current projected growth of civil aviation. The Act authorizes

funding for airport planning, and development projects at airports included in the National Plan of Integrated Airport Systems. The Act also authorized funds for noise compatibility planning and to carry out noise compatibility programs.

Our Approach

In consideration of the objectives of this audit, we performed the following activities and work steps in order to review the process used in the grant management process for Aviation.

1. Interviewed key members of Aviation, F&A, and City Controller's Office.
2. Identified the grants monitoring processes to determine if the grants are being fully used prior to grant periods lapsing.
3. Reviewed processes for submitting reimbursement request from funding agencies.
4. Reviewed processes in place to monitor grant management.
5. Evaluated the City's process for monitoring subrecipients to ensure compliance with grantor requirements and City policies and procedures.
6. Evaluated communication between Aviation, F&A, and the City Controller's Office.
7. Reviewed the Federal and State Single Audit for Year ended June 30, 1998.

OBJECTIVE 1 & 2

Assess the current grant monitoring process to determine if grant funds are being fully used prior to grant periods lapsing. Determine whether the City submits requests for allowable reimbursable expenditures timely.

Airport Improvement Grants are a combination of entitlement grants and discretionary funds. The entitlement grants are based on factors including size of the airport system, number of passengers and cargo use volumes. The discretionary grants are competitive grants within the Southwest region of the FAA. Discretionary grants can vary from year to year based on federal appropriations and fund availability. The FAA grants are project oriented grants, which end at the completion of a project. As a result, these grants may last several fiscal years.

The application process for the grants is based on the five-year capital plan. Each year the grants may become available from the federal government at different times during the year. This year there have been three small programs administered by the federal government rather than one large entitlement program. Once Aviation has applied for the grant funds, FAA reviews the application and issues a grant offer for an identified dollar amount. The City has 30 days to accept the grant after the issuance of the grant offer.

Finding

Aviation and the FAA work closely together throughout the entire process to optimize the amount of grant funding available to the City from the Airport Improvement Grant. Constant communication between the agency and Aviation has aided Aviation's grant management in making the best overall decisions when identifying projects available for grant funding.

Commendation

Continue to work closely with the FAA representatives to make decisions about applying for grants in the best interest of the Houston Airport system.

Finding

Aviation spends significant resources processing Request for Council Action (RCA) paperwork to obtain City Council approval to accept the grant funds. After Aviation has applied for and received a grant offer from the FAA, the grant funds still need to be accepted by the City Council. To place an item on the City Council agenda, Aviation must go through the RCA process. This process is an internal review process of the agenda item by Aviation, F&A, City Controller's Office, Legal and the Agenda Director. Once the item has been reviewed by all the appropriate individuals, the item is placed on the City Council agenda. The entire process through final acceptance of the funds by the City Council may take from 21 to 30 days. The length of the entire process may cause delays in accepting the funds, which may result in a loss of discretionary funds. Discretionary funds do not always have a 30 day acceptance period.

The City may apply for grants at different times in the capital improvement process. For land acquisition, the land must be bought prior to applying for FAA grant funds. For construction projects, the grant funds are applied for prior to the project. The City Council must approve the action to purchase the land or enter into contract to complete the construction process. At the time of the approval of the action item, the funding source is identified and authorized as part of the item.

Recommendation

At the beginning of each fiscal year, an item should be placed on the City Council's agenda authorizing the Mayor or his designee to accept FAA entitlement and/or discretionary funds on behalf of the City of Houston. With this authorization, the designated person may accept the funds, which will result in being able to move forward on the capital projects sooner than 30 days after the grant offer was provided.

Finding

The RCA process is cumbersome and paper intensive requiring significant amounts of documentation to flow between Aviation, F&A, City Controller's Office, Legal, and the City Secretary's office. Those documents must be sent through interoffice mail or hand delivered to each department and the extensive amount of time to process an RCA was consistently identified by Aviation personnel as a problem. Additionally, to determine the status of a particular RCA, or to research any questions or problems is also time consuming for Aviation personnel under the current system. However, it is imperative that the item appear on the City Council agenda within specific timeframes to administer and meet grant requirements.

Recommendation

The City should consider automating the RCA process. Modifying the RCA process would require a citywide effort since all departments use the process. If the RCA process is automated Aviation should participate in the new process. Processing RCA's electronically would reduce the amount of time required to prepare, process, and approve a RCA. It would eliminate the need for the paper to be sent to the different departments via interoffice mail or delivery personnel, which will reduce the time to move the document from one location to another. The automation of the RCA process would also provide a quicker process to make changes to the documents as required. The status of an RCA could be electronically researched to resolve any questions or issues during the processing steps.

OBJECTIVE 3

Evaluate the process the City uses to monitor subrecipients to ensure compliance with grantor requirement and City policies and procedures.

Aviation manages contracts for capital projects in which FAA grant funds are used. When the five-year plan is developed the projects that are targeted to receive Airport Improvement Grants are identified. Once potential FAA grant projects are identified, any related actions are managed to meet federal requirements. These projects must meet the federal guidelines for historically underutilized businesses, Davis-Bacon wage act, and any other related federal reporting guidelines.

Aviation assigns a project manager to monitor contractor performance, payment requests, job progress and compliance with contract terms and conditions (including grant funding terms and conditions). The assigned project manager from Aviation reviews each payment request for the appropriate supporting documentation prior to authorizing payment for services. The Contract Compliance Office in the Office of the Mayor monitors the historically underutilized business requirements and wage rate requirements. The project managers monitor the projects to determine if the specifications are being met during the construction of the capital improvement (e.g.) thickness of concrete.

During our meetings with Aviation representatives, nothing came to our attention to warrant a finding or recommendation. There appears to be subrecipient monitoring processes in place to meet the spending and program guidelines of the federal funding.

OBJECTIVE 4

Evaluate the City's process for determining the indirect cost reimbursement rates

F&A is responsible for calculating the City's indirect costs. The City uses DMG Maximus software for the indirect cost calculations and has a consultant review their allocation plan for reasonableness after it is completed. If there is anything that appears to be inconsistent or unreasonable to the consultant, then an in-depth follow-up review is conducted by F&A. The City calculates the indirect costs based on the requirements in OMB Circular A-87. The indirect cost plan calculated based on OMB Circular A-87 is turned into the Department of Housing and Urban Development (HUD) for approval.

Finding

According to Aviation personnel, it has been difficult to get information relating to indirect costs throughout the entire process. Aviation is required to answer questions from the FAA about their operating costs including indirect costs. F&A is currently preparing the indirect cost report without any discussion or assistance from Aviation other than the initial submission of information. As a result, there are direct costs that have occurred during the year from General Fund departments to Aviation that need to be incorporated in the indirect cost calculation and F&A is unaware of the cost. As part of calculating the indirect cost reimbursement rate, a detailed report is developed by F&A. The report is then evaluated and accepted or declined by Housing and Urban Development (HUD). Once HUD accepts the report, the rates are then used to recover indirect costs for grants. Once the report has been completed and accepted by HUD, Aviation has had difficulties obtaining a copy of the final report with the related schedules developing the indirect costs. If the department staff has the final report, Aviation staff may be more responsive to the FAA.

Recommendation

As the indirect cost report is developed, F&A should work closely with grant funded departments to determine the accuracy of the information being used. Working with the departments prior to the submission of the report to HUD will help alleviate omissions from the report. Once the final report has been accepted by HUD, several copies of the report should be made available to grant operating departments. F&A should make the report available to all levels of staff within a grant funded department. The reports may be made available either in hard copy or electronic format.

Finding

The indirect cost study is conducted on an annual basis. To conduct the study, F&A requests various types of information such as organizational charts, square footage, and specific resource allocations from the departments. The information requested from the departments is critical to the completion of the indirect cost study. Several of the departments providing the information are not directly affected by the study. As a result, providing the required information to F&A is not seen as a high priority and the information is not provided in a timely manner.

Commendation

Based on representation from F&A, Aviation provides the information for the indirect process in a timely manner.

Observation

All city departments should respond in a timely manner to request for information related to the indirect cost study. F&A should request the information directly from the individuals in the department that will provide the information for the indirect cost study with a copy of the request sent to the appropriate department director, deputy director or assistant director with a copy to F&A departmental contacts. The current request for information may not get routed to the person that can provide the information. As a result, departments are not returning the information in a timely manner. F&A should also verify with each department, who should receive the request for information on an annual basis due to changing job duties.

F&A should educate the individual departments as to the importance of the study and how their department and the City are being affected by the study.

OBJECTIVE 5:

Evaluate the process as to how communication and exchange of information occurs between Aviation, F&A and the City Controller's Office.

Aviation works closely with F&A and the City Controller's Office throughout the grant process. The grant process includes some of the following steps: the RCA process, grant application, grant acceptance, fund accounting, expenditure management, and grant close out procedures. During the interviews conducted with key individuals in each area, it was indicated that the different departments work well together. When Aviation has a problem, they can contact F&A and/or the City Controller's Office to develop a solution.

Finding

A grant roundtable was developed by F&A to discuss grant related issues. All departments including aviation, who receive grants, are included in this roundtable. The roundtable is held bimonthly allowing departments to ask general questions about the grants process, and identify ways to improve the process. It is also an opportunity for departments to share successful processes of applying for, monitoring and closing out grants that could be implemented in other departments

Commendation

A process of communication between F&A, City Controller's Office and individual departments has been developed to address overall issues related to the grants process. The roundtable provides an opportunity for all the different areas to work together to improve the process. Aviation should continue to participate actively with the grants roundtable.

Finding

Grants processing is typically a time consuming procedure; however, one problem consistently identified was the amount of time it takes to complete the process. The City of Houston has not implemented steps or process changes sufficient enough to impact the efficiency of the grant management process. Grant transactions are reviewed by department, F&A, and the City Controller's Office during the initial set up of the grant and the RCA process. Most of this process is not automated. The information is provided to each reviewing department in hard copy with any revisions being sent to the originating department for correction. F&A and the City Controller's Office review the documentation when a grant is established and set up in the accounting system. After the grant is set up in the financial system, all daily transactions are processed through the City Controller's Office.

Recommendation

If the City automates the RCA process, it will result in some reduction of time requirements to process a grant. In addition, other steps in the review process need to be reviewed and determine if there are duplicate steps that can be eliminated from the process or streamlined for efficiency.

OBJECTIVE 6:

Assessing various findings and questioned costs identified in the June 30, 1998 Single Audit Report to the City

Finding

According to oral representation from Aviation management, Aviation has addressed the various findings and questioned costs identified in the June 30, 1998 Single Audit Reports related to their department.

Commendation

Aviation has addressed the findings and questioned costs identified in the June 30, 1998 Single Audit Reports related to their department.

EXHIBIT 1

MAYOR LEE P. BROWN CITY COUNCIL MEMBERS: CHRIS BELL, JEW DON BONEY, JR.,
JOHN E. CASTILLO, MARK A. ELLIS, CAROL N. GALLOWAY, MARK GOLDBERG,
BERT KELLER, ANNISE D. PARKER, GORDON QUAN, CARROLL G. ROBINSON,
ORLANDO SANCHEZ, BRUCE TATRO, ROB TODD, GABRIEL VASQUEZ
CITY CONTROLLER SYLVIA R. GARCIA



DIRECTOR OF AVIATION: RICHARD M. WIGAR, A.A.E.

BUSH INTERCONTINENTAL AIRPORT
HOBBY AIRPORT
ELLINGTON FIELD

September 25, 2000

Mr. Ross Johnson
Deloitte & Touche LLP
333 Clay Street, Suite 2300
Houston, Texas 77002

Reference: Aviation Grants Management Audit

Dear Mr. Johnson:

We have reviewed the final draft report dated June 1, 2000, submitted by Deloitte & Touche LLP pertaining to the grant management audit of the Department of Aviation including the completion of six (6) predetermined objectives. The following response is provided to address only the findings and related recommendations presented in the audit report:

1. Audit Finding

Aviation spends significant resources processing Request for Council Action (RCA) paperwork to obtain City Council approval to accept the grant funds.

Audit Recommendation:

At the beginning of each fiscal year, an item should be placed on the City Council agenda authorizing the Mayor or his designee to accept FAA entitlement and/or discretionary funds on behalf of the City of Houston.

Management Response:

The Department supports the recommendation. The item has been discussed with the Mayor's agenda office, and they are supportive in improving the process and reducing the resources currently required to obtain approval of each grant. Also the Legal Department has been asked to investigate if the recommended process is allowed under City Charter.

2. Audit Finding:

The RCA process is cumbersome and paper intensive requiring significant amounts of documentation to flow between Aviation, F&A, City Controller's Office, Legal, and the City Secretary's office.

Audit Recommendation:

The City should consider automating the RCA process.

Department of Aviation
Post Office Box 60106 Houston, Texas 77206-0106 Tel: 281/233-3000 Fax: 281/233-1874
GRANT MANAGEMENT AUDIT 9.25.00.DOC

*Views of Responsible
Officials*

The Honorable Sylvia R. Garcia
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Thank you for the opportunity to conduct this review. We look forward to working with the City of Houston on future projects.

Very Truly,

Deloitte & Touche LLP

**Views of Responsible
Officials**