



**CALIFORNIA**  
**High-Speed Rail Authority**

## ARRA Grant Match

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July 2017 - December 2019

January 2021

## EXECUTIVE SUMMARY

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The Audit Office of the California High-Speed Rail Authority (Authority) has completed its audit of the Authority's American Recovery and Reinvestment Act (ARRA) grant match expenditure submissions.

The purpose of our audit was to review the Authority's compliance with the grant requirements. Our audit objectives were to determine if:

- The Authority has processes and procedures in place to ensure preparing and reporting grant match expenditures in accordance with ARRA grant requirements.
- The Authority's quarterly grant match reporting submissions are accurate and in accordance with the ARRA grant requirements for Agreement Number FR-HSR-0009-10-01-06.

The audit scope focused on the invoice packages submitted as ARRA grant match expenditures to the Federal Railroad Administration (FRA). Our audit was limited to invoice packages submitted during the period of July 1, 2017 through June 30, 2019.

Our test sample was 15 submitted invoice packages, valued at \$540,792,341, out of 33 submissions with a total value of \$1,087,599,800. Invoice package submittals contain one or more invoices. Our sample of 15 invoice packages comprised a total of 633 invoices. We further limited our testing to 121 invoices.

We found that the Authority has processes and procedures in place for preparing and reporting ARRA grant match expenditures that are in accordance with the grant requirements. In addition, we did not detect any inaccuracies in the Authority's invoice packages submitted to the FRA. While performing our audit, we noticed two areas for improvement.

We noted that the role and responsibilities of the primary reviewer for ARRA cost compliance is not clear. While contract managers review invoices, their reviews are focused on determining if the expenses are within the scopes of the contracts they oversee. The contract managers are not primarily reviewing for ARRA cost compliance. The contract managers adjust their invoice submittals to comply with the ARRA grant match requirements based on feedback from the Grant Unit and Grant Manager.

We also noted that the audit trail for invoice submittals needs improvement. Invoice packages contain narratives of the activities for the related costs being submitted for match. Furthermore, in the invoice packages, the total ineligible/unclaimed amounts are identified in red on the cover sheet of each invoice package submitted. However, we had difficulty determining the make-up of the total ineligible/unclaimed amounts because the supporting documents do not identify an audit trail for the costs that support the total ineligible/unclaimed amounts.

### Recommendations

The contract managers should thoroughly review invoices for ARRA cost compliance, as they are the first to receive and validate the invoices. The second level of review should be conducted by the Grant Unit to provide reasonable assurance, i.e., quality assurance, that the invoices and resulting submission packages comply with the ARRA grant agreement. A third level of review should be conducted by the Grant Manager to ensure that the submission packages are complete and in accordance with the FRA requirements.

The Grant Unit should provide an audit trail all the way back to the original line item costs in the invoices that support the total excluded amounts on the cost summary pages and narratives of submitted invoice packages. The total excluded amounts should be correlated to the related red boxed narratives.

*Paula Rivera*

Paula Rivera, Audit Chief

January 8, 2021

Date

# Audit Report

## BACKGROUND

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As part of the California High-Speed Development Act of 1994, the California Legislature created the California High-Speed Rail Authority (Authority). The Authority is responsible for planning, designing, building and operation of the first high-speed rail system in the nation. This system will connect the mega-regions of the state, contribute to economic development and a cleaner environment, create jobs, and preserve agricultural and protected lands. To accomplish this, the Authority secured significant funds from both state and federal sources. These funds are being used to deliver and complete environmental planning and other early work for the Phase 1 System in the Central Valley, consistent with federal grant agreements.

ARRA grant funds have been expended on system planning and Central Valley civil works contract packages. The full expenditure of the grant funds was achieved before the federally mandated completion date of September 30, 2017. These expenditures are now being matched with appropriated Proposition 1A funds and Cap-and-Trade funds under the grant agreement's tapered match provision. Grant match requirements must be met by December 30, 2022. Invoice submission packages are prepared by the Grant Unit, within the Financial Office. As of September 2020, the Authority has submitted \$1,962,307,243 in matching funds to the Federal Railroad Administration (FRA) and predicts full grant match will be achieved in early February 2021, almost two years before the grant deadline.

Beginning in February 2019, and continuing throughout the audit period, FRA ceased communicating with the Authority. Relative to the grant matching funds, FRA had not approved any of the submission packages submitted between March 2019 and September 2020 (\$1,485,602,816). Prior to FRA disengaging communication, they had approved \$476,704,427. As of September 2020:

<b>Total Match Submitted</b>	<b>Total Match Approved by FRA</b>	<b>Total Match Pending FRA Approval</b>	<b>Match Requirement</b>
\$1,962,307,243	\$476,704,427	\$1,485,602,816	\$2,499,486,337

The U.S. Department of Transportation Office of Inspector General conducted an audit of the Federal Railroad Administration's grant oversight. The Office of Inspector General reported that FRA did not reasonably assure that expenditures met all Federal requirements, and FRA's procedures did not identify all discrepancies. In addition, the Office of Inspector General found 18 deficiencies in 30 Authority requests for payment that they examined. The report identified FRA relies primarily on the grantee to implement effective policies and procedures to ensure that all expenditures comply with Federal requirements. Our audit objectives address these FRA deficiencies.

## OBJECTIVES, SCOPE, and METHODOLOGY

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The purpose of our audit was to review the Authority's compliance with the ARRA grant requirements. Our audit objectives were to determine if:

- The Authority has processes and procedures in place to ensure preparing and reporting grant match expenditure are in accordance with the ARRA grant requirements.

- The Authority's quarterly grant match reporting submissions are accurate and in accordance with the ARRA grant requirements for Agreement Number FR-HSR-0009-10-01-06.

The scope of the engagement included examining the ARRA grant match invoice packages submitted to the FRA, during the period of July 2017 through December 2019, as ARRA grant match.

Initially, our second objective was to review the Authority's quarterly grant match reporting submissions as the grant agreement calls for invoice packages to be submitted quarterly. However, our interviews with the Grant Unit team revealed that the FRA preferred invoice packages to be submitted on a flow basis. Therefore, our sampling reflects testing monthly, rather than quarterly, submissions of invoice packages.

We reviewed applicable criteria, interviewed staff involved in the ARRA grant match submittal process, and tested selected invoices in the submittal packages. This audit was conducted in accordance with the *Standards for the International Professional Practice of Internal Auditing*.

Our test sample was centered on 15 invoice package submittals, valued at \$540,792,341, out of 33 submissions during the audit period that have a total value of \$1,087,599,800. Each invoice package submittal is comprised of several invoices. Our sample of 15 invoice packages comprised of a total of 633 invoices. We further limited our testing to 121 of the 633 invoices.

## CONCLUSION

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Our audit found that the Authority has processes and procedures in place that are in accordance with the requirements for preparing and reporting ARRA grant match expenditures. In addition, we did not detect any inaccuracies in the tested invoice packages submitted to the FRA. However, we noted the following two areas for improvement:

### Roles and Responsibilities Are Not Clear

The Authority has a Grant Manager who administers the ARRA grant agreement. However, the role and responsibility of who should be the primary reviewer for ARRA cost compliance is not clear. The Grant Unit expects the contract managers' invoice review to also include a thorough review for ARRA cost compliance. The Grant Unit essentially conducts a quality assurance review of the narratives and invoiced costs for grant match eligibility. While contract managers do review the invoices, their review is focused on determining if the expenses are within the scope of the specific contracts they oversee. The contract managers learn and adjust their invoice submittals to comply with the ARRA grant match requirements based on feedback given by the Grant Unit and the Grant Manager.

The Authority's invoice approval process requires the contract managers to complete and submit checklists with the invoice packages that are received by the Grant Unit. Of the 81 checklists reviewed, 43 of the checklists submitted by the contract managers say that reviewing for ARRA compliance is not applicable to them. Consequently, the Grant Unit is assuming the responsibility as the primary reviewer for identifying ARRA unreportable costs prior to submitting the invoice package to the FRA.

The grant agreement does not specify who is primarily responsible for reviewing for ARRA grant match compliance, therefore this concern is not a breach of the agreement. However, the Government Accountability Office's standards for internal control state that management "establishes reporting lines within an organizational structure so that units can communicate the quality information necessary for each unit to fulfill its overall responsibilities."

### **Recommendation**

We recommend that the contract managers thoroughly review invoices for ARRA cost and scope compliance, as they are the first to receive and validate the invoices. The second level of review should be conducted by the Grant Unit to provide reasonable assurance, i.e., quality assurance that the invoices and resulting submission packages comply with the ARRA grant agreement. A third level of review should be conducted by the Grant Manager to ensure that the submission packages are complete and in accordance with the FRA requirements.

The Grant Manager should proactively provide training to both the contract managers and the Grant Unit. While the Grant Manager has provided training in the past, with the most recent occurring on February 5, 2020, training should be provided more frequently. Periodic training would reinforce policies and compliance with ARRA grant requirements, as well as inform new contract managers and grant analysts. Equally important, periodic training is a means of communicating new policies and procedures, as changes arise that are relevant to ARRA grant compliance. Training should emphasize the contract managers' understanding of the ARRA grant match compliance.

### Invoice Submittal Package Audit Trail Needs Improvement

Invoice packages contain narratives of the activities for the related costs being submitted for match. Because it is cost effective for the Authority to include a variety of work within one design-build contract and other grant-eligible contracts, the Authority excludes costs it does not want FRA to consider as match in the

context of the grant agreement. In accordance with process improvements developed in conjunction with the FRA, the Authority identifies or “red-boxes” the narratives of unclaimed activities in order to inform the FRA that such expenditures have been removed and are not being applied to match. Furthermore, in the invoice packages, the total unclaimed amounts are identified in red on the cover sheet of each invoice package submitted. However, on the cost summary page(s), we had difficulty determining the make-up of the total unclaimed amounts because the supporting documents do not identify an audit trail for the item costs that support the total unclaimed amounts.

If in its oversight role the FRA identifies an unallowable item in the original invoice detail, it is difficult to determine if the Authority has already disallowed the amount. This issue is compounded by the need for the specific grant analyst who prepared the invoice package to explain where each excluded line item cost came from.

### **Recommendation**

We recommend that the Grant Unit provide an audit trail all the way back to the original line item costs in the invoices that support the total excluded amounts on the cost summary pages of submitted invoice packages. The total excluded amounts should be correlated to the related red boxed narratives.

The results of the audit were discussed with Authority management on September 3, 2020.

This report is intended as information for the Authority’s Board and management and the Federal Railroad Administration. However, this report is a matter of public record and its distribution is not limited.

We appreciate the time and cooperation of the Authority’s Financial Office and Grant Management staff. We look forward to working with the Financial Office and Grant Management staff as needed.



# CALIFORNIA High-Speed Rail Authority

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**DATE:** January 8, 2021

**TO:** Paula Rivera, Chief Auditor

**FROM:** Brian Annis, Chief Financial Officer

**SUBJECT:** Response to ARRA Grant Match Audit Draft Report

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The California High-Speed Rail Authority (Authority) Financial Office appreciates the opportunity to provide a response to the Authority's Audit Office ARRA Grant Match Audit Report (19-05). I was pleased that the audit found that the Authority has processes and procedures in place for preparing and reporting ARRA grant match expenditures that are in accordance with the grant requirements, and that the audit did not detect any inaccuracies in the Authority's invoice packages submitted to the FRA. The audit noted two areas for improvement: first in the area of training and the sequential review of invoices by contract managers, the Grant Unit, and the Grant Manager; and second in the area of improving the audit trail by more clearly marking invoices to denote costs excluded from the match amount claimed.

The Financial Office concurs with the recommendations and provides the following responses:

**Recommendation:**

We recommend that the contract managers thoroughly review invoices for ARRA cost and scope compliance, as they are the first to receive and validate the invoices. The second level of review should be conducted by the Grant Unit to provide reasonable assurance, i.e., quality assurance that the invoices and resulting submission packages comply with the ARRA grant agreement. A third level of review should be conducted by the Grant Manager to ensure that the submission packages are complete and in accordance with the FRA requirements.

The Grant Manager should proactively provide training to both the contract managers and the Grant Unit. While the Grant Manager has provided training in the past, with the most recent occurring on February 5, 2020, training should be provided more frequently. Periodic training would reinforce policies and compliance with ARRA grant requirements, as well as inform new contract managers and grant analysts. Equally important, periodic training is a means of communicating new policies and procedures, as changes arise that are relevant to ARRA grant compliance. Training should emphasize the contract managers' understanding of the ARRA grant match compliance.



**Response:**

The Finance Office and Grant Manager concur with the recommendation that this process could be strengthened to ensure the contract managers are kept more current with, and understand the applicability of, various federal guidance to their contracts relative to cost and match allowability and eligibility for all grants the Authority may receive. The most recent training occurred on February 5, 2020. The Grants Manager and Budget Chief will collaborate with the Contracts Branch leadership team to develop a curriculum, delivery method, and schedule for providing updated training to contract managers and Grants Unit staff. The trainings will include clear direction on the contract managers' role and responsibility in reviewing eligibility of costs. The curriculum development will be completed no later than April 15, 2021, and training to contract managers who oversee contracts planned for federal reimbursement will receive updated training no later than June 30, 2021.

**Recommendation:**

We recommend that the Grant Unit provide an audit trail all the way back to the original line item costs in the invoices that support the total excluded amounts on the cost summary pages of submitted invoice packages. The total excluded amounts should be correlated to the related red boxed narratives.

**Response:**

When this issue was raised in the course of the audit, the Grants Unit expanded the identification, or "red boxing", of excluded costs to include the original line item costs in the invoices. This action was implemented in September 2020 and provides an audit trail from the line item cost within the invoice to the Invoice Summary Cover Page.

Lastly, the audit includes background on grant approvals by the FRA through September 2020. Since that time, the FRA approved an additional \$268 million bringing the total approved to \$745 million. Through November 30<sup>th</sup>, the total submitted to FRA (both approved and pending review by FRA) is \$2,274 million of the \$2,499 million match requirement.

If you have any questions, please contact Brian Annis, Chief Financial Officer at 916-330-5644 or at [Brian.Annis@hsr.ca.gov](mailto:Brian.Annis@hsr.ca.gov).



Brian Annis  
Chief Financial Officer